



Instructions for Preparation of
**Consolidated Financial Statements for
Insurance Nonbank Financial Companies**

Reporting Form FR 2085

Issued

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Contents for FR 2085 Instructions

Organization of the Instructions

The instruction book is divided into three sections:

- (1) The General Instructions describing overall reporting requirements.
- (2) The Line Item Instructions for each schedule of the report for the consolidated Reporter.
- (3) The Glossary presenting, in alphabetical order, definitions and discussions of accounting treatments under generally accepted accounting principles in the U.S. (GAAP) and other topics that require more extensive treatment than is practical to include in the line item instructions or that are relevant to several line items or to the overall preparation of these reports.

In determining the required treatment of particular transactions or portfolio items or in determining the definitions and scope of the various items, the General Instructions, the line item instructions, and the Glossary (all of which are extensively cross-referenced) must be used jointly. A single section does not necessarily give the complete instructions for completing all the items of the reports. The instructions and definitions in section (2) are not necessarily self-contained; reference to more detailed treatments in the Glossary may be needed. However, the Glossary is not, and is not intended to be, a comprehensive discussion of accounting principles or reporting.

Additional copies of this instruction book may be obtained from the Federal Reserve Bank in the district where the reporting Reporter submits its FR 2085 report, or may be found on the Federal Reserve Board's public website (www.federalreserve.gov)

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INSTRUCTIONS FOR PREPARATION OF

Consolidated Financial Statements for Insurance Nonbank Financial Companies

GENERAL INSTRUCTIONS

Who Must Report

Nonbank financial companies (i) that the Financial Stability Oversight Council has determined pursuant to section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) should be supervised by the Board of Governors of the Federal Reserve System (Board) and subject to enhanced prudential standards and (ii) with at least 40 percent of total consolidated assets related to insurance activities as of the end of either of the two most recently completed fiscal years (insurance nonbank financial companies), or as otherwise ordered by the Board are required to submit financial statements to the Federal Reserve. These entities must file the *Consolidated Financial Statements for Insurance Nonbank Financial Companies* (FR 2085) in accordance with the timing requirements discussed in these General Instructions. These entities will henceforth be referred to as the “Reporter.”

What Must Be Reported

The information contained in the attached reporting schedules must be completed in accordance with the instructions accompanying these schedules. The schedules and instructions are collectively referred to as the FR 2085.

Where to Submit the Reports

Electronic Submission of report form. Any Reporter interested in submitting the FR 2085 electronically should contact the appropriate Reserve Bank (that is, the Federal Reserve Bank in the district where the Reporter submits this report) or go to www.frbservices.org/centralbank/reportingcentral/index.html for procedures for electronic submission.

For paper filers of report form. The original FR 2085 report and the number of copies specified by the Reserve Bank should be submitted to the appropriate Federal Reserve Bank. The report shall be made out clearly and legibly; no reports completed in pencil will be accepted.

Regardless of how the FR 2085 report is submitted, each Reporter is responsible for ensuring that the data reported each quarter reflects fully and accurately the line item reporting requirements for that report date, including any changes that may be made from time to time. This responsibility cannot be transferred or delegated to software vendors, servicers, or others outside the reporting entity.

If the Reporter chooses to submit the report electronically it must maintain in their files the original manually signed and attested printout of the data submitted. Page 1 of the Reserve Bank-supplied form or Reporter’s software should be used to fulfill the signature and attestation requirement and this page should

General Instructions

be attached to the printout placed in the Reporter's file.

When to Submit the Report

Frequency of Reporting

The FR 2085 report is required to be submitted as of the end of each quarter on a calendar year basis. The "as-of" date for each reporting period is March 31, June 30, September 30, and December 31 of each calendar year. The submission date is 45 calendar days after the as-of date. For example, the June 30 report must be submitted by August 14.

The term "submission date" is defined as the date by which the Reserve Bank must receive the Reporter's FR 2085.

If the submission deadline falls on a weekend or holiday, the report must be received on the first business day after the Saturday, Sunday, or holiday. A paper copy report will be considered timely if it is mailed first class and postmarked no later than the third calendar day preceding the submission deadline. In the absence of a postmark, a Reporter whose completed FR 2085 is received late may be called upon to provide proof of timely mailing such as a "Certificate of Mailing" (U.S. Postal Service form 3817).

Earlier submission aids the Reserve Bank in reviewing and processing the report and is encouraged. No extensions of time for submitting reports are granted.

The reports are due by the end of the reporting day on the submission date (5:00 pm at each district Reserve Bank).

How to Prepare the Report

Applicability of GAAP, Consolidation Rules and SEC Consistency

Reporters are required to prepare and file the FR 2085 in accordance with generally accepted accounting principles in the U.S. (GAAP) and these instructions. All reports shall be prepared in a consistent manner. The Reporter's financial records shall be maintained in such a manner and scope so as to ensure that the FR 2085 can be prepared and filed in accordance with these instructions and reflect a fair presentation of the Reporter's financial condition and results of operations.

Reporters should retain work papers and other records used in the preparation of these reports.

Subsequent Events

Subsequent events are events or transactions that occur after the FR 2085 balance sheet date, e.g., December 31, but before the FR 2085 report is filed. Consistent with ASC Topic 855, Subsequent Events (formerly Financial Accounting Standard Board (FASB) Statement No. 165 *Subsequent Events*), a Reporter shall recognize in the FR 2085 report the effects of all subsequent events (not addressed in other ASC Topics) that provide additional evidence about conditions that existed at the date of the FR 2085 Balance Sheet (Schedule IRC) including the estimates inherent in the process of preparing the FR 2085 report e.g., a loss that has been incurred but not yet confirmed as of the FR 2085 report balance sheet date.

General Instructions

Scope of the “Consolidated Reporter” to be Reported in the Submitted Report

For purposes of this report, the Reporter should consolidate its subsidiaries on the same basis as it does for its financial statements filed with the U.S. Securities Exchange Commission (SEC) or, for those Reporters that do not file reports with the SEC, on the same basis as described in GAAP. Generally, under the rules for consolidation established by the SEC and by GAAP, Reporters should consolidate any company in which it owns more than 50 percent of the outstanding voting stock.

Each Reporter shall account for any investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the Reporter exercises significant influence according to the equity method of accounting, as prescribed by GAAP. Refer to the Glossary entry for “equity method of accounting” and “subsidiaries” for the definitions of the terms subsidiary, associated company, and corporate joint venture.

Rules of Consolidation

For purposes of this report, all entities (e.g., subsidiaries, variable interest entities (VIEs), etc.) that are within the scope of the consolidated Reporter as defined above are to be reported on a consolidated basis. Unless the instructions specifically state otherwise, this consolidation shall be on a line-by-line basis, according to the caption shown. As part of the consolidation process, the results of all transactions and all intercompany balances (e.g., outstanding asset/debt relationships) between entities *included* in the scope of the consolidated Reporter are to be *eliminated* in the consolidation and must be *excluded* from the FR 2085.

Subsidiaries of subsidiaries. For a subsidiary of a Reporter that is in turn the parent of one or more subsidiaries:

- (1) Each subsidiary shall consolidate its majority-owned subsidiaries in accordance with the consolidation requirements set forth above.
- (2) Each subsidiary shall account for any investments in unconsolidated subsidiaries, corporate joint ventures over which the Reporter exercises significant influence, and associated companies according to the equity method of accounting.

Noncontrolling (minority) interests. A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a Reporter’s subsidiary not attributable, directly or indirectly, to the parent institution. Report noncontrolling interests in the Reporter’s consolidated subsidiaries in Schedule IRC, item 38(b), “Noncontrolling (minority) interests in consolidated subsidiaries.” Report the portion of consolidated net income reported in Schedule IRI, item 19, that is attributable to noncontrolling interests in consolidated subsidiaries of the Reporter in Schedule IRI, item 20.

Exclusions from Coverage of the Consolidated Report

Subsidiaries where control does not rest with the parent. If control of a majority-owned subsidiary by the Reporter does not rest with the Reporter because of legal or other reasons (e.g., the subsidiary is in bankruptcy), the subsidiary is not required to be consolidated for purposes of the report. Thus, the Reporter’s investments in such subsidiaries are not eliminated in consolidation but will be reflected in the Consolidated Balance Sheet (Schedule IRC). Other transactions of the Reporter with such subsidiaries will be reflected in the appropriate items of the report in the same manner as transactions with unrelated outside parties. Additional guidance on this topic is provided in accounting standards, including ASC Subtopic 810-10, Consolidation – Overall (formerly FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*).

For Reporters that file financial statements with the SEC, major classifications including total assets, total liabilities, total equity capital and net income should generally be the same between the FR 2085 report filed with the Reserve Bank and the financial statements filed with the SEC.

General Instructions

Report Form Captions, Non-applicable Items and Instructional Detail

No caption on the report forms shall be changed in any way. An amount or a zero should be entered for all items except in those cases where the Reporter does not participate in a certain activity.

There may be areas in which a Reporter wishes more technical detail on the application of accounting standards and procedures to the requirements of these instructions. Such information may often be found in the appropriate entries in the Glossary section of these instructions or, in more detail, in the GAAP standards.

Selected sections of GAAP standards are referenced in the instructions where appropriate. The accounting entries in the Glossary are intended to serve as an aid in specific reporting situations rather than a comprehensive statement on accounting for Reporters.

Questions and requests for interpretations of matters appearing in any part of these instructions should be addressed to the appropriate Reserve Bank.

Rounding

All dollar amounts are to be reported in thousands, but each Reporter, at its option, may round the figures reported to the nearest million, with zeros reported in the thousands column. For Reporters exercising this option, amounts less than \$500,000 will be reported as zero.

Rounding could result in details not adding to their stated totals. However, to ensure consistent reporting, the rounded detail items should be adjusted so that the totals and the sums of their components are identical.

On the FR 2085, "Total assets" (Schedule IRC, item 21) and "Total liabilities and equity capital" (Schedule IRC, item 40), which must be equal, must be derived from unrounded numbers and then rounded to ensure that these two items are equal as reported.

Negative Entries

Negative entries are generally not appropriate on the FR 2085 and should 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.

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

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

Confidentiality

The information collected on the FR 2085 will be available to the public via National Information Center public web site (<http://www.ffiec.gov/nicpubweb/nicweb/nichom.aspx>). However, a Reporter may request confidential treatment for the FR 2085 if the Reporter is of the opinion that disclosure of specific financial information in the report would likely result in substantial harm to its competitive position, or that disclosure of the submitted information would result in unwarranted invasion of personal privacy. In certain limited circumstances, the Federal Reserve may grant confidential treatment for some or all of the items for which such treatment has been requested if the Reporter clearly has provided a compelling justification for the request.

General Instructions

A request for confidential treatment must be submitted in writing prior to or included with the submission of the report.

The written request must identify the specific items for which confidential treatment is requested, provide justification for the confidential treatment requested for the identified items, and must demonstrate the specific nature of the harm that would result from public release of the information. Merely stating that competitive harm would result or that information is personal is not sufficient. Freedom of Information Act (FOIA) exemption 4 may be applicable for request for confidentiality. For a complete list see the Federal Reserve Board's public web site <http://www.federalreserve.gov/foia/exemptions.htm>.

Information for which confidential treatment is requested may subsequently be released by the Federal Reserve System in accordance with the terms of 12 CFR 261.16, or otherwise provided by law, if the Board of Governors determines that the disclosure of such information is in the public interest. If the Federal Reserve deems it necessary to release confidential data, the Reporter will be notified before it is released.

Check Box – The Reporter must select on page 1 of the form whether any confidential treatment is requested for any portion of the report. If the answer to the first question is “Yes,” the Reporter must indicate whether a letter justifying the request for confidential treatment is included with the submission or has been provided separately. **If a Reporter does not fulfill both requirements, or does not check the appropriate boxes, confidential treatment will not be considered.**

Note: Responses to the questions regarding confidential treatment on page 1 of the form will be considered public information.

Signatures

Signatures. The FR 2085 must be signed by the Chief Financial Officer of the Reporter (or by the individual performing this equivalent function). By signing page 1 of this report, the authorized officer acknowledges that any knowing and willful misrepresentation or omission of a material fact on this report constitutes fraud in the inducement and may subject the officer to legal sanctions provided by 18 USC 1001 and 1007.

Reporters must maintain in their files a manually signed and attested printout of the data submitted. The cover page of the Reserve Bank-supplied, Reporter's software, or from the Reserve Bank's website report form should be used to fulfill the signature and attestation requirement and this page should be attached to the printout placed in the Reporter's files.

Amended Reports

When the Federal Reserve's interpretation of how GAAP or these instructions should be applied to a specified event or transaction (or series of related events or transactions) differs from the Reporters interpretation, the Federal Reserve may require the Reporter to reflect the event(s) or transaction(s) in its FR 2085 in accordance with the Federal Reserve's interpretation and to amend previously submitted reports. The Federal Reserve will consider the materiality of such event(s) or transaction(s) in making a determination about requiring the Reporter to apply the Federal Reserve's interpretation and to amend previously submitted reports. Materiality is a qualitative characteristic of accounting information that is addressed in FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting* as follows: “Information is material if omitting it or misstating it could influence decisions that users make on the basis of the financial information of a specific reporting entity.” In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude or both of the items to which the information relates in the context of an individual entity's financial report.

General Instructions

The Federal Reserve may require the filing of amended FR 2085 if reports as previously submitted contain significant errors. In addition, a Reporter should file an amended report when internal or external auditors make audit adjustments that result in a restatement of financial statements previously submitted to the Federal Reserve.

The Federal Reserve also requests that Reporters that have restated their prior period financial statements as a result of an acquisition submit revised reports for the prior year-ends. While information to complete all schedules to the FR 2085 may not be available, Reporters are requested to provide the Consolidated Balance Sheet (Schedule IRC) and the Consolidated Income Statement (Schedule IRI) for the prior year-ends. In the event that certain of the required data are not available, Reporters should contact the appropriate Reserve Bank for the information on submitting revised reports.

LINE ITEM INSTRUCTIONS FOR

Consolidated Report of Income Schedule IRI

The line item instructions should be read in conjunction with the Glossary and other sections of these instructions. See the discussion of the Organization of the Instruction in the General Instructions. For purposes of these line item instructions, the FASB Accounting Standards Codification is referred to as “ASC.”

General Instructions

Report in accordance with these instructions all items of income and expense for the calendar year-to-date reporting period. Include adjustments of accruals and other accounting estimates made shortly after the end of a reporting period which relate to the income and expense of the reporting period.

Business combinations and Reorganizations – If the Reporter entered into a business combination that became effective during the reporting period which has been accounted for under the acquisition method, report the income and expense of the acquired business only after its acquisition. If the Reporter entered into a reorganization that became effective during the year-to-date reporting period and has been accounted for at historical cost in a manner similar to a pooling of interests, report the income and expense of the combined entities for the entire calendar year-to-date as though they had combined at the beginning of the year. For further information on business combinations and reorganizations, see the Glossary entry for “business combinations.”

Revenues

Line Item 1 Premiums.

Report in the appropriate subitem, premiums earned by Reporter subsidiaries engaged in insurance underwriting or reinsurance activities. Include earned premiums from property and casualty and life and health insurance, whether (direct) underwritten business or ceded or assumed (reinsured) business. Insurance premiums should be reported net of any premiums transferred to other insurance underwriters or reinsurers in conjunction with reinsurance contracts.

Exclude income from sales and referrals involving insurance products and annuities (see instructions for items 2 and 5 below on reporting such income).

Line Item 1(a) Property and casualty.

Report the amount of earned premiums attributable to property and casualty insurance underwriting related activities from Schedule IRI-C, item 25, Column B(2), “Total earned premium”. Such amount includes premiums from reinsurance assumed and deducts premiums on reinsurance ceded.

For a description of property and casualty insurance underwriting related activities, refer to Glossary entry “property and casualty”.

Schedule IRI

Line Item 1(b) Life and health.

Report the earned premiums attributable to life and health insurance underwriting related activities. Include premiums from reinsurance assumed and deduct premiums on reinsurance ceded.

For a description of life and health insurance underwriting related activities, refer to Glossary entry “life and health”.

Line Item 1(c) Total premiums.

Report the sum of items 1(a) and 1(b).

Line Item 2 Policy charges and fees.

Report policy charges and fees assessed. Such revenue is typically associated with policyholder account contracts and separate account liabilities, but may include income from other insurance activities as well. Items reported may include, but are not limited to:

- (1) Fees assessed against policyholders’ account balances for mortality and other benefit charges.
- (2) Policy administration charges.
- (3) Surrender charges.
- (4) Management fees earned from separate accounts and universal life products.
- (5) Amortization of unearned premium revenue reserves.

Line Item 3 Net investment income.

Report net investment income from investments (Schedule IRC, item 9, “Total investments”). Such amounts may include, but not limited to:

- (1) Interest and dividend income on assets reported in Schedule IRC-B. Include accretion of discount on securities for the current period. Deduct current amortization of premium on securities (Refer to the Glossary entry for “premiums and discounts”).
- (2) Other distributions from other invested assets.
- (3) Interest income and dividend income on assets measured under the fair value option.
- (4) Interest, fees, similar charges levied against or associated with all assets reported as loans in Schedule IRC-C. Such amounts may include interest, loan origination fees, direct loan origination costs, purchase premiums and discounts on loans held for investment, loan commitment fees, investigation and service charges, and the contractual amount of interest income earned on loans that are reported at fair value under a fair value option.
- (5) Interest income earned on assets reportable in Schedule IRC-D, item 5 “Total trading assets”. Include accretion of discount on assets held in trading accounts that have been issued on a discount basis, such as U.S. Treasury bills and commercial paper.

Schedule IRI

- (6) Interest and dividends on securities loaned, sold subject to repurchase, or pledged as collateral for any purpose.
- (7) Interest received on the sale of securities to the extent that such interest had not already been accrued on the Reporter's books.
- (8) Do not deduct accrued interest included in the purchase price of securities from income on securities and do not charge to expense. Record such interest in a separate asset account (to be reported in Schedule IRC, item 19 "Other assets") to be offset upon collection of the next interest payment.
- (9) Income from detached U.S. Government security coupons and ex-coupon U.S. Government securities not held for trading.
- (10) Income from advances to, or obligations of, majority-owned subsidiaries not consolidated, associated companies, and those corporate joint ventures over which the Reporter exercise significant influence.

Additionally, include income on interest-bearing balances due from depository institutions reportable in Schedule IRC, item 10 "Cash and cash equivalents".

Also, include any other interest received on other assets not specified above.

Deduct investment expenses. Among other expenses, investment expenses would include the gross expense of all liabilities reportable in Schedule IRC, item 27 "Securities sold under agreements to repurchase."

Exclude from net investment income:

- (1) Realized gains (losses) on held-to-maturity securities and on available-for-sale securities (report in item 4 below).
- (2) Net unrealized holding gains (losses) on available-for-sale securities (report in Schedule IRI-A, Memorandum item 1).
- (3) Gains (losses) and fees from trading assets (report in item 4 below).
- (4) Revaluation adjustments from the periodic marking to market of derivative contracts held for trading purposes (report in item 4 below).

Line Item 4 Net investment gains (losses).

Report the net investment gains or loss realized during the calendar year-to-date. This item is equal to the sum of Schedule IRI, Memoranda items 1(a) through 1(f). See Schedule IRI, Memoranda item 1 for detailed instructions.

Line Item 5 Other income

Report all other income not reported in items 1(c) through 4 above. Disclose in Schedule IRI, Memoranda item 3 below, each component of other income, and the dollar amount of such component, if it exceeds five percent of total revenue. Such amounts may include, but are not limited to:

- (1) Asset management fees.

Schedule IRI

- (2) Service charges, commissions and fees earned from insurance sales, including annuities credit, life, health, property, casualty and title insurance products.
- (3) Fees earned from external customer referrals
- (4) Advisory fees.
- (5) Broker-dealer commissions and fees.
- (6) Administrative service fees.
- (7) Changes in account value relating to corporate-owned life insurance (“COLI”).
- (8) The Reporter’s proportionate share of the income or loss before discontinued operations from its investments in equity method investees that are principally engaged in annuity sales. Equity method investees include unconsolidated subsidiaries; associated companies; and corporate joint ventures; unincorporated joint ventures, general partnerships, and limited partnerships over which the Reporter exercises significant influence.

Line Item 6 Total revenues.

Report the sum of items 1(c) through 5.

Benefits, losses and expenses

Line Item 7 Policyholder benefits and losses incurred.

Report in the appropriate subitem policyholder benefits and losses incurred. Include benefits, claims, losses and settlement expenses.

Line Item 7(a) Loss and loss adjustment expenses.

Loss and loss adjustment expenses incurred are expenses incurred in the course of investigating claims and settling claims. Include any legal and adjusters' fees and the costs of paying claims and all related expenses.

This item must equal Schedule IRI-C, item 25, sum of columns C(2), D(2), and E(2).

Line Item 7(b) Future policy benefits.

Report, after effect of policies assumed or ceded, the amount of expense related to provision for policy benefits and costs incurred.

Exclude expenses resulting from changes in the reserving for future policyholder benefits, which should be reported in item 7(c) below.

Line Item 7(c) Increase in liabilities for future policyholder benefits.

Report net changes to the future policy benefit reserve based on changes in actuarial calculations, catastrophes, historical results and any other factors that influence the present value of future benefits to be

Schedule IRI

paid to or on behalf of policyholders.

Exclude expenses related to provision for policy benefits and costs incurred, which should be reported in item 7(b) above.

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Schedule IRI

Line Item 8 Interest credited to policyholder account balances.

Report interest allocated to policyholders holding contracts under which the Reporter must provide a guaranteed yield. Also, include amortization of deferred sales inducements (DSI).

Line Item 9 Dividends to policyholders.

Report the amount of dividends to policyholders, which is typically calculated and paid each year, representing the policyholders' share of divisible surplus.

Line Item 10 Amortization of deferred policy acquisition costs.

Report the amount of deferred policy acquisition costs charged to expense in the period, generally in proportion to related revenue earned, estimated gross profits, or over the customer relationship or some other period. Include amortization of value of business acquired (VOBA).

Line Item 11 General operating and other expenses.

Report underwriting, acquisition and insurance expenses. Also, report all other general operating and other expenses not reported in item 7 through 10 above. Items reported may include, but are not limited to:

- (1) Salaries and benefits of all officers and employees of the Reporter and its consolidated subsidiaries.
- (2) Expenses related to the use of premises, equipment, furniture, and fixtures, net of rental income, that are reportable in Schedule IRC, item 17 "Premises and fixed assets".
- (3) Any impairment losses recognized during the period on goodwill (as defined by Schedule IRC, item 15 "Goodwill"). See Glossary entry for "goodwill" for further information.
- (4) Any amortization expense and any impairment losses for "other intangible assets" (as defined by Schedule IRC, item 16 "Other intangible assets").
- (5) All other operating expenses of the Reporter not required to be reported elsewhere in Schedule IRI.

Line Item 12 Interest expense.

Report the interest expense on all liabilities reportable in Schedule IRC, item 30(a), "Subordinated notes and debentures" and item 30(b), "Subordinated notes payable to unconsolidated trusts issuing trust preferred securities, and trust preferred securities issued by consolidated special purposes entities". Include the contractual amount of interest expense incurred on subordinated notes and debentures reported at fair value under a fair value option.

Include the interest expense related to Schedule IRC, item 29 "Other borrowed money".

Include the interest expense of mandatory convertible securities associated with gross equity contract notes and gross equity commitment notes.

Include amortization of expenses incurred in the issuance of subordinated notes and debentures. Capitalize such expenses, if material, and amortize them over the life of the related notes and debentures (unless the notes and debentures are reported at fair value under a fair value option, in which case issuance costs should be expensed as incurred).

Schedule IRI

Include all other interest expense not required to be reported elsewhere in Schedule IRI.

Exclude dividends declared or paid on limited-life preferred stock.

Line item 13 Total benefits, losses and expenses.

Report the sum of items 7 through 12.

Line Item 14 Income (loss) before income taxes and discontinued operations.

Report the Reporter's pretax operating income. This amount will generally be determined by taking item 6 less item 13. If the result is negative, report with a minus (-) sign.

Line Item 15 Applicable income taxes.

Report the total estimated federal, state and local, and foreign income tax expense applicable to item 14, above, including the tax effects of gains (losses) on securities not held in trading accounts (i.e., available-for-sale securities and held-to-maturity securities). Include both the current and deferred portions of these income taxes. If the amount is a tax benefit rather than tax expense, report with a minus (-) sign.

Include as applicable income taxes all taxes based on a net amount of taxable revenues less deductible expenses. Exclude from applicable income taxes all taxes based on gross revenues or gross receipts (report such taxes in IRI, item 11, "General operating and other expenses").

Include income tax effects of changes in tax laws or rates. Also include the effect of changes in the valuation allowance related to deferred tax assets resulting from a change in estimate of the realizability of deferred tax assets, excluding the effect of any valuation allowance changes related to unrealized holding gains (losses) on available-for-sale securities that are charged or credited directly to the separate component of equity capital for "Accumulated other comprehensive income" (Schedule IRC, item 37(b)).

Include tax benefits from operating loss carrybacks realized during the reporting period. If the consolidated company has realized tax benefits from operating loss carryforwards during the reporting period, do not net the dollar amount of these benefits against the income taxes which would be applicable to item 15. Report the dollar amount of income taxes applicable to item 14, above, the realized tax benefits of operating loss carryforwards gross in item 17, "Discontinued operations, net of applicable income taxes" below.

Also include the dollar amount of any material adjustments or settlements reached with a taxing authority (whether negotiated or adjudicated) relating to disputed income taxes of prior years.

Exclude the estimated federal, state and local, and foreign income taxes applicable to:

- (1) Item 17, "Discontinued operations, net of applicable income taxes."
- (2) Schedule IRI-A, item 2, "Cumulative effect of changes in accounting principles and corrections of material accounting errors."
- (3) Schedule IRI-A, item 12, "Other comprehensive income."

Schedule IRI

Line Item 16 Income (loss) before discontinued operations.

Report the difference between item 14 and item 15. If the amount is negative, report with a minus (-) sign.

Line Item 17 Discontinued operations, net of applicable income taxes.

Report the results of discontinued operations, if any, net of applicable income taxes, as determined in accordance with the provisions of ASC Subtopic 205-20, Presentation of Financial Statements – Discontinued Operations (formerly FASB Statement No. 144, *Accounting for the Impairment of Long Lived Assets*). If the amount reported in this item is a net loss, report with a minus (-) sign.

Line Item 18 Net income (loss) attributable to Reporter and noncontrolling (minority) interests.

Report the sum of items 16 and 17. If this amount is a net loss, report with a minus (-) sign.

Line Item 19 LESS: Net income (loss) attributable to noncontrolling (minority) interests.

Report that portion of consolidated net income reported in Schedule IRI, item 18, above, attributable to noncontrolling interests of subsidiaries of the company. A noncontrolling interest, also called a minority interest, is the portion of equity in a company's subsidiary not attributable, directly or indirectly, to the parent company. If the amount reported in this item is a net loss, report with a minus (-) sign.

Line Item 20 Net income (loss) attributable to Reporter.

Report item 18 less item 19. If this amount is a net loss, report with a minus (-) sign.

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Memoranda

Line Item M1 Net investment gains (losses).

Report in the appropriate subitem the net investment gains (losses) realized during the calendar year-to-date. The sum of item M1(a) through M1(f) must equal item 4, “Net investment gains (losses)”, above.

Line Item M1(a) Realized gains (losses) on fixed maturity securities.

Report in column A the sum of column B, C and D. Report in column B, C and D the net gains (losses) realized during the calendar year-to-date from the sale, exchange, redemption, or retirement of all securities reportable in Schedule IRC, item 1(a) “Fixed maturity securities-Held-to-maturity securities”, item 1(b) “Fixed maturity securities – Available-for-sale securities” and item 1(c) “Fixed maturity securities - Fair value option”, respectively.

The realized 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 amortized cost.

Also, include in this item other-than-temporary impairment losses on individual securities that must be recognized in earnings. See Memoranda item 2(c) for detailed instructions.

Also, include the revaluation adjustments to the carrying value of those securities reported at fair value under a fair value option resulting from the periodic marking of such assets to fair value. Exclude the contractual amounts of interest income earned and interest expense incurred on such securities, which should be reported in item 3 above.

Do not adjust for applicable income taxes, which should be reported in item 15 above.

If the amount to be reported in this item is a net loss, report with a minus (-) sign.

Exclude:

- (1) The change in net unrealized holding gains (losses) on available-for-sale securities during the calendar year-to-date. Report in Schedule IRI-A, Memorandum item M1 “Other comprehensive income”.
- (2) Net gains (losses) from the sale of detached securities coupons and the sale of ex-coupon securities, which should be reported in item 5 or item 11 above, as appropriate. (Refer to the Glossary entry for “coupon stripping” for further information).

Line Item M1(b) Realized gains (losses) on equity securities.

Report in column A the sum of column C and D. Report in column C and D the net gains (losses) realized during the calendar year-to-date from the sale, exchange, redemption, or retirement of all securities reportable in IRC, item 2(a) “Equity securities–Available-for-sale securities” and item 2(b) “Equity securities – Fair value option”, respectively. The realized 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 amortized cost.

Also, include in this item other-than-temporary impairment losses on individual securities that must be recognized in earnings. See Memoranda item 2(c) for detailed instructions.

Also, include the revaluation adjustments to the carrying value of those securities reported at fair value under a

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fair value option resulting from the periodic marking of such assets to fair value. Exclude the contractual amounts of interest income earned and interest expense incurred on such securities, which should be reported in item 3 above.

Do not adjust for applicable income taxes, which should be reported in item 15 above.

If the amount to be reported in this item is a net loss, report with a minus (-) sign.

Exclude:

- (1) The change in net unrealized holding gains (losses) on available-for-sale securities during the calendar year-to-date.
- (2) Net gains (losses) from the sale of detached securities coupons and the sale of ex-coupon securities, which should be reported in item 5 or item 11 above as appropriate. (Refer to the Glossary entry for “coupon stripping” for further information).

Line Item M1(c) Realized gains (losses) on trading securities.

Report in column A the revaluation adjustments to the carrying value of securities classified as trading and reportable in Schedule IRC-D, item 1 “Fixed maturity securities” and item 2 “Equity securities”. Such assets are ultimately reported in Schedule IRC, item 3 “Trading assets”. Include incidental income and expense related to the purchase and sale of such securities.

Line Item M1(d) Fair value changes on embedded derivatives.

Report in column A the revaluation adjustments to the periodic marking to market of embedded derivatives reportable in Schedule IRC-L, item 6. (See the Glossary entry for “embedded derivatives” for further information).

If the amount to be reported in this item is a net loss, report with a minus (-) sign.

Line Item M1(e) Fair value changes on related freestanding derivatives.

Report in column A the revaluation adjustments to the periodic marking to market of free standing derivatives, which include non trading qualifying freestanding derivatives used for hedging purposes and free standing derivatives held for trading purposes. The effect of the periodic net settlements on derivative contracts should be included as part of the revaluation adjustments from the periodic marking to market of these contracts.

If the amount to be reported in this item is a net loss, report with a minus (-) sign.

Line item M1(f) Other.

Report in column A all other net investment gains (losses) not included in item M1(a) through M1(e) above. Items reported may include, but are not limited to:

- (1) Revaluation adjustments to the carrying value of instruments reportable in Schedule IRC, item 3 “Trading assets” and Schedule IRC, item 28 “Trading liabilities,” resulting from the periodic marking to market of such instruments, including any incidental income and expense related to the purchase and sale of such trading assets and liabilities. Exclude net investment gains (losses) on securities classified as trading, which are reported in item M1(c) above and derivatives, which are reported in M1(e) above.

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- (2) Fair value changes included in earnings during the calendar year to date for all assets and liabilities accounted for at fair value under the fair value option (except for those related fixed maturity securities reported under the fair value option in item M1(a) above and those related to equity securities reported under the fair value option in item M1(b) above).
- (3) Any exchange gains (losses) resulting from foreign currency transactions.
- (4) Net gains (losses) on any sales of real estate.
- (5) Net gains (losses) on sales and other disposals of loans and leases (reportable in Schedule IRC-C), including unrealized losses (and subsequent recoveries of such net unrealized losses) on loans and leases held for sale (reported in Schedule IRC-B, Part B, item 3). Exclude net gains (losses) on loans and leases sold in the Reporter's own securitization transactions and unrealized losses (and recoveries of unrealized losses) on loans and leases held for sale in the Reporter's own securitization transactions (report these gains (losses) in item 5 above.
- (6) Provision for loan and lease losses (reported in Schedule IRI-B, Part B, item 5 "Provision for loan and lease losses").

If the amount to be reported in this item is a net loss, report with a minus (-) sign.

Line Item M2 Other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities.

When the fair value of an individual held-to-maturity or available-for-sale debt security is less than its amortized cost basis, the security is impaired and the impairment is either temporary or other-than-temporary. To determine whether the impairment is other-than-temporary, a Reporter must apply the relevant guidance in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, as amended by FASB Staff Position (FSP) FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, and FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* and ASC Subtopic 325-40, Investments-Other-Beneficial Interests in Securitized Financial Assets (formerly Emerging Issues Task Force (EITF) Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, as amended by FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*), as appropriate.

Report in the appropriate subitem the specified information on other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities that have occurred during the calendar year to date. The amounts to be reported in Memorandum item 2 should be determined as of the date each other-than-temporary loss is initially recognized on an individual debt security during the current calendar year, i.e., based on the fair value and amortized cost of the other-than-temporarily impaired debt security as of that measurement date, and these amounts should be adjusted only to reflect any additional impairment loss on the debt security that is recognized in earnings during the same calendar year. The amounts reported in Memorandum items 2(a) and 2(b) should not be adjusted to reflect recoveries in the fair value of the other-than-temporarily impaired debt security in periods subsequent to the date when the other-than-temporary impairment loss was initially recognized in earnings during the current calendar year. In contrast, the amounts reported in Memorandum items 2(a), 2(b), and 2(c) should be adjusted to reflect a further decline in the fair value of the other-than-temporarily impaired debt security during the current calendar year that is accompanied by an additional impairment loss on the debt security that increases the previously reported impairment loss recognized in earnings during the

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current calendar year.

Line Item M2(a) Total other-than-temporary impairment losses.

When an other-than-temporary impairment loss has occurred on an individual debt security, the total amount of the loss is the entire difference between the amortized cost of the debt security and its fair value on the measurement date of the other-than-temporary impairment. Report the total other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities recognized in earnings and other comprehensive income during the calendar year to date in the manner specified in the instructions for Memorandum item 2, above. Because this item should not reflect recoveries in the fair value of an other-than-temporarily impaired debt security in periods subsequent to the date when the other-than-temporary impairment loss was initially recognized during the current calendar year, negative entries are not appropriate in this item.

Line Item M2(b) Portion of losses recognized in other comprehensive income (before income taxes).

When an other-than-temporary impairment loss has occurred on an individual debt security, if the Reporter does not intend to sell the security and it is not more likely than not that the Reporter will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment loss must be separated into (a) the amount representing the credit loss, which must be recognized in earnings, and (b) the amount related to all other factors, which must be recognized in other comprehensive income. Report the portion of other-than-temporary impairment losses included in Memorandum item 2(a) above related to factors other than credit that has been recognized in other comprehensive income (before income taxes) during the calendar year-to-date in the manner specified in the instructions for Schedule IRI, Memorandum item 2, above.

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

Line Item M2(c) Net impairment losses recognized in earnings.

Report Memorandum item 2(a) less Memorandum item 2(b), which represents the amount of other-than-temporary impairment losses on held-to-maturity and available-for-sale debt securities that has been recognized in earnings during the calendar year-to-date. This amount is included in Memorandum item 1(a), "Realized gains (losses) on fixed maturity securities" above.

Line Item M3 Other income.

Disclose in Memorandum item 3(a) and 3(b) each component of other income in excess of five percent of total revenue. A preprinted caption has been provided for the following category of "Other income":

- M3(a), Asset management fees

For other components of "Other income" that exceed the disclosure threshold, list and briefly describe the components in Memorandum item 3(b).

LINE ITEM INSTRUCTIONS FOR

Changes in Equity Capital Schedule IRI-A

General Instructions

Total equity capital for the Reporter includes perpetual preferred stock, common stock, capital surplus, retained earnings, accumulated other comprehensive income and other equity capital components such as treasury stock and unearned Employee Stock Ownership Plan Shares. All amounts in Schedule IRI-A, other than those reported in item 1, 3, and 12, should represent net aggregate changes for the calendar year-to-date. Report all net decreases and losses (net reductions of equity capital of the Reporter) with a minus (-) sign.

Line Item 1 Equity capital, most recently reported for the end of previous calendar year.

Report the consolidated Reporter's total equity capital balance most recently reported for the previous calendar year-end after the effect of all corrections and adjustments to total equity capital that were made in any amended report(s) for the previous calendar year-end.

Line Item 2 Cumulative effect of changes in accounting principles and corrections of material accounting errors.

Report the sum of the cumulative effect, net of applicable income taxes, of all changes in accounting principles adopted during the calendar year-to-date reporting period that were applied retroactively and for which prior years' financial statements were restated and all corrections resulting from material accounting errors that were made in prior years' FR 2085 and not corrected by the filing of an amended report for the period in which the error was made. Include only those corrections that result from:

- (1) Clerical errors.
- (2) Mistakes in applying accounting principles.
- (3) Improper use of information which existed when prior FR 2085 reports were prepared.
- (4) A change from an accounting principle that is neither accepted nor sanctioned by the Federal Reserve to one that is acceptable to the Federal Reserve.

The effect of accounting errors differs from the effect of changes in accounting estimates. Changes in accounting estimates are an inherent part of the accrual accounting process. Report the effect of any changes in accounting estimates in the appropriate line items of the Consolidated Income Statement (Schedule IRI). For further information on corrections of errors and changes in estimates, refer to the Glossary entry for "accounting changes."

The cumulative effect of a change in accounting principle is the difference between (1) the balance in the retained earnings account at the beginning of the year in which the change is made and (2) the balance in the retained earnings account that would have been reported at the beginning of the year had the newly adopted accounting principle been applied in all prior periods.

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Refer to the Glossary entry for “accounting changes” for information on how to determine the amount of the cumulative effect of a change in accounting principle.

Line Item 3 Balance end of previous calendar year as restated.

Report the sum of items 1 and 2.

Line Item 4 Net income (loss) attributable to Reporter.

Report the net income (loss) attributable to the Reporter for the calendar year-to-date as reported in Schedule IRI, item 20, “Net income (loss) attributable to Reporter.”

Line Item 5 Sale of perpetual preferred stock (excluding treasury stock transactions).

Report the changes in the consolidated Reporter’s total equity capital resulting from the sale of the Reporter’s perpetual preferred stock. Limited-life preferred stock is not included in equity capital; any proceeds from the sale of limited-life preferred stock during the calendar year-to-date are not to be reported in this item. (Include limited-life preferred stock in Schedule IRC, item 30(a)).

Line Item 5(a) Sale of perpetual preferred stock, gross.

Report in this item the total amount of new perpetual preferred stock issued, net of any expenses associated with the issuance of the stock.

Exclude the conversion of convertible debt and limited-life preferred stock into perpetual preferred stock, as well as the exercise of stock options (report in item 5(b) below).

Line Item 5(b) Conversion or retirement of perpetual preferred stock.

Report in this item the changes in the consolidated Reporter’s total equity capital resulting from:

- (1) The conversion of convertible debt or limited-life preferred stock into perpetual preferred stock.
- (2) Exercise of stock options, including:
 - (a) Any income tax benefits to the consolidated Reporter resulting from the sale of the Reporter’s own stock acquired under a qualified stock option within three years of its purchase by the employee who had been granted the option.
 - (b) Any tax benefits to the consolidated Reporter resulting from the exercise (or granting) of nonqualified stock options (on the Reporter’s stock) based on the difference between the option price and the fair market value of the stock at the date of exercise (or grant).
- (3) Retirement of perpetual preferred stock.
- (4) The awarding of share-based employee compensation classified as equity. Under ASC Topic 718, Compensation-Stock Compensation (formerly FASB Statement No. 123 (R), *Share-Based Payment*), the compensation cost for such an award must be recognized over the requisite service period with a corresponding credit to equity. This reporting treatment applies regardless of whether the shares awarded to an employee are shares of Reporter stock or shares of stock of the Reporter’s subsidiary.

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Include:

- (1) The net decrease in equity capital which occurs when cash is distributed in lieu of fractional shares in a stock dividend.
- (2) The net increase in equity capital when a stockholder who receives a fractional share from a stock dividend purchases the additional fraction necessary to make a whole share.

Line Item 6 Sale of common stock.

Report the changes in the consolidated Reporter's total equity capital resulting from the sale of the Reporter's common stock.

Line Item 6(a) Sale of common stock, gross.

Report the total amount of new common stock issued by the consolidated Reporter, net of any expenses associated with the issuance of such stock.

Line Item 6(b) Conversion or retirement of common stock.

Report in this item the changes in the consolidated Reporter's total equity capital resulting from:

- (1) The conversion of convertible debt, limited-life preferred stock, or perpetual preferred stock into common stock.
- (2) Exercise of stock options, including:
 - (a) Any income tax benefits to the consolidated Reporter resulting from the sale of the Reporter's own stock acquired under a qualified stock option within three years of its purchase by the employee who had been granted the option.
 - (b) Any tax benefits to the consolidated Reporter resulting from the exercise (or granting) of nonqualified stock options (on the Reporter's stock) based on the difference between the option price and the fair market value of the stock at the date of exercise (or grant).
- (3) Retirement of common stock.
- (4) The awarding of share-based employee compensation classified as equity. Under ASC Topic 718, Compensation-Stock Compensation (formerly FASB Statement No. 123(R), *Share-Based Payment*), the compensation cost for such an award must be recognized over the requisite service period with a corresponding credit to equity.

Include:

- (1) The net decrease in equity capital which occurs when cash is distributed in lieu of fractional shares in a stock dividend.
- (2) The net increase in equity capital when a stockholder who receives a fractional share from a stock dividend. Do not include dividends declared during the previous calendar year but paid in the current period.

Refer to the Glossary entry for "dividends" for further information on cash dividends.

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Line Item 7 Sale of treasury stock.

Report the resale or other disposal of the Reporter's own perpetual preferred stock or common stock, i.e., treasury stock transactions (see the Glossary entry for "treasury stock").

Line Item 8 LESS: Purchase of treasury stock.

Report the acquisition (without retirement) of the Reporter's own perpetual preferred stock or common stock, i.e., treasury stock transactions (see the Glossary entry for "treasury stock"). Report the amount as an absolute value; do not enclose the amount in parentheses or use a minus (-) sign.

Line Item 9 Changes incident to business combinations, net.

If the Reporter purchased another business during the calendar year-to-date reporting period, report the fair value of any perpetual preferred or common shares issued (less the direct cost of issuing the shares). Exclude the fair value of limited-life preferred stock issued in connection with purchase acquisitions. Refer to the Glossary entry for "business combinations" for further information on purchase acquisitions.

If the Reporter entered into a reorganization that became effective during the year-to-date reporting period and has been accounted at historical cost in a manner similar to a pooling of interests, report in this item the historical equity capital balances as of the end of the previous calendar year of the business that was combined in the reorganization. For further information on reorganizations, refer to the Glossary entry for "business combinations."

Line Item 10 LESS: Cash dividends declared on preferred stock.

Report all cash dividends declared on preferred stock (including limited-life preferred stock) during the calendar year-to-date, including dividends not payable until after the report date. Report the amount as an absolute value; do not enclose the amount in parentheses or use a minus (-) sign.

Do not include dividends declared during the previous calendar year but paid in the current reporting period.

Refer to the Glossary entry for "dividends" for further information on cash dividends.

Line Item 11 LESS: Cash dividends declared on common stock.

Report all cash dividends declared on common stock during the calendar year-to-date, including dividends not payable until after the report date. Report the amount as an absolute value; do not enclose the amount in parentheses or use a minus (-) sign.

Do not include dividends declared during the previous calendar year but paid in the current reporting period.

For further information on cash dividends, see the Glossary entry for "dividends."

Line Item 12 Other comprehensive income.

Report other comprehensive income, including reclassification adjustments, for the calendar year-to-date reporting period, net of applicable income taxes, if any. Reclassification adjustments are adjustments made to avoid double counting of items in comprehensive income that are presented as part of net income for the calendar year-to-date reporting period that also had been presented as part of other comprehensive income in that reporting period or earlier reporting periods. If the amount to be reported in this item represents a reduction in the

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Reporter's equity capital, report the amount with a minus (-) sign.

Other comprehensive income is defined in ASC Topic 220 Comprehensive Income (formerly FASB Statement No. 130, *Reporting Comprehensive Income*) as the change in equity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Items of other comprehensive income include:

- (1) The change in net unrealized holding gains (losses) on available-for-sale securities.
- (2) Unrealized holding gains (losses) that result from a debt security being transferred into the available-for-sale category from the held-to-maturity category.
- (3) For a debt security transferred into the held-to-maturity category from the available-for-sale category, amortization of the unrealized holding gain (loss) on the security at the date of transfer. Consistent with ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, as amended), this unrealized holding gain (loss) should be amortized over the remaining life of the security as an adjustment of yield.
- (4) The portion of other-than-temporary impairment losses on available-for-sale and held-to-maturity debt securities that was not recognized in earnings in accordance with ASC Topic 320, Investments-Debt and Equity Securities, subsequent decreases (if not other-than-temporary impairment losses) or increases in the fair value of available-for-sale debt securities previously written down as other-than-temporarily impaired, and subsequent accretion (based on the amount and timing of future estimated cash flows) of the portion of other-than-temporary impairment losses on held-to-maturity debt securities not recognized in earnings.
- (5) The change in accumulated net gains (losses) (effective portion) on derivative instruments that are designated and qualify as cash flow hedges.
- (6) The change in cumulative foreign currency translation adjustments and gains (losses) on certain foreign currency transactions. Refer to the Glossary entry for "foreign currency transactions and translation" for further information on accounting for foreign currency translation.
- (7) Gains (losses) and transition assets or obligations associated with single-employer defined benefit pension and other postretirement plans not recognized immediately as a component of net periodic benefit cost and prior service costs or credits associated with such plans, which are accounted for in accordance with ASC Subtopic 715-20, Compensation - Retirement Benefits - Defined Benefit Plans - General (formerly FASB Statement No. 87, *Employers' Accounting for Pensions*; FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pension*; and FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*).

For further guidance on reporting other comprehensive income, see ASC Topic 220, Comprehensive Income (formerly FASB Statement No. 52, *Foreign Currency Translation*; FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, as amended; FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*; and FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*).

Line Item 13 Change in the offsetting debt to the liability for Employee Stock Ownership Plan (ESOP) guaranteed by the Reporter.

Report an amount in this item only if the consolidated Reporter has guaranteed the debt of its ESOP. The

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amount reported in this item should reflect any changes during the calendar year-to-date to the offsetting debit to the liability recorded by the Reporter in connection with ESOP debt guaranteed by the Reporter (that is, the equity contra account). The changes in this account result either: (1) from the booking of an offsetting debit to any new ESOP debt guaranteed by the consolidated Reporter; or (2) from any reduction in the equity contra account as existing guaranteed ESOP debt is amortized. As the ESOP's debt is amortized, the equity contra account is reduced, thereby increasing the total amount of equity capital reported as outstanding by the Reporter. As the ESOP borrows more funds that are guaranteed by the Reporter, the offsetting debit increases the equity contra account, thereby reducing the total amount of equity capital reported as outstanding.

When the net impact of these changes to the equity contra account results in an overall decrease to that account, the amount of that decrease should be reported in this item as an increase in the total amount of equity capital by adding that amount when calculating "changes in equity capital" for this schedule. When the net impact of these changes to the equity contra account results in an overall increase to that account, the amount of that increase should be reported in this item as a decrease in the total amount of equity capital by placing that amount in parenthesis and subtracting it when calculating "changes in equity capital" for this schedule.

Line Item 14 Other adjustments to equity capital.

Report in this item all other adjustments to equity capital that are not properly reported in items 1 through 13 above. Included are contributions of capital made to the Reporter when the company is a partnership.

Line Item 15 Total equity capital end of current period.

Report the sum of items 3, 4, 5, 6, 7, 9, 12, 13, and 14, less items 8, 10, and 11. This item must equal Schedule IRC, item 38(a), "Total Reporter equity capital."

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Line Item M1 Other comprehensive income.

Report all other comprehensive income in the appropriate subitems for the calendar year-to-date. If the Reporter entered into a business combination that became effective during the reporting period and which has been accounted for under the acquisition method, report the other comprehensive income of the acquired business only after its acquisition.

Line Item M1(a) Unrealized gains (losses) on fixed maturity securities.

Report the net change in unrealized gains (losses) for the calendar year-to-date on available-for-sale fixed maturity securities reported in Schedule IRC-B, Part A, items 1 through 9, columns C and D for which other-than-temporary credit impairments have not been recognized.

Exclude any net changes that result from debt securities being transferred into the available-for-sale category from the held-to-maturity category (report in item M1(c) below).

Line Item M1(b) Unrealized gains (losses) on fixed maturity securities for which other-than-temporary credit impairments were recognized.

Report any portion of unrealized losses for the calendar year-to-date not recognized in net income for available-for-sale or held-to-maturity fixed maturity securities reported in Schedule IRC-B, Part A, items 1 through 9, columns A and D for which other-than-temporary credit impairments were recognized.

In accordance with ASC Subtopic 320-10 Investments - Debt and Equity Securities, for available-for-sale or held-to-maturity debt securities that are determined to be other than temporarily impaired and the Reporter does not intend to

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sell the security and it is not more likely than not that the Reporter will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be separated into an amount representing the credit loss and an amount related to all other factors. The amount related to credit loss is recognized in income while other factors are recognized as other comprehensive income. Subsequent increases and decreases (if not an other-than-temporary impairment) in the fair value of available-for-sale securities would also be included in this subitem).

Line Item M1(c) Unrealized gains (losses) on all other investments.

Report the net change in unrealized gains (losses) on any available-for-sale equity securities which would be included in Schedule IRC-B, Part A, items 11 through 14, columns C and D. Include any net changes that result from debt securities being transferred into the available-for-sale category from the held-to-maturity category.

Line Item M1(d) Impact of net unrealized gains (losses) on:

Report in the appropriate subitem changes in other comprehensive income due to shadow adjustments. In accordance with EITF Topic D-41, *Shadow Adjustments*, certain insurance related assets and liability balances may be adjusted to reflect the impact of unrealized gains and losses related to available-for-sale investment securities as if they had been sold on the last day of the reporting period. The offsetting entry for those adjustments is recognized as a component of other comprehensive income.

Line Item M1(d)(1) Deferred acquisition costs value of business acquired and deferred sales inducements.

Report the amounts of other comprehensive income for the calendar year-to-date due to shadow accounting adjustments of any deferred expense accounts such as deferred policy acquisition costs value of business acquired and deferred sales inducements.

Line Item M1(d)(2) Policyholder liabilities and other policyholder funds.

Report the amounts of other comprehensive income for the calendar year-to-date due to shadow accounting adjustments of any insurance reserves impacting the future policy benefits, policyholder account balances or other policyholder funds line items, Schedule IRC item 24(a), 24(b) and 25, respectively.

Line Item M1(d)(3) Policyholders' dividends.

Report the amounts of other comprehensive income for the calendar year-to-date due to shadow accounting adjustments of the policyholders' dividends line item, Schedule IRC item 26.

Line Item M1(d)(4) Other.

Report the amounts of other comprehensive income for the calendar year-to-date due to shadow accounting adjustments of any other accounts not reported in item M1(d)(1) through M1(d)(3).

Line Item M1(e) Changes in accumulated net gains (losses) on cash flow hedges.

Report the amounts of other comprehensive income attributed to net gains (losses) on cash flow hedges related to items that are reported on the balance sheet at fair value with unrealized gains (losses) included in accumulated other comprehensive income.

Line Item M1(f) Foreign currency translation adjustments.

Report the amounts of other comprehensive income attributed to foreign currency translation adjustments resulting from the process of translating all legal entities' financial statements whose functional currency differs from the parent

Schedule IRI-A

Reporter into the reporting currency of the Reporter.

Line Item M1(g) Pension and other post-retirement plan related changes other than net period benefit cost.

Report the amounts of other comprehensive income attributed to defined benefit postretirement plans resulting from the initial and subsequent application of the relevant GAAP standards that pertain to such plans.

Line Item M1(h) Deferred income tax benefit (expense).

Report the amounts of other comprehensive income attributed to the deferred income tax benefit (expense) related to amounts reflected in other comprehensive income.

LINE ITEM INSTRUCTIONS FOR

Charge-Offs and Recoveries on Loans and Leases and Change in Allowance for Loan and Lease Losses Schedule IRI-B

Part A. Charge-offs and recoveries on loans and leases

General Instructions

Part A has two columns. In column A, report loans and leases charged off during the current calendar year-to-date. Also include in column A write-downs to fair value on loans (and leases) transferred to the held-for-sale account during the calendar year-to-date that occurred when (1) the Reporter decided to sell loans that were not originated or otherwise acquired with the intent to sell and (2) the fair value of those loans had declined for any reason other than a change in the general market level of interest or foreign exchange rates. In column B, report amounts recovered during the current calendar year-to-date on loans and leases previously charged off. Columns A and B of Part A include loans and leases charged off against and amounts recovered, respectively.

These instructions should be read in conjunction with the Glossary entries for “allowance for loan and lease losses” and “domicile.”

Line Item 1 Loans secured by real estate.

Report in the appropriate subitem and column loans secured by real estate (as defined for Schedule IRC-C, Part A, item 1) that have been charged off and recovered.

Line Item 1(a) Secured by 1-4 family residential properties.

Report in columns A and B, as appropriate, 1-4 family residential loans (as defined for Schedule IRC-C, Part A, item 1(a), “Secured by 1-4 family residential properties”).

Line Item 1(b) Secured by farmland.

Report in columns A and B, as appropriate, loans secured by farmland (as defined for Schedule IRC-C, item 1(b), “Secured by farmland”).

Line Item 1(c) Secured by multifamily (5 or more) residential properties.

Report in columns A and B, as appropriate, loans secured by multifamily (5 or more) residential properties (as defined for Schedule IRC-C, Part A, item 1(c), “Secured by multifamily (5 or more) residential properties”).

Schedule IRI-B

Line Item 1(d) Secured by nonfarm nonresidential properties.

Report in columns A and B, as appropriate loans secured by nonfarm nonresidential properties (as defined for Schedule IRC-C, Part A, item 1(d) "Secured by nonfarm nonresidential properties").

Line Item 2 Loans to depository institutions and acceptances of other banks.

Report in the appropriate subitem and columns loans to depository institutions and acceptances of other banks (as defined for Schedule IRC-C, Part A, item 2, "Loans to depository institutions and acceptances of other banks").

Line Item 2(a) To U.S. banks and other U.S. depository institutions.

Report in columns A and B, as appropriate, loans to U.S. banks and other U.S. depository institutions (as defined in Schedule IRC-C, Part A, item 2(a), "To U.S. banks and other U.S. depository institutions").

Line Item 2(b) To foreign banks.

Report in columns A and B, as appropriate, loans to foreign banks (as defined in Schedule IRC-C, Part A, item 2(b), "To foreign banks").

Line Item 3 Loans to finance agricultural production and other loans to farmers.

Report in columns A and B, as appropriate, agricultural loans (as defined for Schedule IRC-C, Part A, item 3, "Loans to finance agricultural production and other loans to farmers").

Line Item 4 Commercial and industrial loans.

Line Item 4(a) To U.S. addressees.

Report in columns A and B, as appropriate, commercial and industrial loans (as defined for Schedule IRC-C, Part A, item 4(a), "To U.S. addressees").

Line Item 4(b) To non-U.S. addressees.

Report in columns A and B, as appropriate, commercial and industrial loans to non-U.S. addressees (as defined for Schedule IRC-C, Part A, item 4(b), "To non-U.S. addressees").

Line Item 5 Other consumer loans (includes single payment, installment, all student loans, and revolving credit plans other than credit cards).

Report in columns A and B, as appropriate, all other extensions of credit to individuals for household, family, and other personal expenditures (as defined for Schedule IRC-C, Part A, item 6, "All other loans and leases").

Line Item 6 Loans to foreign governments and official institutions.

Report in columns A and B, as appropriate, all loans to foreign governments and official institutions (as defined for Schedule IRC-C, Part A, item 5, "Loans to foreign governments and official institutions").

Schedule IRI-B

Line Item 7 All other loans and leases.

Report in columns A and B, as appropriate, other loans (as defined for Schedule IRC-C, item 6, “All other loans and leases”).

Line Item 8 Total.

Report in columns A and B the sum of items 1 through 7. The amount reported in column A must equal Schedule IRI-B, Part B, item 3, “Charge-offs,” plus Part B, item 4, “Write-downs arising from transfers of loans to a held-for-sale account,” below, and the amount reported in column B must equal Part B, item 2, “Recoveries,” below.

Part B. Changes in allowance for loan and lease losses

General Instructions

Report the reconciliation of the allowance for loan and lease losses on a calendar year-to-date basis. The reconciliation should include the activity in the allocated transfer risk reserve during the calendar year-to-date that relates to loans and leases.

Exclude any capital reserves included in Schedule IRC, item 37(a), “Retained earnings,” and the effect of any transactions therein.

Refer to the Glossary entry for the “allowance for loan and lease losses” for further information.

Business Combinations and Reorganizations – If the Reporter purchased another business during the reporting period, include the recoveries, charge-offs, and provisions of the acquired business only after acquisition. Under ASC Topic 805, Business Combinations (formerly FASB Statement No. 141(R), *Business Combinations*), the acquired loans and leases must be measured at their acquisition-date fair values. Therefore, the Reporter may not carry over the allowance for loan and lease losses of the acquired business as of the acquisition date of the business combination.

If the Reporter entered into a reorganization that became effective during the year-to-date reporting period and has been accounted for at historical cost in a manner similar to a pooling of interests, report the recoveries, charge-offs, and provisions of the combined entities for the entire calendar year-to-date as though they had combined at the beginning of the year. Report the balance as of the end of the previous calendar year of the allowance for loan and lease losses of the business that was combined in the reorganization in Schedule IRI-B, Part B, item 6, “Adjustments.”

For further information on business combinations and reorganizations, see the Glossary entry for “business combinations.”

Line Item 1 Balance most recently reported at end of previous calendar year.

Report the balance in the allowance for loan and lease losses from the FR 2085 most recently reported at the previous calendar year-end after the effect of all corrections and adjustments to the allowance for loan and lease losses that were made in any amended report(s) for the previous calendar year-end.

Line Item 2 Recoveries.

Report the amount credited to the allowance for loan and lease losses for recoveries during the calendar year-to-date on amounts previously charged against the allowance for loan and lease losses. The amount reported

Schedule IRI-B

must equal Schedule IRI-B, Part A, item 8, column B.

Line Item 3 LESS: Charge-offs.

Report the amount of all loans and leases charged against the allowance for loan and lease losses during the calendar year-to-date. The amount reported in this item must equal Schedule IRI-B, Part A, item 8, column A, "Total" charge-offs, less Schedule IRI-B, Part B, item 4, "LESS: Write-downs arising from transfers of loans to a held-for-sale account."

Line Item 4 LESS: Write-downs arising from transfers of loans to a held-for-sale account.

Report the amount of write-downs to fair value charged against the allowance for loan and lease losses resulting from transfers of loans and leases to a held-for-sale account during the calendar year-to-date that occurred when:

- (1) The Reporter decided to sell loans and leases that were not originated or otherwise acquired with the intent to sell, and
- (2) The fair value of those loans and leases had declined for any reason other than a change in the general market level of interest or foreign exchange rates.

Line Item 5 Provision for loan and lease losses.

Report the amount expensed as the provision for loan and lease losses during the calendar year-to-date. The provision for loan and lease losses represents the amount needed to make the allowance for loan and lease losses adequate to absorb estimated loan and lease losses based upon management's evaluation of the Reporter's current loan and lease exposures.

Line Item 6 Adjustments.

Report the net cumulative effect of all corrections and adjustments made to the amount originally reported as the ending balances of the allowance for loan and lease losses as of the previous calendar year-end.

If the Reporter entered into a reorganization that became effective during the year-to-date reporting period and has been accounted for at historical cost in a manner similar to a pooling of interests, report in this item the balance as of the end of the previous calendar year of the allowance for loan and lease losses of the business that was combined in the reorganization.

For Reporters with foreign subsidiaries, report any increases or decreases resulting from the translation into dollars of any portions of the allowance for loan and lease losses that are denominated in a foreign currency.

Report all other allowable adjustments made during the reporting period.

If the amount reported in this item is negative, report with a minus (-) sign.

Line Item 7 Total Allowance for loan and lease losses.

Report the sum of items 1, 2, 5, and 6 less items 3 and 4.

LINE ITEM INSTRUCTIONS FOR

Property and Casualty Underwriting Results by Line of Business Schedule IRI-C

General Instructions

Reporters engaged in property and casualty underwriting activities must complete this schedule. Refer to the Glossary entry “property and casualty” for description of business.

This schedule should also be prepared in conjunction with Schedule IRC-I, Section I. Property and Casualty Underwriting, which includes detail related to loss and loss adjustment expense reserves.

Schedule IRI-C provides a further breakdown of certain consolidated income statement line items related to property and casualty underwriting. These data are inputs to the calculation of the loss ratio, expense ratio and combined ratio. Inputs and corresponding ratios are calculated on both a gross basis and net basis. “Gross” refers to direct and assumed amounts, while “net” refers to gross amounts *less* reinsurance ceded amounts.

The consolidated income statement line item “Loss and loss adjustment expenses” (reported in IRI, item 7(a)) is broken down into losses related to the current accident year (excluding catastrophe losses), catastrophe losses related to the current accident year and losses related to prior accident years. A definition for catastrophe losses has been provided in the instructions for column D below, and should be utilized in completing this schedule.

Lines of business are defined at a level to group products that share similar risk characteristics. Amounts reported in each line of business should reflect policies issued to both individuals and groups.

Column Instructions

Premiums

Column A, Written premium: Report expected value of undiscounted premiums related to contracts incepting during the calendar year-to-date after all modifications including those for retro adjustments, cancellations, and reinstatements. Report column A(1) on a gross basis. Report column A(2) on a net basis.

Column B, Earned premium: Report pro rata portions of premium applicable to the expired period of a policy for the calendar year-to-date. Report column B(1) on a gross basis. Report column B(2) on a net basis. Column B(2), item 25 must equal Schedule IRI, item 1(a), “Property and casualty”.

Incurred loss and loss adjustment expenses (Note: Item 25, sum of columns C(2), D(2) and E(2), must equal Schedule IRI, item 7(a) “Loss and loss adjustment expenses”).

Column C, Current accident year: Report loss and loss adjustment expenses related to covered events (as defined by the terms of the contract) that occurred during calendar year-to-date. Report column C(1) on a gross basis. Report column C(2) on a net basis.

Column D, Catastrophes (current accident year): Report losses from any catastrophe occurring during the current accident year where industry-wide insured losses are expected to be above \$1 billion dollars for the event. Include

Schedule IRI-C

all types of natural catastrophes that produce more than \$1 billion dollars of losses including tropical storms, earthquakes, tornados, and winter storms. Also include man-made catastrophes (e.g., terrorist activities and wildfire) to the extent that they meet this definition. Do not include any casualty “catastrophes” resulting from the extension of liability relative to insurer expectations for exposures such as asbestos. For determining the boundaries of an “event”, be consistent with other reporting to the extent possible such as Property Claim Services (PCS) catastrophe serial numbers for events within the United States. Report column D(1) on a gross basis. Report column D(2) on a net basis.

Column E, Prior accident year development: Report the difference between the current estimates of ultimate losses on all prior accident years and the same estimate when done as of the prior year end. Report column E(1) on a gross basis. Report column E(2) on a net basis.

Other expenses

Column F, Acquisition expenses: Report costs that are related directly to the successful acquisition of new and renewal insurance contracts during the calendar year-to-date. Report column F(1) on a gross basis. Report column F(2) on a net basis.

Column G, Other direct expenses: Report other underwriting, acquisition and insurance related expenses incurred during the calendar year-to-date, not reported in Column F. Exclude allocations of corporate overhead expenses and corporate expenses. Report column G(1) on a gross basis. Report column G(2) on a net basis.

Column H, Loss ratio: Derived from incurred losses (sum of columns C, D, and E) divided by earned premium (column B). Report column H(1) on a gross basis. Report column H(2) on a net basis.

Column I, Expense ratio: Derived from underwriting expenses incurred (sum of columns F and G) divided by written premiums (column A). Report column I(1) on a gross basis. Report column I(2) on a net basis.

Column J, Combined ratio: Derived from sum of both the Loss Ratio (column H) and Expense Ratio (column I) used to measure underwriting performance. Report column J(1) on a gross basis. Report column J(2) on a net basis.

Item Instructions

Domestic

Line Item 1 Private passenger automobile and liability.

Report coverage that protects the insured against financial loss because of legal liability for motor vehicle related injuries (bodily injury and medical payments) or damage to the property of others caused by accidents arising out of ownership, maintenance or use of a motor vehicle (including recreational vehicles such as motor homes).

Line Item 2 Automobile physical damage.

Report any motor vehicle insurance coverage (including collision, vandalism, fire and theft) that insures against material damage to the insured's vehicle.

Line Item 3 Homeowners and farmowners (including earthquake).

Report package policies combining broad property coverage for the personal property and/or structure with broad personal liability coverage. Include package policies for farming and ranching risks, similar to homeowners policies that have been adopted for farms and ranches. Report both property and liability coverages for personal

Schedule IRI-C

and business losses.

Include coverages applicable to:

- (a) The dwelling, appurtenant structures, unscheduled personal property and additional living expenses.
- (b) Mobile homes at a fixed location.
- (c) Farm dwellings and their contents, barns, stables, other farm structures and farm inland marine, such as mobile equipment and livestock.
- (d) Losses resulting from a sudden trembling or shaking of the earth, including that caused by volcanic eruption.
- (e) Exclude losses resulting from fire, explosion, flood or tidal wave following the covered event.

Line Item 4 Commercial automobile liability.

Report all motor vehicle policies that include vehicles used primarily in connection with business, commercial establishments, activity, employment or activities carried on for gain or profit. No Fault is defined by the state concerned.

Line Item 5 Special property (including earthquake).

Report all property coverages that offer protection to the insured under specific circumstances.

Include in this item:

- (a) Various property type coverages including fire, allied lines, inland marine, earthquake on commercial property, and burglary and theft.
- (b) Coverages that are generally written with property insurance, e.g., glass, tornado, windstorm and hail, sprinkler and water damage, explosion, riot, civil commotion, growing crops, flood, rain, and damage from aircraft and vehicle.
- (c) Coverages for property that may be in transit, held by a bailee, at a fixed location, a movable good that is often at different locations (e.g., off road constructions equipment), or scheduled property (e.g., homeowners personal property floater) including items such as live animals and property with antique or collector's value, for example.
- (d) Instrumentalities of transportation and communication, such as bridges, tunnels, piers, wharves, docks, pipelines, power and phone lines, and radio and television towers.
- (e) Property coverages for losses resulting from a sudden trembling or shaking of the earth, including that caused by volcanic eruption
- (f) Coverages for property taken or destroyed by breaking and entering the insured's premises, burglary or theft, forgery or counterfeiting, fraud, kidnap and ransom, and off-premises exposure.

Exclude losses resulting from fire, explosion, flood or tidal wave following the covered event.

Schedule IRI-C

Line Item 6 Commercial multi-peril.

Report contracts for commercial enterprises, which package two or more insurance coverages protecting an enterprise from various property and liability risk exposures. This item frequently includes fire, allied lines, various other coverages (e.g., difference in conditions) and liability coverage (such coverages would be included in other annual statement lines, if written individually). Include multi-peril policies (other than farm-owners, homeowners and automobile policies) that include coverage for liability other than automobile.

Line Item 7 Other liability (excluding asbestos and environmental) – occurrence.

Report contracts with coverage protecting the insurer against legal liability resulting from negligence, carelessness, or failure to act causing property damage or personal injury to others. Report insurance that covers events occurring during the policy coverage period.

Typically, coverage includes, but is not limited to:

(a) Construction and alteration liability.

Premiums attributable to policies covering the liability of an insured to persons who have incurred bodily injury or property damage from alterations involving demolition, new construction or change in size of a structure on the insured's premises.

(b) Contingent liability.

Premiums attributable to policies covering the liability of an insured to persons who have incurred bodily injury or property damage from work done by an independent contractor hired by the insured to perform work that was illegal, inherently dangerous, supervised too closely; or it was a situation that does not permit delegation of responsibility.

(c) Contractual liability.

Premiums attributable to policies covering the liability of an insured that have assumed the legal liability of another party by written or oral contract. Includes coverage that names the lender/lessor as beneficiary and indemnifies the borrower/lessee for the liability of the balance due on the automobile loan/lease for an automobile that has been destroyed in an accident.

(d) Elevators and escalators liability.

Premiums attributable to policies covering the liability of an insured to persons whom have incurred bodily injury or property damage from use of elevators or escalators operated, maintained or controlled by the insured.

(e) Errors and omissions liability and professional liability other than medical.

Premiums attributable to policies covering the liability of a professional or quasi professional insured to persons who have incurred bodily injury or property damage, or who have sustained any loss from omissions arising from the performance of services for others, errors in judgment, breaches of duty, or negligent or wrongful acts in business conduct.

(f) Environmental pollution liability.

Premiums attributable to policies covering the liability of an insured to persons who have incurred bodily

Schedule IRI-C

injury or property damage from acids, fumes, smoke, toxic chemicals, waste materials or other pollutants.

(g) Excess and umbrella liability.

Premiums attributable to policies covering the liability of an insured above a specific amount set forth in a basic policy issued by the primary insurer; or a self-insurer for losses over a stated amount; or an insured or self-insurer for known or unknown gaps in basic coverages or self-insured retentions.

(h) Liquor liability.

Premiums attributable to policies covering the liability of an insured to persons whom have incurred bodily injury or property damage from an intoxicated person.

(i) Professional injury liability.

Premiums attributable to policies covering the liability of an insured to persons who have been discriminated against, falsely arrested, illegally detained, libeled, maliciously prosecuted, slandered, suffered mental anguish or alienation of affections, or have had their right of privacy violated. Include identity theft.

(j) Premises and operations liability.

Premiums attributable to policies covering the liability of an insured to persons who have incurred bodily injury or property damage on an insured's premises during normal operations or routine maintenance, or from an insured's business operations either on or off of the insured's premises.

(k) Completed operations liability.

Premiums attributable to policies covering the liability of contractors, plumbers, electricians, repair shops, and similar firms to persons who have incurred bodily injury or property damage from defective work or operations completed or abandoned by or for the insured, away from the insured's premises.

Line Item 8 Other liability (excluding asbestos and environmental) – claims made.

Report other liability policies written on a claims made basis. See item 7 above for the definition of other liability.

Line Item 9 Asbestos and environmental.

Report all asbestos and environmental coverages. Asbestos is liability related to mesothelioma and asbestos claims. Environmental includes policies covering the liability of an insured to persons who have incurred bodily injury or property damage from acids, fumes, smoke, toxic chemicals, waste materials or other pollutants.

Line Item 10 Workers' compensation.

Report insurance that covers an employer's liability for injuries, disability or death to persons in their employment, without regard to fault, as prescribed by state or Federal workers' compensation laws and other statutes.

Include employer's liability coverage against the common law liability for injuries to employees (as distinguished from the liability imposed by workers' compensation laws).

Exclude excess workers' compensation (report in item 11 below).

Schedule IRI-C

Line Item 11 Excess workers' compensation.

Report indemnification coverage provided to self-insured employers on an excess of loss basis.

Line Item 12 Fidelity and surety.

Report bonds covering an employer's loss resulting from an employee's dishonest act (e.g., loss of cash, securities, valuables, etc.). Also report tri-party agreements where the insurer agrees to pay a second party (the obligee) or make complete an obligation in response to the default, acts, or omissions of a third party (the principal).

Line Item 13 Medical professional liability – occurrence and claims made.

Report insurance coverage protecting a licensed health care provider or health care facility against legal liability resulting from the death or injury of any person due to the insured's misconduct, negligence, or incompetence in rendering professional services. Medical professional liability is also known as medical malpractice.

Line Item 14 Product liability – occurrence and claims made.

Report insurance coverage protecting the manufacturer, distributor, seller, or lessor of a product against legal liability resulting from a defective condition causing personal injury, or damage, to any individual or entity, associated with the use of the product.

Line Item 15 Mortgage guarantee.

Report insurance that indemnifies a lender from loss if a borrower fails to meet required mortgage payments.

Line Item 16 Credit insurance and financial guaranty.

Report coverage purchased by consumers, manufacturers, merchants, educational institutions, or other providers of goods and services extending credit, for indemnification of losses or damages resulting from the nonpayment of debts owed to/from them for goods or services provided in the normal course of their business.

Include financial guaranties in the form of surety bonds, insurance policies, or when issued by an insurer, indemnity contracts and any guaranties similar to the foregoing types, under which loss is payable upon proof of occurrence of financial loss to an insured claimant, obligee or indemnitee as a result of failure to perform a financial obligation (see Financial Guaranty Insurance Model Act).

Credit insurance is generally issued in connection with the issuance of credit to an individual by a bank, retailer, finance company, or other similar organization and protects the organization for the unpaid balance of the loan and frequently for durations of under 120 months.

Also include guaranteed asset protection (GAP coverage), or other collateral protection, where the policy protects the individual when the loan balance is greater than the property coverage.

Line Item 17 Aircraft.

Report coverage for aircraft (hull) and their contents, as well as aircraft owners' and aircraft manufacturers' liability to passengers, airports and other third parties.

Line Item 18 Accident and health.

Report all property and casualty short-duration accident and health coverages. Include both group and individual policies.

Schedule IRI-C

Exclude short-duration accident and health policies or contracts written out of life and health insurance entities (report in Schedule IRC-I, Section II, Life and Health Underwriting).

See Glossary entries for “property and casualty” and “life and health” to distinguish property and casualty underwriting activities from life and health underwriting activities.

Line Item 19 Assumed reinsurance.

Report all assumed reinsurance.

Line Item 20 Other.

Report coverages for all other property and casualty lines of business not reported in items 1 through 19 above. (e.g., involuntary unemployment insurance). Include boiler and machinery, warranty and ocean marine.

Line Item 21 Total domestic.

Report the sum of items 1 through 20.

International

Line Item 22 Commercial.

Report all international commercial coverages.

Line Item 22(a) Short-tail.

Report coverages for commercial property damage and other coverages where incurred losses occur and are settled in a short time frame.

Line Item 22(b) Long-tail.

Report coverages that protect the insured against financial loss because of legal liability. Include all commercial coverages not included in item 22(a) above.

Line Item 23 Personal.

Report all international personal coverages.

Line Item 23(a) Short-tail.

Report coverages for property damage on motor vehicles, homeowners and farmowners property and other coverages where incurred losses occur and are settled in a short time frame.

Line Item 23(b) Long-tail.

Report coverages that protect the insured against financial loss because of legal liability. Include all personal coverages not included in item 23(a) above.

Schedule IRI-C

Line Item 24 Total international.

Report the sum of items 22(a) through 23(b).

Line Item 25 Total.

Report the sum of items 21 and 24.

DRAFT

Notes to the Income Statement

This section has been provided to allow Reporters that so wish to explain the content of specific items in the income statement. The Reporter should include any transactions reported on Schedules IRI through IRI-C that it wishes to explain or that have been separately disclosed in the Reporter's quarterly reports to its shareholders, in its press releases, or on its quarterly reports to the SEC.

Exclude, however, any transactions that have been separately disclosed under the reporting requirements specified in Memoranda item 3 to Schedule IRI, the Consolidated Report of Income.

Also include any transactions which previously would have appeared as footnotes to Schedules IRI through IRI-C.

Report in the space provided the schedule and line item for which the Reporter is specifying additional information, a description of the transaction and, in the column provided, and the dollar amount associated with the transaction being disclosed.

LINE ITEM INSTRUCTIONS FOR

Consolidated Balance Sheet Schedule IRC

The line item instructions should be read in conjunction with the Glossary and other sections of these instructions. See the discussion of the Organization of the Instruction in the General Instructions. For purposes of these line item instructions, the FASB Accounting Standards Codification is referred to as “ASC.”

Assets

Investments:

Line Item 1 Fixed maturity securities:

Line Item 1(a) Held-to-maturity.

Report the amount from Schedule IRC-B, Part A, item 10, column A, “Total amortized cost.”

Line Item 1(b) Available-for-sale.

Report the amount from Schedule IRC-B, Part A, item 10 column D, “Total fair value.”

Line Item 1(c) Fair value option.

Report the amount from Schedule IRC-B, Part A, item 10, column E, “Total fair value.”

Line Item 2 Equity securities:

Line Item 2(a) Available-for-sale.

Report the amount from Schedule IRC-B, Part A, item 15, column D, “Total fair value.”

Line Item 2(b) Fair value option.

Report the amount from Schedule IRC-B, Part A, item 15, column E, “Total fair value.”

Line Item 3 Trading assets.

Report the amount from Schedule IRC-D, item 5 “Total trading assets.”

Line Item 4 Loans and leases, net of unearned income and allowance for loan and lease losses.

Report the amount of loans and leases that the Reporter has the intent and ability to hold for the foreseeable future or until maturity or payoff, i.e. held for investment. This amount should be reported net of unearned income and net of the allowance for loan and lease losses as determined in accordance with GAAP (and described in the Glossary entry for “allowance for loan and lease losses”).

Schedule IRC

Exclude the amount of loans and leases held for sale, which should be reported separately in Schedule IRC-B, Part B, item 3, “Loans and leases held for sale”.

This item must equal Schedule IRC-C, Part A, item 8, “Loans and leases, net of unearned income” minus Schedule IRI-B, Part B, item 7, “Total allowance for loan and lease losses”.

Line Item 5 Policy loans.

Report the amount of loans made by a life insurance entity to a contract holder on the security of the cash surrender value of the underlying contract. This amount represents the unpaid principal balance. Valuation allowances are not established for policy loans as they are fully collateralized by the cash surrender value of the underlying insurance policies. Any unpaid principal and accrued interest is deducted from the cash surrender value or the death benefit prior to settlement of the insurance policy.

Line Item 6 Other invested assets.

Report the amount from Schedule IRC-B, Part B, item 8, “Total other invested assets”, sum of columns F, G, and H.

Line item 7 Securities purchased under agreements to resell.

Report the outstanding amount of:

- (1) Securities resale agreements, regardless of maturity, if the agreement requires the Reporter to resell the identical security purchased or a security that meets the definition of substantially the same in the case of a dollar roll.
- (2) Purchases of participations in pools of securities, regardless of maturity.

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

Exclude from this item:

- (1) Resale agreements involving assets other than securities.
- (2) Due bills representing purchases of securities or other assets by the Reporter that have not yet been delivered and similar instruments, whether collateralized or uncollateralized. See the Glossary entry for “due bills.”
- (3) So-called yield maintenance dollar repurchase agreements (see the Glossary entry for “repurchase/resale agreements”).

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

Line Item 8 Other short-term investments.

Report securities and other investments with remaining maturities of one year or less, but greater than three

Schedule IRC

months, at the time of purchase not required to be reported in items 1 through 8 above. Such amounts are reported at estimated fair value or amortized cost, which approximates estimated fair value.

Exclude securities purchased under agreements to resell, which are reported in item 7, above.

Line Item 9 Total investments.

Report the sum of items 1 through 8.

Line Item 10 Cash and cash equivalents.

Report cash on hand and all highly liquid securities and other investments purchased with an original or remaining maturity of three months or less at the date of purchase. Cash equivalents are reported at amortized cost, which approximates estimated fair value.

Line Item 11 Accrued investment income.

Report all investment income accrued but not yet received. Items reported may include amounts due from real estate income, interest-bearing investments, and equity investments paying cash dividends.

Report the amount of interest earned or accrued on earning assets and applicable to current or prior periods that has not yet been collected. Accrued interest on securities purchased may be reported in this item, or in item 19 below, if accounted for separately.

Line Item 12 Premiums and other receivables, net of allowance.

Report premium balances receivable, amounts due from agents and brokers and policyholders, trade receivables and other receivables, net of allowance for doubtful accounts. Trade receivables include cash collateral posted to derivative counterparties that is not eligible to be netted against derivative liabilities.

Line Item 13 Reinsurance assets, net of allowance.

Report reinsurance assets, which may include reimbursements expected by insurance underwriters, under reinsurance contracts governing underwriting coverage ceded to external third parties, for paid and unpaid claims (including incurred but not reported claims), claim settlement expenses and other policy benefits as well as other amounts receivable under reinsurance contracts. Include an offset for any provision for credit losses. Amounts reported may also include any embedded derivatives related to reinsurance contracts.

Line Item 14 Deferred policy acquisition costs and value of business acquired.

Report amount of deferred policy acquisition costs and value of business acquired.

Deferred acquisition cost consists primarily of incremental direct cost of successful contract acquisition of new or renewal insurance and annuity contracts as defined under ASC Subtopic 944-30, "Acquisition Costs". It includes compensation paid to agents and third parties, premium tax, as well as the portion of employee compensation costs related to underwriting, policy issuance and processing, and medical inspection.

Value of business acquired is an intangible asset resulting from a business combination that represents the excess of book value over the estimated fair value of acquired insurance, annuity, and investment-type contracts in-force at the acquisition date.

This amount should equal Schedule IRC-M, sum of item 4, "Deferred policy acquisition costs" and item 5, "Value of business acquired".

Schedule IRC

Line Item 15 Goodwill.

Report the carrying amount of goodwill as adjusted for any impairment losses. See “acquisition method” in the Glossary entry for “business combinations” for guidance on the recognition and initial measurement of goodwill acquired in a business combination. Goodwill should not be amortized, but must be tested for impairment as described in the Glossary entry for “goodwill”, and in the instructions to Schedule IRI, item 11 “General operating and other expenses.”

Goodwill represents the excess of the cost of a company over the sum of the fair values of the tangible assets and identifiable intangible assets acquired less the fair value of liabilities assumed in a business combination accounted for as a purchase.

Line Item 16 Other intangible assets.

Report the total amount of other intangible assets. Include mortgage servicing rights and other intangible assets arising from a business combination accounted for under the acquisition method in accordance with GAAP. This amount should equal Schedule IRC-M, sum of item 7(a), “Mortgage servicing assets” and item 7(b), “Other identifiable intangible assets recognized in a business combination”.

Line Item 17 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. The method of depreciation or amortization should conform to GAAP.

Do not deduct mortgages or other liens on such property (report in item 29 below).

Include the following as premises and fixed assets:

- (1) Premises that are actually owned and occupied (or to be occupied, if under construction) by the Reporter and its consolidated subsidiaries.
- (2) Leasehold improvements and fixed machinery and equipment.
- (3) Remodeling costs to existing premises.
- (4) Real estate acquired and intended to be used for future expansion.
- (5) Furniture, fixtures, and movable equipment of the Reporter and its consolidated subsidiaries.
- (6) Automobiles, airplanes, and other vehicles owned by the Reporter or its consolidated subsidiaries and used in the conduct of its business.
- (7) The amount of capital lease property (with the Reporter or its consolidated subsidiaries as lessee)—premises, furniture, fixtures, and equipment. See the discussion of accounting with Reporter as lessee in the Glossary entry for “lease accounting.”
- (8) Stocks and bonds issued by non-majority-owned corporations whose principal activity is the ownership of land, buildings, equipment, furniture, or fixtures occupied or used (or to be occupied or used) by the Reporter and its consolidated subsidiaries.

Exclude from premises and fixed assets:

Schedule IRC

- (1) Original paintings, antiques, and similar valuable objects (report in item 19 below);
- (2) Favorable leasehold rights (report in item 16 above); and
- (3) Loans and advances, whether secured or unsecured, to individuals, partnerships, and non-majority-owned corporations for the purpose of purchasing or holding land, buildings, or fixtures occupied or used (or to be occupied or used) by the Reporter and its consolidated subsidiaries (report in item 4 above).

Line Item 18 Investments in unconsolidated subsidiaries and associated companies.

Report the amount of investments in unconsolidated subsidiaries and associated companies that are strategic in nature and that have been made other than for the sole purpose of generating investment income.

Unconsolidated subsidiaries include all subsidiaries of the Reporter that are 50 percent or less owned (i.e., less than majority-owned) by the Reporter or, for some reason under GAAP, are not consolidated on the Reporter's consolidated financial statements. Special purpose entities issuing trust preferred securities that a Reporter deconsolidates under GAAP generally are considered unconsolidated subsidiaries for regulatory reporting and other regulatory purposes. Include such investments in unconsolidated special purpose entities that issue trust preferred securities.

Investments in associated companies, include associates, corporate joint ventures, unincorporated joint ventures, and general partnerships over which the Reporter exercises significant influence; and noncontrolling investments in certain limited partnerships and limited liability companies. The entities in which these investments have been made are collectively referred to as "investees." Such investments are typically accounted for under the equity method (see the Glossary entry for "equity method of accounting").

Exclude from this line item the direct and indirect investments made in real estate, third party managed funds and investment partnerships, directed managed private equity investments or any other non-operating company of strategic investment, as such amounts are to be reported in Schedule IRC-B, Part B, item 8, "Other invested assets").

Refer to the General Instructions section for a more detailed discussion of consolidation. See also the Glossary entry for "subsidiaries" for definitions of subsidiary, associated companies, and joint ventures.

Line Item 19 Other assets.

Report the total amount of all other assets that are not reported in item 10 through 18. Such assets may include:

- (1) Net deferred tax assets. See Schedule IRC-M, item 3, "Net deferred tax assets" for detailed instructions.
- (2) Prepaid expenses i.e., those applicable as a charge against earnings in future periods
- (3) Prepaid pension costs
- (4) Cost of issuing subordinated notes and debentures and the cost of issuing notes payable to unconsolidated special purpose entities that issue trust preferred securities, net of accumulated amortization.
- (5) Receivables resulting from sales of securities that had not yet settled at the balance sheet date.
- (6) Accrued interest on securities purchased (if accounted for separately from "accrued investment income" in the Reporter's records).

Schedule IRC

- (7) Restricted assets.
- (8) Other assets related to VIEs (see Schedule IRC-V, item 1(j), “Other assets”).
- (9) Reinsurance deposit assets.
- (10) Insolvency assessments assets.
- (11) Other deferred charges.
- (12) Automobiles, boats, equipment, appliances, and similar personal property repossessed or otherwise acquired for debts previously contracted.
- (13) Derivative instruments that have a positive fair value that the Reporter holds for purposes other than trading. For further information, see the Glossary entry for “derivative contracts.”
- (14) Cash items not conforming to the definition of “Cash and cash equivalents” found in the instruction to item 10 above.
- (15) Purchased computer software, net of accumulated amortization, and unamortized costs of computer software to be sold, leased, or otherwise marketed capitalized in accordance with the provisions of ASC Subtopic 985-20, Software – Costs of Software to Be Sold, Leased or Marketed (formerly FASB Statement No. 86, *Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed*).
- (16) Original art objects, including paintings, antique objects, and similar valuable decorative articles (report at cost unless there has been a decline in value, judged to be other than temporary, in which case the object should be written down to its fair value).
- (17) Securities or other assets held in charitable trusts (e.g., Clifford Trusts).
- (18) Furniture and equipment rented to others under operating leases, net of accumulated depreciation.
- (19) Ground rents.
- (20) Customers’ liability for deferred payment letters of credit.
- (21) The positive fair value of unused loan commitments (not accounted for as derivatives) that the Reporter has elected to report at fair value under a fair value option.
- (22) Equity securities that do not have readily determinable fair values. Report the historical cost of equity securities without readily determinable fair values. These equity securities are outside the scope of ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). An equity security does not have a readily determinable fair value if sales or bid-and-asked quotations are not currently available on a securities exchange registered with the SEC and are not publicly reported by the National Association of Securities Dealers Automated Quotations systems or the National Quotation Bureau. The fair value of an equity security traded only in a foreign market is not of a breadth and scope comparable to one of the U.S. markets referenced above.
- (23) Equity securities that do not have readily determinable fair values may have been purchased by the Reporter or acquired for debts previously contracted.

Schedule IRC

Include in this item:

- (a) Paid-in stock of a Federal Reserve Bank
- (b) Stock of a Federal Home Loan Bank
- (c) Common and preferred stocks that do not have readily determinable fair values, such as stock of bankers' banks and Class B voting common stock of the Federal Agricultural Mortgage Corporation (Farmer Mac)
- (d) "Restricted stock," as defined in ASC Topic 320, i.e., equity securities for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral), except if that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year
- (e) Participation certificates issued by a Federal Intermediate Credit Bank, which represent nonvoting stock of the bank
- (f) Minority interests held by the Reporter in any company not meeting the definition of associated company, except minority holdings that indirectly represent premises of the Reporter or investments in real estate ventures, provided that the fair value of any capital stock representing the minority interest is not readily determinable (See the Glossary entry for "subsidiaries" for the definition of associated company).
- (g) Equity holdings in those corporate ventures over which the Reporter does not exercise significant influence, except equity holdings that indirectly represent premises of the Reporter or investments in real estate ventures (See the Glossary entry for "subsidiaries" for the definition of corporate joint venture).

Exclude from this item:

- (a) Investments in subsidiaries that have not been consolidated; associated companies; corporate joint ventures, unincorporated joint ventures, and general partnerships over which the Reporter exercises significant influence; and noncontrolling investments in certain limited partnerships and limited liability companies (described in the Glossary entry for "equity method of accounting").
- (b) Preferred stock that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor (report in Schedule IRC-B, Part A, item 9, "Other debt securities").

Exclude from all other assets:

- (1) Redeemed U.S. savings bonds and food stamps (report in item 10 above).
- (2) Real estate owned or leasehold improvements to property intended for future use as premises of the Reporter (report in item 17 above).
- (3) Accounts identified as "building accounts," "construction accounts," or "remodeling accounts" (report in item 17 above).
- (4) Real estate acquired in any manner for debts previously contracted (including, but not limited to, real estate acquired through foreclosure and real estate acquired by deed in lieu of foreclosure), even if the Reporter has not yet received title to the property, and real estate collateral underlying a loan when the Reporter has obtained physical possession of the collateral, regardless of whether formal foreclosure proceedings have been instituted against the borrower (report as Schedule IRC-B, Part B, item 2, "Real estate held for sale").

Schedule IRC

- (5) Due bills representing purchases of securities or other assets by the Reporter that have not yet been delivered (report as loans in Schedule IRC-C).
- (6) Factored accounts receivable (report as loans in Schedule IRC-C).

Line Item 20 Separate account assets.

Report all assets qualifying for separate account summary total presentation in the Reporter's balance sheet as defined in the Glossary entry for "separate accounts". Include assets related to products in which the contract holder and not the Reporter or its consolidated subsidiaries retains all or most of the investment and/or interest rate risk.

Line Item 21 Total assets.

Report the sum of items 9 through 20. This item must equal item 40, "Total liabilities and equity capital."

Liabilities

Line Item 22 Loss and loss adjustment expense reserves.

Report the amount needed to provide for the estimated ultimate cost of investigating and settling claims relating to insured events that have occurred on or before a particular date (ordinarily the balance sheet date). Include the amount of money that will be required for future payments on both claims that have been reported to the insurer and claims relating to insured events that have occurred but have not been reported to the insurer.

This item must equal Schedule IRC-I, Section I, Part A, column B(2), item 25, "Total" loss and loss adjustment expense reserves (Reported) and Schedule IRC-I, Section I, Part B, item 10, "Loss and loss adjustment expense reserves, end of period".

Line Item 23 Unearned premiums.

Report the amount of unearned premiums. Unearned premiums represent the pro rata portion of the premiums in force applicable to the unexpired period of the policy term.

Line Item 24 Policyholder liabilities:

Report in the appropriate subitem future policy benefits and policyholder account balances.

Line Item 24(a) Future policy benefits.

The liability for future policy benefits represents the present value of future policy benefits to be paid to or on behalf of policyholders and related expenses less the present value of future net premiums. This line item primarily represents policy liabilities accounted for under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 60, *Accounting and reporting by Insurance enterprises* (FAS 60)) or similarly accounted for long-duration, fixed term policies (e.g., limited payment contracts).

This item must equal Schedule IRC-I, Section II, Summary, item 8, column C.

Line Item 24(b) Policyholder account balances.

Policyholder account balances, represents the receipts from the issuance of contracts that do not incorporate significant insurance risk as the concept is contemplated in FAS 60. This line item primarily represents policy liabilities accounted for under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No.

Schedule IRC

97, *Accounting and reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments (FAS 97)*) or similarly accounted for long-duration, variable term policies or contracts.

This item must equal Schedule IRC-I, Section II, Summary, item 8, column F.

Line Item 25 Other policyholder funds.

Report the liability for other policyholder funds, which are not reported in item 24(a) or 24(b) above. Items reported may include, but are not limited to, policy and contract claims, unearned revenue liabilities, policyholder dividends due and unpaid, policyholder dividends left on deposit and negative value of business acquired.

Line Item 26 Policyholders' dividends.

Report the liability for nonguaranteed amounts distributable to policyholders of participating life insurance contracts. Amount is based on actual performance of the insurance entity as determined by the insurer. Under the various state insurance laws, dividends must be apportioned to contract holders on an equitable basis. The dividend allotted to any contract often is based on the amount that the contract, as one of a class of similar contracts, has contributed to the earnings available for distribution as dividends. Dividends include annual policyholder dividends and termination dividends.

Line Item 27 Securities sold under agreements to repurchase.

Report the outstanding amount of:

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

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

Exclude from this item:

- (1) Repurchase agreements involving assets other than securities (report in item 39, below).
- (2) Borrowings from a Federal Home Loan Bank or a Federal Reserve Bank other than in the form of securities repurchase agreements (report in item 29 below).
- (3) Obligations under due bills that resulted when the Reporter sold securities or other assets and received payment, but has not yet delivered the assets, and similar obligations, whether collateralized or uncollateralized (report in item 29 below). See the Glossary entry for “due bills.”
- (4) So-called yield maintenance dollar repurchase agreements (see the Glossary entry for “repurchase/resale agreements”).

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

Schedule IRC

Line Item 28 Trading liabilities.

Report the amount from Schedule IRC-D, item 9 “Total trading liabilities.”

Line Item 29 Other borrowed money.

Report the total amount of other borrowed money from Schedule IRC-M, sum of items 9(a) through 9(c).

Line Item 30(a) Subordinated notes and debentures.

Report the amount of subordinated debt of the Reporter. Include the amount of outstanding notes and debentures that are subordinated to the deposits of the subsidiary depository institutions (see the Glossary entry for “subordinated notes and debentures”) and any other debt that is designated as subordinated in its indenture agreement.

Include in this line item the total amount of outstanding equity contract notes and equity commitment notes.

Also include perpetual debt securities that are subordinated.

For purposes of this item, report the amount of any outstanding limited-life preferred stock including any amounts received in excess of its par or stated value. (See the Glossary entry for “preferred stock” for the definition of limited-life preferred stock.)

For purposes of this report, do not include instruments generally referred to as trust preferred securities in this item. Such securities of consolidated special purpose entities should be reported in line item 30(b), “Subordinated notes payable to unconsolidated trusts issuing trust preferred securities, and trust preferred securities issued by consolidated special purpose entities.”

Also do not include reportable notes payable to unconsolidated special purpose entities that issue trust preferred securities. Report such notes payable in line item 30(b).

Line Item 30(b) Subordinated notes payable to unconsolidated trusts issuing trust preferred securities, and trust preferred securities issued by consolidated special purpose entities.

Report amount of subordinated notes payable to unconsolidated special purpose entities (trusts) that issue trust preferred securities. If the Reporter consolidates special purpose entities that issue trust preferred securities, report the amount of the trust preferred securities issued by the special purpose entity. For further information, see the Glossary entry for “Trust preferred securities issued.”

Line Item 31 Other liabilities.

Report the total amount of all other liabilities that are not reported in items 22 through 30(b). Such liabilities may include:

- (1) Net deferred tax liabilities. See Schedule IRC-M, item 8, “Net deferred tax liabilities”.
- (2) Accounts payable.
- (3) Deferred compensation liabilities.
- (4) Pension and other employee benefit liabilities

Schedule IRC

- (5) Dividends declared, but not yet payable. Include the amount of cash dividends declared on limited-life preferred, perpetual preferred, and common stock on or before the report date but not payable until after the report date.
- (6) Derivative instruments that have a negative fair value that the Reporter hold for purposes other than trading. For further information, see the Glossary entry for “derivative contracts”.
- (7) Deferred gains from sale-leaseback transactions.
- (8) Amounts due under reinsurance agreements.
- (9) Payables related to securities purchased, but not yet settled.
- (10) Guaranty liabilities.
- (11) Accrued interest on debt obligations.
- (12) Unrecognized tax benefits.
- (13) Insolvency assessments liability.
- (14) Other liabilities related to VIEs (see Schedule IRC-V, item 2(e), “Other liabilities”).
- (15) Hybrid debt and equity instruments that are subordinated to debt (including subordinated debt), but senior to equity in terms of pay out in the event of liquidation. Such financing instruments are generally reported in the Mezzanine section of a GAAP balance sheet. For regulatory reporting purposes such mezzanine financing instruments, such as nonredeemable controlling interests, should be reported in other liabilities.

Line Item 32 Separate account liabilities.

Report all liabilities qualifying for separate account summary total presentation in the Reporter’s balance sheet. See the Glossary entry “separate accounts” for further information.

Line Item 33 Total liabilities.

Report the sum of items 22 through 32.

Equity Capital

Line Item 34 Perpetual preferred stock and related surplus.

Report the amount of perpetual preferred stock issued, including any amounts received in excess of its par or stated value (See the Glossary entry for “preferred stock” for the definition of perpetual preferred stock).

Line Item 35 Common stock (par value).

Report the aggregate par or stated value of common stock issued.

Line Item 36 Surplus (exclude all surplus related to preferred stock).

Report the net amount formally transferred to the surplus account, including capital contributions, and any amount received for common stock in excess of its par or stated value on or before the report date.

Schedule IRC

Do not include any portion of the proceeds received from the sale of limited-life preferred stock in excess of its par or stated value (report in item 30(a) above) or any portion of the proceeds received from the sale of perpetual preferred stock in excess of its par or stated value (report in item 34 above).

Line Item 37(a) Retained earnings.

Report the amount of retained earnings (including capital reserves) as of the report date. The amount of the retained earnings should reflect the transfer of net income, declaration of dividends, transfers to surplus, and any other appropriate entries.

Adjustments of accruals and other accounting estimates made shortly after the report date that relate to the income and expenses of the year-to-date period ended as of the report date must be reported in the appropriate items of Schedule IRI, Consolidated Report of Income, for that year-to-date period.

Capital reserves are segregations of retained earnings and are not to be reported as liability accounts or as reductions of asset balances. Capital reserves may be established for such purposes as follows:

- (1) Reserve for undeclared stock dividends—includes amounts set aside to provide for stock dividends (not cash dividends) not yet declared.
- (2) Reserve for undeclared cash dividends—includes amounts set aside for cash dividends on common and preferred stock not yet declared (Cash dividends declared but not yet payable should be included item 31 above).
- (3) Retirement account (for limited-life preferred stock or notes and debentures subordinated to deposits)—includes amounts allocated under the plan for retirement of limited-life preferred stock or notes and debentures subordinated to deposits contained in the Reporter's articles of association or in the agreement under which such stock or notes and debentures were issued.
- (4) Reserve for contingencies includes amounts set aside for possible unforeseen or indeterminate liabilities not otherwise reflected on the Reporter's books and not covered by insurance. This reserve may include, for example, reserves set up to provide for possible losses that Reporter may sustain because of lawsuits, the deductible amount under the Reporter's blanket bond, defaults on obligations for which the Reporter is contingently liable, or other claims against the Reporter. A reserve for contingencies represents a segregation of retained earnings. It should not include any element of known losses or of any probable losses the amount of which can be estimated with reasonable accuracy (see the Glossary entry for "loss contingencies" for additional information).

Exclude the following from retained earnings:

- (1) The amount of the cumulative foreign currency translation adjustment (report in item 37(b) below).
- (2) Any portion of the proceeds received from the sale of perpetual preferred stock and common stock in excess of its par or stated value (report surplus related to perpetual preferred stock in item 34 and surplus related to common stock in item 35 above except where required by state law or regulation).
- (3) Any portion of the proceeds received from the sale of limited-life preferred stock in excess of its par or stated value (report in item 30(a) above).

"Reserves" that reduce the related asset balances such as valuation allowances (e.g., allowance for loan and lease losses), reserves for depreciation, and reserves for bond premiums.

Schedule IRC

Line Item 37(b) Accumulated other comprehensive income.

Report the accumulated balance of other comprehensive income as of the report date in accordance with ASC Subtopic 220-10, Comprehensive Income - Overall (formerly FASB Statement No. 130, *Reporting Comprehensive Income*) net of applicable income taxes, if any. “Other comprehensive income” refers to revenues, expenses, gains, and losses that under GAAP are included in comprehensive income but excluded from net income.

Items of accumulated other comprehensive income include:

- (1) Net unrealized holding gains (losses) on available-for-sale securities (including debt securities transferred into the available-for-sale category from the held-to-maturity category), i.e., the difference between the amortized cost and the fair value of the available-for-sale securities (excluding any available-for-sale securities previously written down as other-than-temporarily impaired).¹

For most Reporters, all “securities,” as that term is defined in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), that are designated as “available-for-sale” will be reported as “Available-for-sale securities” in item 1(b) and 2(a) above. However, a Reporter may have certain assets that fall within the definition of “securities” in ASC Topic 320 (e.g., nonrated industrial development obligations) that it has designated as “available-for-sale” and reports in a balance sheet category other than “Securities” (e.g., “Loans and leases”). These “available-for-sale” assets must be carried on the Reporter’s balance sheet at fair value rather than amortized cost and the difference between these two amounts, net of tax effects, also must be included in this item.

- (2) The unamortized balance of the unrealized holding gain (loss) that existed at the date of transfer of a debt security transferred into the held-to-maturity category from the available-for-sale category. Consistent with ASC Topic 320, when a debt security is transferred from the available-for-sale category into the held-to-maturity category, the (unrealized holding gain (loss) at the date of transfer continues to be reported in the accumulated other comprehensive income account, but must be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount.
- (3) The unaccreted portion of other-than-temporary impairment losses on available-for-sale and held-to-maturity debt securities that was not recognized in earnings in accordance with ASC Topic 320, plus the accumulated amount of subsequent decreases (if not other than-temporary impairment losses) or increases in the fair value of available-for-sale debt securities previously written down as other-than-temporarily impaired.
- (4) Accumulated net gains (losses) on derivative instruments that are designated and qualify as cash flow

¹ For example, if the fair value of the Reporter’s available-for-sale securities exceeds the amortized cost of its available-for-sale securities by \$100,000 (and the institution has had no other transactions affecting the “net unrealized holding gains (losses)” account), the amount to be included in Schedule IRC, item 37(b), must be reduced by the estimated amount of taxes using the Reporter’s applicable tax rate (federal, state and local). (See the Glossary entry for “income taxes” for a discussion of “applicable tax rate.”) If the Reporter’s applicable tax rate (federal, state and local) is 40 and the tax basis of its available-for-sale securities approximates their amortized cost, the Reporter would include “net unrealized holding gains” of \$60,000 in Schedule IRC, item 37(b). The Reporter would also have a deferred tax liability of \$40,000 that would enter into the determination of the amount of net deferred tax assets or liabilities to be reported in Schedule IRC-M, item 3, or Schedule IRC-M, item 8.

Schedule IRC

hedges² i.e., the effective portion³ of the accumulated change in fair value (gain or loss) on derivative instruments designated and qualifying as cash flow hedges in accordance with ASC Topic 815, *Derivatives and Hedging* (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended).

Under ASC Topic 815, a Reporter that elects to apply hedge accounting must exclude from net income the effective portion of the change in fair value of a derivative designated and qualifying as a cash flow hedge and record it on the balance sheet in the accumulated other comprehensive income component of equity capital. The ineffective portion of the change in fair value of the derivative designated and qualifying as a cash flow hedge must be reported in earnings. The component of accumulated other comprehensive income associated with a transaction hedged in a cash flow hedge should be adjusted each reporting period to a balance that reflects the lesser (in absolute amounts) of:

- (a) The cumulative gain (loss) on the derivative from inception of the hedge, less (i) amounts excluded consistent with the Reporter's defined risk management strategy and (ii) the derivative's gains (losses) previously reclassified from accumulated other comprehensive income into earnings to offset the hedged transaction, or
- (b) The portion of the cumulative gain (loss) on the derivative necessary to offset the cumulative change in expected future cash flows on the hedged transaction from inception of the hedge less the derivative's gains (losses) previously reclassified from accumulated other comprehensive income into earnings.

Accordingly, the amount reported in this item should reflect the sum of the adjusted balance (as described above) of the cumulative gain (loss) for each derivative designated and qualifying as a cash flow hedge. These amounts will be reclassified into earnings in the same period or periods during which the hedged transaction affects earnings (for example, when a hedged variable-rate interest receipt on a loan is accrued or when a forecasted sale occurs).

- (5) Foreign currency translation adjustments and gains (losses) on certain foreign currency transactions accumulated in accordance with ASC Topic 830, *Foreign Currency Matters* (formerly FASB Statement No. 52, *Foreign Currency Translation*). See the Glossary entry for "foreign currency transactions and translation" for further information.
- (6) The accumulated amounts of gains (losses), transition assets or obligations, and prior service costs or credits associated with single-employer defined benefit pension and other postretirement plans that have not yet been recognized as components of net periodic benefit cost in accordance with ASC Subtopic 715-20, *Compensation-Retirement Benefits - Defined Benefit Plans-General* (formerly FASB Statement No. 87, *Employers' Accounting for Pensions*; FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*; and FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*).

² Generally, the objective of a cash flow hedge is to link a derivative to an existing recognized asset or liability or a forecasted transaction with exposure to variability in expected future cash flows, e.g., the future interest payments (receipts) on a variable-rate liability (asset) or a forecasted purchase (sale). The changes in cash flows of the derivative are expected to offset changes in cash flows of the hedged item or transaction. To achieve the matching of cash flows, ASC Topic 815 requires that the effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges initially be reported in the accumulated other comprehensive income component of equity capital and subsequently be reclassified into earnings in the same future period or periods that the hedged transaction affects earnings.

³ The effective portion of a cash flow hedge can be described as the change in fair value of the derivative that offsets the change in expected future cash flows being hedged. Refer to ASC Topic 815, for further information.

Schedule IRC

Line Item 37(c) Other equity capital components.

Report in this item as a negative amount the carrying value of any treasury stock and any unearned Employee Stock Ownership Plan (ESOP) shares, which under GAAP are reported in a contra-equity account on the balance sheet. For further information, see the Glossary entry for “treasury stock,” ASC Subtopic 718-40, Compensation-Stock Compensation – Employee Stock Ownership Plans (formerly AICPA Statement of Position 93-6, *Employers’ Accounting for Employee Stock Ownership Plans*).

Report in this item as a negative amount notes receivable that represent a capital contribution and are reported as a deduction from equity capital in accordance with ASC Subtopic 505-10, Equity - Overall (formerly EITF Issue No. 85-1, *Classifying Notes Received for Capital Stock*) and SEC Staff Accounting Bulletin No. 107 (Topic 4.E., Receivables from Sale of Stock, in the Codification of Staff Accounting Bulletins). Also report in this item as a negative amount accrued interest receivable on such notes receivable that are reported as a deduction from equity capital in accordance with ASC Subtopic 505-10. Interest income accrued on such notes receivable should not be reported as interest income in Schedule IRI, but as additional paid-in-capital in item 34 or 36, as appropriate. For further information, see the Glossary entry for “capital contributions of cash and notes receivable” and ASC Subtopic 505-10.

Line Item 38(a) Total Reporter equity capital.

Report the sum of item 34 through 37(c). This item must equal IRI-A, item 15, “Total equity capital end of current period.”

Line Item 38(b) Noncontrolling (minority) interests in consolidated subsidiaries.

Report the portion of the equity capital accounts of all consolidated subsidiaries of the Reporter held by parties other than the Reporter. A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to the Reporter.

Line Item 39 Total equity capital.

Report the sum of item 38(a) and 38(b).

Line Item 40 Total liabilities and equity capital.

Report the sum of item 33 and 39. This item must equal item 21, “Total assets.”

Memoranda

Line Item M1 Has the Reporter engaged in a full-scope independent external audit at any time during the calendar year?

Enter a “1” for yes if the Reporter has engaged in a full-scope independent external audit (in which an opinion is rendered on their financial statements) at any time during the calendar year as of the December 31 report date. Also enter a “1” for yes if the Reporter has engaged or begun a full-scope independent external audit by December 31 that has not yet concluded. Enter a “0” if the response to this question is no. *If the response to this question is yes, the Reporter must complete all of Memoranda item 2 below. If the response to this question is no, skip Memoranda item 2.*

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Line Item M2 If the response to Memoranda item 1 is yes, indicate below the name and address of the Reporter's independent external auditing firm, and the name and e-mail address of the auditing firm's engagement partner.

Report in Memoranda item 2(a) the name and address (city, U.S. Postal Service abbreviation for state, zip code) of the Reporter's independent external auditing firm. An independent auditing firm is a company that provides full-scope auditing services to the Reporter in which an opinion is rendered on their financial statements.

Reporter's that do not have a full-scope audit conducted of their financial statements do not need to complete this item.

Report in Memoranda item 2(b) the name and e-mail address of the independent external auditing firm's engagement partner (partner in charge of the audit). This contact information is for the confidential use of the Federal Reserve and will not be released to the public.

LINE ITEM INSTRUCTIONS FOR

Investments

Schedule IRC-B

Part A. Fixed Maturity and Equity Securities

General Instructions

Part A of this section has five columns for information on securities: two columns for held-to-maturity securities, two columns for available-for-sale securities⁴, and one column for fair value option. Report the amortized cost and fair value of held-to-maturity securities in column A and B, respectively. Report the amortized cost and fair value of available-for-sale debt securities in column C and D, respectively. Report the fair value option in column E. Include securities with remaining maturities greater than one year, at the time of purchase. **Exclude securities with remaining maturities of one year or less, but greater than three months, at the time of purchase, which should be reported on Schedule IRC, item 8 “Other short-term investments”.**

Information on equity securities with readily determinable fair values is reported in the columns for available-for-sale securities only (columns C and D). For these equity securities, historical cost (not amortized cost) is reported in column C and fair value is reported in column D. Securities the Reporter has elected to report at fair value option should be reported in column E.

Exclude from this section all securities held for trading. Securities held for trading are to be reported in Schedule IRC, item 3, “Trading assets”.

In general, amortized cost is the purchase price of a debt security adjusted for amortization of premium or accretion of discount if the debt security was purchased at other than par or face value. (See the Glossary entry for “premiums and discounts.”) As defined in ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157 *Fair Value Measurements*), fair value is “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” For further information, see the Glossary entry for “fair value.”

The preferred method for reporting purchases and sales of securities is as of trade date. However, settlement date accounting is acceptable if the reported amounts would not be materially different. (See the Glossary entry for “trade date and settlement date accounting.”)

For purposes of this schedule, the following events and transactions shall be treated in the following manner:

- (1) Purchases of securities under agreements to resell and sales of securities under agreements to repurchase—
These transactions are not to be treated as purchases or sales of securities but as lending or borrowing (i.e., financing) transactions collateralized by these securities if the agreements meet the criteria for a borrowing as set forth in ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, *Accounting*

⁴ Available-for-sale securities are generally reported in Schedule IRC--B, column C and D. However, a Reporter may have certain assets that fall within the definition of “securities” in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), (e.g., certain industrial development obligations) that the Reporter has designated as “available-for-sale” which are reported for purposes of the FR 2085 report in a balance sheet category other than “Securities” (e.g., “Loans and lease financing receivables”).

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for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities). For further information, see the Glossary entry for “transfers of financial assets” and “repurchase/resale agreements.”

- (2) Purchases and sales of participations in pools of securities—Similarly, these transactions are not to be treated as purchases or sales of the securities in the pool but as lending or borrowing (i.e., financing) transactions collateralized by the pooled securities if the participation agreements meet the criteria for a borrowing set forth in ASC Topic 860. For further information, see the Glossary entry for “transfers of financial assets” and “repurchase/resale agreements.”
- (3) Pledged securities—Pledge securities that have not been transferred to the secured party should continue to be included in the pledging Reporter’s holdings of securities that are reported in Schedule IRC-B. If the Reporter has transferred pledged securities to the secured party, the Reporter should account for the pledged securities in accordance with ASC Topic 860.
- (4) Securities borrowed and lent—Securities borrowed and lent shall be reported on the balance sheet of either the borrowing or lending Reporter or its consolidated subsidiaries in accordance with ASC Topic 860. For further information, see the Glossary entries for “transfers of financial assets” and “securities borrowing/lending transactions.”
- (5) Short sales of securities—Such transactions are to be reported as described in the Glossary entry for “short position.”
- (6) Futures, forward, and standby contracts—Such open contracts to buy or sell in the future are to be reported as derivatives in Schedule IRC-L, item 1, “Gross amounts”.

Item Instructions

Fixed maturity securities

Line Item 1 U.S. Treasury securities.

Report in the appropriate columns the amortized cost and fair value of all U.S. Treasury securities not held in trading accounts. Include all bills, certificates of indebtedness, notes, and bonds, including those issued under the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program and those that are “inflation indexed.”

Exclude all obligations of U.S. government agencies and corporations. Also *exclude* detached Treasury security coupons and ex-coupon Treasury securities held as the result of either their purchase or the bank’s stripping of such securities and Treasury receipts such as CATs, TIGRs, COUGARs, LIONs, and ETRs (report in Part A, item 9 below). (Refer to the Glossary entry for “coupon stripping” for additional information.)

Line Item 2 U.S. government agency obligations.

Report in the appropriate columns of the appropriate subitem the amortized cost and fair value of all U.S. government agency and obligations (excluding mortgage backed securities) not held in trading accounts. For purposes of this line item, exclude from U.S. government agency obligations:

- (1) Loans to the Export Import Bank and to federally sponsored lending agencies (report in Schedule IRC-C, item 6, “All other loans and leases”). Refer to the Glossary entry for “federally-sponsored lending agency” for the definition of this term.
- (2) All holdings of U.S. government-issued or guaranteed mortgage pass-through securities (report in item 6(a))

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below).

- (3) Collateralized mortgage obligations (CMOs), real estate mortgage investments conduits (REMICs), CMO and REMIC residuals, and stripped mortgage backed securities (such as interest-only strips (IOs), principal-only strips (POs) and similar instruments) issued by U.S. government agencies and corporations (report in Part A, item 6(b) below).
- (4) Participations in pools of Federal Housing Administration Title I loans, which generally consist of junior lien home improvement loans.

Line Item 2(a) Issued by U.S. government agencies.

Report in the appropriate columns the amortized cost and fair value of all obligations not held in trading accounts that have been issued by U.S. government agencies. For purposes of this item, a U.S. government agency is defined as an instrumentality of the U.S. government whose debt obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government. Include, among others, debt securities (but not mortgage backed securities) of the following U.S. government agencies:

- (1) Export-Import Bank (Ex-Im Bank)
- (2) Federal Housing Administration (FHA)
- (3) Government National Mortgage Association (GNMA)
- (4) Maritime Administration
- (5) Small Business Administration (SBA)

Include such obligations as:

- (1) SBA "Guaranteed Loan Pool Certificates," which represent an undivided interest in a pool of SBA-guaranteed portion of loans for which the SBA has further guaranteed the timely payment of scheduled principal and interest payments (*Exclude* SBA "Guaranteed Interest Certificates," which represent a beneficial interest in the entire SBA-guaranteed portion of an individual loan. SBA "Guaranteed Interest Certificates" should be reported as loans in Schedule IRC-C, Part A, item 6, "All other loans and leases", or, if held for trading, in Schedule IRC-D, item 5, "Total trading assets").
- (2) Participation certificates issued by the Ex-Im Bank and the General Services Administration.
- (3) Notes issued by the Farmers Home Administration (FmHA) and instruments (certificates of beneficial ownership and insured note insurance contracts) representing an interest in FmHA-insured notes.

Exclude debt securities issued by SLM Corporation, the private-sector corporation that is the successor to the Student Loan Marketing Association (report in Part A, item 9(a), "Other domestic debt securities," below), and securitized student loans issued by SLM Corporation (or its affiliates) (report in Part A, item 7, "Asset-backed securities," below).

Line Item 2(b) Issued by U.S. government-sponsored agencies.

Report in the appropriate column the amortized cost and fair value of all obligations not held in trading accounts that have been issued by U.S. government-sponsored agencies. For purposes of this report, U.S. government-sponsored agencies are defined as agencies originally established or chartered by the U.S. government to serve

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public purposes specified by the U.S. Congress but whose debt obligations are not explicitly guaranteed by the full faith and credit of the U.S. government.

Include, among others, debt securities (but not mortgage-backed securities) of the following government-sponsored agencies:

- (1) Federal Agricultural Mortgage Corporation (Farmer Mac)
- (2) Federal Farm Credit Banks
- (3) Federal Home Loan Banks (FHLBs)
- (4) Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
- (5) Federal Land Banks (FLBs)
- (6) Federal National Mortgage Association (FNMA or Fannie Mae)
- (7) Financing Corporation (FICO)
- (8) Resolution Funding Corporation (REFCORP)
- (9) Student Loan Marketing Association (SLMA or Sallie Mae)
- (10) Tennessee Valley Authority (TVA)
- (11) U.S. Postal Service

Exclude debt securities issued by SLM Corporation, the private-sector corporation that is the successor to the Student Loan Marketing Association (report in Part A, item 9(a) below), and securitized student loans issued by SLM Corporation (or its affiliates) (report in Part A, item 7 below).

Line Item 3 Foreign government and official institutions.

Report in the appropriate columns the amortized cost and fair value of all obligations not held in trading accounts that have been issued by non-U.S. government entities, including Canada. For purposes of this item, a non-U.S. government agency is defined as an instrumentality of a foreign government whose debt obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of a foreign government. Exclude mortgage-backed securities.

Line Item 4 Securities issued by states and political subdivisions in the U.S.

Report amortized cost and fair value of all securities issued by states and political subdivisions in the U.S. not held in trading accounts. States and political subdivisions in the U.S., for purposes of this report, include:

- (1) The fifty states of the U.S. and the District of Columbia and their counties, municipalities, school districts, irrigation districts, and drainage and sewer districts; and
- (2) The governments of Puerto Rico and of the U.S. territories and possessions and their political subdivisions.

Exclude from item 4:

- (1) All overdrafts of states and political subdivisions in the U.S. (report as loans in Schedule IRC-C, Part A,

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item 6, “All other loans and leases”).

- (2) All lease financing receivables of states and political subdivisions in the U.S. (report as leases in Schedule IRC-C, Part A, item 6, “All other loans and leases”).
- (3) All Industrial Development Bonds (IDBs) that are to be reported as loans in accordance with the reporting treatment described above (report as loans in Schedule IRC-C, Part A item 6, “All other loans and leases”).
- (4) All other nonrated obligations of states and political subdivisions in the U.S. that the Reporter considers loans for other financial reporting purposes (report as loans in Schedule IRC-C, Part A item 6, “All other loans and leases”).
- (5) All mortgage pass-through securities issued by state and local housing authorities in the U.S. (report in item Part A, 6(a) below).
- (6) CMOs, REMICs, CMO and REMIC residuals, and stripped mortgage backed securities (such as IOs, POs, and similar instruments) issued by state and local housing authorities in the U.S. (report in Part A, item 6(b) below).
- (7) All obligations of states and political subdivisions in the U.S. held by the Reporter or its consolidated subsidiaries in trading accounts (report in Schedule IRC-D, item 1 “Fixed maturity securities” or item 2, “Equity securities”).

Line Item 4(a) General obligations.

Report amortized cost and fair value of general obligation issued by states in the U.S. not held in trading accounts. General obligations are securities whose principal and interest will be paid from the general tax receipts of the state or political subdivision.

Line Item 4(b) Revenue and assessment obligations.

Report amortized cost and fair value of revenue and assessment obligations issued by states and political subdivisions in the U.S. not held in trading accounts. Revenue obligations are securities whose debt service is paid solely from the revenues of the projects financed by the securities rather than from general tax funds.

Line Item 4(c) Industrial development and similar obligations.

Report amortized cost and fair value of industrial development and similar obligations issued by states and political subdivisions in the United States not held in trading accounts. IDBs, sometimes referred to as “industrial revenue bonds,” are typically issued by local industrial development authorities to benefit private commercial and industrial development. For purposes of this report, all IDBs should be reported as securities in this item or as loans in Schedule IRC-C, Part A, item 6 “All other loans and leases” consistent with the asset category in which the Reporter reports its IDBs on its balance sheet for other financial reporting purposes. Regardless of whether they are reported as securities in Schedule IRC-B or as loans in Schedule IRC-C, all IDBs that meet the definition of a “security” in ASC Topic 320, Investment-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*) must be measured in accordance with ASC Topic 320.

Line Item 4(d) Other obligations.

Report amortized cost and fair value of general obligation issued by states in the U.S. not held in trading accounts. Include in this item securities issued by states and political subdivisions in the U.S., all obligations other than general obligations, revenue and assessment obligations, and IDBs that meet any of the following

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criteria:

- (1) Nonrated obligations of states and political subdivisions in the U.S., other than those specifically excluded above, that the Reporter considers securities for other financial reporting purposes.
- (2) Notes, bonds, and debentures (including tax warrants and tax-anticipation notes) that are rated by a nationally-recognized rating service.
- (3) Obligations of state and local governments that are guaranteed by the U.S. government (excluding mortgage-backed securities).

Line item 5 Corporate debt securities.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all corporate debt securities not held for trading according to whether the corporation is domestic or foreign and whether the issuance is public or private.

Line item 5(a) Domestic corporate debt securities.

Report in the appropriate columns the amortized cost and fair value of domestic corporate debt securities. Include in this item bonds, notes, debenture, equipment trust certificates, and commercial paper issued by U.S.-chartered corporations and other U.S. issuers.

Line item 5(a)(1) Publicly traded securities.

Report in the appropriate columns the amortized cost and fair value of domestic corporate debt securities that are publicly traded.

Line item 5(a)(2) Privately held securities.

Report in the appropriate columns the amortized cost and fair value of domestic corporate debt securities that are privately held.

Line item 5(b) Foreign corporate debt securities.

Report in the appropriate columns the amortized cost and fair value of foreign corporate debt securities. Include in this item bonds, notes, debentures, equipment trust certificates, and commercial paper issued by non-U.S.-chartered corporations.

Line item 5(b)(1) Publicly traded securities.

Report in the appropriate columns the amortized cost and fair value of foreign corporate debt securities that are publicly traded.

Line item 5(b)(2) Privately held securities.

Report in the appropriate columns the amortized cost and fair value of foreign corporate debt securities that are privately held.

Line Item 6 Mortgage-backed securities (MBS).

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all residential and commercial mortgage-backed securities, including mortgage pass-through securities, CMOs, REMICs,

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CMO and REMIC residuals, stripped mortgage-backed securities (such as IOs, POs, and similar instruments), and mortgage-backed commercial paper not held for trading. Include mortgage-backed securities issued by non-U.S. issuers.

Exclude from mortgage-backed securities:

- (1) Securities backed by loans extended under home equity lines, i.e., revolving open-end lines of credit secured by 1-4 family residential properties (report as asset-backed securities in Part A, item 7(b) below).
- (2) Bonds issued by FNMA and FHLMC that are collateralized by mortgages, i.e., mortgage-backed bonds, (report in item 2(b) above) and mortgage-backed bonds issued by non-U.S. Government issuers (report in Part A, item 9 below).
- (3) Participation certificates issued by the Ex-Im Bank and the General Services Administration (report in item Part A, 2(a) above).
- (4) Participation certificates issued by a Federal Intermediate Credit Bank (report in Schedule IRC, item 19, "Other assets" those equity securities that do not have readily determinable fair values).

Line Item 6(a) Residential mortgage pass-through securities.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all holdings of residential mortgage pass-through securities that are not held for trading. In general, a residential mortgage pass-through security represents an undivided interest in a pool of loans secured by 1-4 family residential properties that provides the holder with a pro rata share of all principal and interest payments on the residential mortgages in the pool, and includes certificates of participation in pools of residential mortgages.

Include certificates of participation in pools of 1-4 family residential mortgages even though the Reporter was the original holder of the mortgages underlying the pool and holds the instruments covering that pool, as may be the case with GNMA certificates issued by the Reporter and swaps with FNMA and FHLMC. Also include U.S. Government-issued participation certificates (PCs) that represent a pro rata share of all principal and interest payments on a pool of resecuritized participation certificates that, in turn, are backed by 1-4 family residential mortgages, e.g., FHLMC Giant PCs.

Exclude all holdings of commercial mortgage pass-through securities, including pass-through securities backed by loans secured by multifamily (5 or more) residential properties (report in Part A, item 6(c)(1), below). Also exclude all CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities (IOs and POs), and similar instruments), and mortgage-backed commercial paper (report in Part A, item 6(b) or 6(c)(2), below, as appropriate).

Line Item 6(a)(1) Guaranteed by GNMA.

Report in the appropriate columns the amortized cost and fair value of all holdings of 1-4 family residential mortgage pass-through securities guaranteed by the GNMA that are not held for trading. Exclude 1-4 family residential mortgage pass-through securities issued by FNMA and FHLMC (report in item Part A, 6(a)(2), below).

Line Item 6(a)(2) Issued by FNMA and FHLMC.

Report in the appropriate columns the amortized cost and fair value of all holdings of 1-4 family residential mortgage pass-through securities issued by FNMA and the FHLMC that are not held for trading. Exclude 1-4

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family residential mortgage pass-through securities that are guaranteed by GNMA (report in Part A, item 6(a)(1), above).

Line Item 6(a)(3) Other pass-through securities.

Report in the appropriate columns the amortized cost and fair value of all holdings of 1-4 family residential mortgage pass-through securities issued by others (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) that are not guaranteed by the U.S. Government and are not held for trading.

If the Reporter has issued pass-through securities backed by a pool of its own 1-4 family residential mortgages and the certificates are not guaranteed by the U.S. Government, any holdings of these pass-through securities (not held for trading) are to be reported in this item.

Line Item 6(b) Other residential mortgage-backed securities.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all 1-4 family residential mortgage-backed securities other than pass-through securities that are not held for trading.

Other residential mortgage-backed securities include:

- (1) All classes of CMOs and REMIC backed by loans secured by 1-4 family residential properties.
- (2) CMO and REMIC residuals and similar interests backed by loans secured by 1-4 family residential properties.
- (3) Stripped 1-4 family residential mortgage-backed securities (such as IOs and POs),
- (4) Commercial paper backed by loans secured by 1-4 family residential properties.

Line Item 6(b)(1) Issued or guaranteed by U.S. Government agencies or sponsored agencies.

Report in the appropriate columns the amortized cost and fair value of all classes of CMOs and REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities issued or guaranteed by U.S. Government agencies or U.S. Government-sponsored agencies that are backed by loans secured by 1-4 family residential properties. For purposes of this report, include REMICs issued by the U.S. Department of Veterans Affairs (VA) that are backed by 1-4 family residential mortgages in this item.

U.S. Government agencies include, but are not limited to, such agencies as the GNMA, the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA). U.S. Government-sponsored agencies include, but are not limited to, such agencies as FNMA and FHLMC).

Line Item 6(b)(2) Collateralized by MBS issued or guaranteed by U.S. Government agencies or sponsored agencies.

Report in the appropriate columns the amortized cost and fair value of all classes of CMOs, REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities issued by non-U.S. Government issuers (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) for which the collateral consists of GNMA (Ginnie Mae) residential pass-through securities, FNMA (Fannie Mae) residential pass-through securities, FHLMC (Freddie Mac) residential participation certificates, or other residential mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO or REMIC residuals, and stripped mortgage-backed securities) issued or guaranteed by U.S. Government agencies or U.S. Government-sponsored agencies.

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Line Item 6(b)(3) All other residential MBS.

Report in the appropriate columns the amortized cost and fair value of all CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities, and commercial paper backed by loans secured by 1-4 family residential properties (or by securities collateralized by such loans) that have been issued by non-U.S. Government issuers (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.), for which the collateral does not consist of GNMA (Ginnie Mae) residential pass-through securities, FNMA (Fannie Mae) residential pass-through securities, FHLMC (Freddie Mac) residential participation certificates, or other residential mortgage-backed securities (i.e., classes of CMOs or REMICs, CMO or REMIC residuals, and stripped mortgage-backed securities) issued or guaranteed by FNMA, FHLMC, GNMA, or VA.

Line Item 6(c) Commercial MBS.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all holdings of commercial mortgage-backed securities issued by U.S. Government-sponsored agencies or by others that are not held for trading. In general, a commercial mortgage backed security represents an interest in a pool of loans secured by properties other than 1-4 family residential properties.

Line Item 6(c)(1) Commercial mortgage pass-through securities.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all holdings of commercial mortgage pass-through securities. In general, a commercial mortgage pass-through security represents an undivided interest in a pool of loans secured by properties other than 1-4 family residential properties that provides the holder with a pro rata share of all principal and interest payments on the mortgages in the pool.

Line Item 6(c)(1)(a) Issued or guaranteed by FNMA, FHLMC, or GNMA.

Report in the appropriate columns the amortized cost and fair value of all holdings of commercial mortgage pass-through securities issued by FNMA or FHLMC or guaranteed by GNMA. Also include commercial mortgage pass-through securities guaranteed by the SBA.

Line Item 6(c)(1)(b) Other pass-through securities.

Report in the appropriate columns the amortized cost and fair value of all holdings of commercial mortgage pass-through securities issued or guaranteed by non-U.S. Government issuers.

Line Item 6(c)(2) Other commercial mortgage-backed securities.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities, and commercial paper backed by loans secured by properties other than 1-4 family residential properties. Exclude commercial mortgage pass-through securities (report in Part A, item 6(c)(1), above).

Line Item 6(c)(2)(a) Issued or guaranteed by U.S. Government agencies or sponsored agencies.

Report in the appropriate columns the amortized cost and fair value of all CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities, and commercial paper backed by loans secured by properties other than 1-4 family residential properties that have been issued by U.S. Government agencies or U.S. Government-sponsored agencies.

U.S. Government agencies include, but are not limited to, such agencies as GNMA, FDIC and NCUA. U.S.

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Government-sponsored agencies include, but are not limited to, such agencies as FNMA and FHLMC.

Line Item 6(c)(2)(b) All other commercial MBS.

Report in the appropriate columns the amortized cost and fair value of all CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities, and commercial paper backed by loans secured by properties other than 1-4 family residential properties that have been issued or guaranteed by non-U.S. Government issuers.

Line Item 7 Asset-backed securities.

Report in the appropriate columns the amortized cost and fair value of all asset-backed securities (other than mortgage-backed securities), including asset-backed commercial paper, not held for trading. Include asset backed securities issued by non-U.S. issuers.

Line Item 7(a) Credit card receivables.

Report in the appropriate columns the amortized cost and fair value of all asset-backed securities collateralized by credit card receivables, i.e., extensions of credit to individuals for household, family, and other personal expenditures arising from credit cards.

Line Item 7(b) Home equity lines.

Report in the appropriate columns the amortized cost and fair value of all asset-backed securities collateralized by home equity lines of credit, i.e., revolving, open-end lines of credit secured by 1-to-4 family residential properties.

Line Item 7(c) Automobile loans.

Report in the appropriate columns the amortized cost and fair value of all asset-backed securities collateralized by automobile loans, i.e., loans to individuals for the purpose of purchasing private passenger vehicles, including minivans, vans, sport-utility vehicles, pickup trucks, and similar light trucks for personal use.

Line Item 7(d) Other.

Report in the appropriate columns the amortized cost and fair value of all asset-backed securities collateralized by non-mortgage loans other than those described in item 6(a) through 6(c), above, i.e., loans and leases as defined for Schedule IRC-C, Part A items 2, 3, 5, and 6; and all other assets.

Line Item 8 Structured financial products.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all structured financial products not held for trading according to whether the product is a cash, synthetic, or hybrid instrument. Include structured financial products issued by non-U.S. issuers. Structured financial products generally convert a pool of assets (such as whole loans, securitized assets, and bonds) and other exposures (such as derivatives) into products that are tradable capital market debt instruments. Some of the more complex financial product structures mix asset classes in order to create investment products that diversify risk. One of the more common structured financial products is referred to as a collateralized debt obligation (CDO). Other products include synthetic structured financial products (such as synthetic CDOs) that use credit derivatives and a reference pool of assets, hybrid structured products that mix cash and synthetic instruments, collateralized bond obligations (CBOs), resecuritizations such as CDOs squared or cubed (which are CDOs backed primarily by the tranches of other CDOs), and other similar structured financial products.

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Exclude from structured financial products:

- (1) Mortgage-backed pass-through securities (report in Part A, item 6 above).
- (2) CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities, and mortgage-backed commercial paper (report in Part A, item 6 above).
- (3) Asset-backed commercial paper not held for trading (report in Part A, item 7 above).
- (4) Asset-backed securities that are primarily secured by one type of asset (report in Part A, item 7 above).
- (5) Securities backed by loans that are commonly regarded as asset-backed securities rather than collateralized loan obligations in the marketplace (report in Report A, item 7 above).

Line Item 8(a) Cash.

Report in the appropriate columns the amortized cost and fair value of structured financial products (as defined in Part A, item 8, above) that are cash instruments. A cash instrument means that the instrument represents a claim against a reference pool of assets.

Line Item 8(b) Synthetic.

Report in the appropriate columns the amortized cost and fair value of structured financial products (as defined in Part A, item 8, above) that are synthetic instruments. A synthetic instrument means that the investors do not have a claim against a reference pool of assets; rather, the originating Reporter merely transfers the inherent credit risk of the reference pool of assets by such means as a credit default swap, a total return swap, or another arrangement in which the counterparty agrees upon specific contractual covenants to cover a predetermined amount of losses in the loan pool.

Line Item 8(c) Hybrid.

Report in the appropriate columns the amortized cost and fair value of structured financial products (as defined in Part A, item 8, above) that are hybrid instruments. A hybrid instrument means that the instrument is a mix of both cash and synthetic instruments.

Line Item 9 Other debt securities.

Report in the appropriate columns the amortized cost and fair value of all other debt securities that are not held for trading that cannot properly be reported in Part A, items 1 through 8 above.

Exclude from other debt securities:

- (1) All holdings of certificates of participation in pools of residential mortgages, CMOs, REMICs, CMO and REMIC residuals, and stripped mortgage-backed securities (such as IOs and POs), principal-only strips (POs), and similar instruments) (report in Part A, item 6 above).
- (2) Holdings of bankers acceptances and certificates of deposit (CDs), even if the CDs are negotiable or have CUSIP numbers (Report holdings of bankers acceptances as loans in Schedule IRC, item 4, if held for sale or investment; and item 3, if held for trading. Report holdings of CDs in Schedule IRC, item 11(b) if not held for trading; and item 3, if held for trading),
- (3) All securities that meet the definition of an “equity security” in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and*

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Equity Securities), for example, common and perpetual preferred stock (See the instructions for Part A, items 11-14 below).

Line Item 9(a) Other domestic debt securities.

Include in this item:

- (1) Preferred stock of U.S.-chartered corporations and business trusts that by its terms either must be redeemed by the issuing corporation or trust or is redeemable at the option of the holder, including trust preferred securities subject to mandatory redemption.
- (2) Detached U.S. government security coupons and ex-coupon U.S. government securities held as the result of either their purchase or the Reporter's stripping of such securities and Treasury receipts such as CATs, TIGRs, COUGARs, LIONs, and ETRs. (Refer to the Glossary entry for "coupon stripping, Treasury receipts, and STRIPS" for additional information.)

Line Item 9(b) Other foreign debt securities.

Report in the appropriate columns the amortized cost and fair value of all other foreign debt securities not held for trading issued by non-U.S.-chartered corporations, foreign governments, or special international organizations.

Other foreign debt securities include:

- (1) Debt securities issued by foreign governmental units.
- (2) Debt securities issued by international organizations such as the International Bank for Reconstruction and Development (World Bank), Inter-American Development Bank, and Asian Development Bank.
- (3) Preferred stock of non-U.S.-chartered corporations that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor (i.e., redeemable or limited-life preferred stock).

Line Item 10 Total fixed maturity securities.

Report the sum of items 1 through 9.

Equity securities

Line Item 11 Investments in mutual funds.

Report in column C and D the historical cost and fair value, respectively, of all investments in mutual funds (as defined in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*) with readily determinable fair values. Such securities include, but are not limited to, money market mutual funds, exchange traded funds (ETFs) and exchange traded notes (ETNs), and mutual funds that invest solely in U.S. government securities.

The fair value of an investment in a mutual fund is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

Investments in mutual funds with readily determinable fair values may have been purchased by the Reporter or acquired for debts previously contracted.

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Line Item 12 Preferred Stocks.

Report in column C and D the historical cost and fair value, respectively, preferred stock and perpetual preferred stock (as defined in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*) with readily determinable fair values. Perpetual preferred stock does not have a stated maturity date and cannot be redeemed at the option of the investor, although it may be redeemable at the option of the issuer.

Include in this item perpetual preferred stock of Fannie Mae, perpetual preferred stock of Freddie Mac, preferred stock of SLM Corporation (the private-sector successor to Sallie Mae).

Exclude from preferred stock:

- (1) Preferred stocks that do not have readily determinable fair values, such as stock of bankers' banks and Class B voting common stock of the Farmer Mac (report in Schedule IRC, item 19, "Other assets").
- (2) Preferred stock that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor (i.e., redeemable or limited-life preferred stock), including trust preferred securities subject to mandatory redemption (report such preferred stock as an other debt security in IRC, item 9, above).
- (3) "Restricted stock," i.e., equity securities for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral), except if that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year (if the restriction does not terminate within one year, report "restricted stock" as an equity security that does not have a readily determinable fair value in Schedule IRC, item 19, "Other assets").

Line Item 13 Publicly traded equity securities.

Report in column C and D the historical cost and fair value, respectively, equity securities (excluding preferred securities) (as defined in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*) with readily determinable fair values.

According to ASC Topic 320, the fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with SEC or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by Pink Sheets LLC. ("Restricted stock" meets that definition if the restriction terminates within one year.) The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above. The fair value of an investment in a mutual fund is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

Equity securities with readily determinable fair values may have been purchased by the Reporter or acquired for debts previously contracted. Include in this item common stock of Fannie Mae, common stock of Freddie Mac, Class A voting and Class C non-voting common stock of Farmer Mac, and common stock of SLM Corporation (the private-sector successor to Sallie Mae).

Exclude from equity securities with readily determinable fair values:

- (1) Paid-in stock of a Federal Reserve Bank (report as an equity security that does not have a readily determinable fair value in Schedule IRC, item 19, "Other assets").

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- (2) Stock of a Federal Home Loan Bank (report as an equity security that does not have a readily determinable fair value in Schedule IRC, item 19, "Other assets").
- (3) Common stocks that do not have readily determinable fair values, such as stock of bankers' banks and Class B voting common stock of the Farmer Mac (report in Schedule IRC, item 19 "Other assets").
- (4) "Restricted stock," i.e., equity securities for which sale is restricted by governmental or contractual requirement (other than in connection with being pledged as collateral), except if that requirement terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year (if the restriction does not terminate within one year, report "restricted stock" as an equity security that does not have a readily determinable fair value in Schedule IRC, item 19, "Other assets").
- (5) Participation certificates issued by a Federal Intermediate Credit Bank, which represent nonvoting stock in the bank (report as an equity security that does not have a readily determinable fair value in Schedule IRC, item 19, "Other assets").
- (6) Minority interests held by the Reporter in any company not meeting the definition of associated company (report as equity securities that do not have a readily determinable fair value in Schedule IRC, item 19, "Other assets"), except minority holdings that indirectly represent Reporter premises (report in Schedule IRC, item 17, "Premises and fixed assets") provided that the fair value of any capital stock representing the minority interest is not readily determinable. (See the Glossary entry for "subsidiaries" for the definition of associated company.)
- (7) Equity holdings in those corporate joint ventures over which the Reporter does not exercise significant influence (report as equity securities that do not have a readily determinable fair value in Schedule IRC, item 19, "Other assets"), except equity holdings that indirectly represent Reporter premises (report in schedule IRC, item 17, "Premises and fixed assets") (See the Glossary entry for "subsidiaries" for the definition of corporate joint venture).
- (8) Holding of capital stock of and investments in unconsolidated subsidiaries, associated companies, and those corporate joint ventures over which the Reporter exercises significant influence (report in Schedule IRC, item 18, "Investments in unconsolidated subsidiaries and associated companies").

Line Item 14 Other equity securities.

Report in column C and D the historical cost and fair value, respectively, equity (as defined in ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*)) with readily determinable fair values that are not reported in items 11 through 13 above.

Line Item 15 Total equity securities.

Report the sum of items 11 through 14.

Part B. Other invested assets

Part B of this section has three columns for information on other invested assets: one column for Recorded at Cost (column F), one column for Recorded at Fair Value with Changes Reported through Other Comprehensive Income (column G), and one column for Recorded at Fair Value with Changes Reported through Net Income (column H).

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Line Item 1 Real estate held for investment.

Report in columns F and H, the value of real estate held for investment as defined by ASC Subtopic 944-360 Property, Plant, and Equipment (formerly FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* and FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). Include any investments in real estate accounted for under the equity method.

Line Item 2 Real estate held for sale.

Report in columns F and H the value of real estate held for sale that meet the definition of “sale” as defined by ASC Topic 360, Property, Plant, and Equipment (formerly FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*).

Line Item 3 Loans and leases held for sale.

Report in columns F and H the total of all loans and leases held for sale. Loans and leases held for sale shall be reported in this item at the lower of cost or fair value as of the report date, except for those that the Reporter has elected to account for at fair value under a fair value option. For loans and leases held for sale that are reported at the lower of cost or fair value, the amount by which cost exceeds fair value, if any, shall be accounted for as a valuation allowance.

Line Item 4 Third party managed funds and investment partnership.

Report all third party managed funds, which are funds where an issuer meets the definition of an investment company, as defined in the Investment Company Act of 1940, excluding section 3(c)(1) or 3(c)(7) of that Act, or such similar funds as the relevant agencies may, by rule determine. Include third party managed funds and investment partnerships accounted for under the equity method.

Line Item 5 Direct managed private equity investments.

Report all directly managed private equity investment, where an issuer meets the definition of a third party managed fund but is managed or significantly owned by the Reporter. Significant ownership is defined as having more than a 20% financial interest or having influence over the management of the fund. Include direct managed private equity investments accounted for under the equity method.

Line Item 6 Investments in life settlements

Report all investments in life settlements, which are defined as the Reporter’s investment in structured settlements that include the sale of an existing life insurance policy to a third party for more than its cash surrender value, but less than its net death benefit. This includes equity interest in structured vehicles that have life settlement as the main portion of the underlying collateral.

Line Item 7 Other invested assets.

Report the total of all other invested assets, including any investments accounted for under the equity method that cannot properly be reported in items 1 through 6, above.

Line Item 8 Total other invested assets.

Report the sum of items 1 through 7.

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Part C. Security credit quality

General Instructions

Part C of this schedule has four columns for information on securities credit quality: two columns for investment grade and two columns for subinvestment grade. Report the amortized cost and fair value of investment grade securities in columns A and B, respectively. Report the amortized cost and fair value of subinvestment grade securities in columns C and D, respectively.

Investment grade securities are securities that are rated investment grade or, if not rated, is the equivalent of investment grade under the firm's internal credit rating system.

Subinvestment grade securities are securities that are rated below investment grade, or, if not rated, is the equivalent of below investment grade under the firm's internal credit rating system.

Line item 1 Corporate debt securities.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all corporate debt securities not held for trading according to whether the corporation is domestic or foreign and whether the issuance is public or private.

Line item 1(a) Domestic corporate debt securities.

Report in the appropriate columns the amortized cost and fair value of domestic corporate debt securities. Include in this item bonds, notes, debenture, equipment trust certificates, and commercial paper issued by U.S.-chartered corporations and other U.S. issuers.

Line item 1(a)(1) Publicly traded securities

Report in the appropriate columns the amortized cost and fair value of domestic corporate debt securities that are publicly traded.

Line item 1(a)(2) Privately held securities.

Report in the appropriate columns the amortized cost and fair value of domestic corporate debt securities that are privately held.

Line item 1(b) Foreign corporate debt securities.

Report in the appropriate columns the amortized cost and fair value of foreign corporate debt securities. Include in this item bonds, notes, debentures, equipment trust certificates, and commercial paper issued by non-U.S.-chartered corporations.

Line item 1(b)(1) Publicly traded securities.

Report in the appropriate columns the amortized cost and fair value of foreign corporate debt securities that are publicly traded.

Line item 1(b)(2) Privately held securities.

Report in the appropriate columns the amortized cost and fair value of foreign corporate debt securities that are privately held.

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Line Item 2 Mortgage-backed securities (MBS).

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all residential and commercial MBS, including mortgage pass-through securities, CMOs, REMICs, CMO and REMIC residuals, stripped mortgage-backed securities (IOs, POs, and similar instruments), and mortgage-backed commercial paper not held for trading. Include mortgage backed securities issued by non-U.S. issuers. See Part A, item 6 above for additional explanations.

Line Item 2(a) Non-government residential MBS.

Report in the appropriate columns the amortized cost and fair value of all holdings of 1-4 family residential MBS issued by others (e.g., other depository institutions, insurance companies, state and local housing authorities in the U.S.) that are not guaranteed by the U.S. Government and are not held for trading.

Residential mortgage-backed securities include:

- (1) All classes of CMOs and REMICs backed by loans secured by 1-4 family residential properties.
- (2) CMO and REMIC residuals and similar interests backed by loans secured by 1-4 family residential properties.
- (3) Stripped 1-4 family residential MBS (such as IOs, POs, and similar instruments).
- (4) Commercial paper backed by loans secured by 1-4 family residential properties.

Line Item 2(b) Non-government commercial MBS.

Report in the appropriate columns the amortized cost and fair value of all holdings of commercial MBS issued by others that are not guaranteed by the U.S. Government and are not held for trading. In general, a commercial MBS represents an interest in a pool of loans secured by properties other than 1-4 family residential properties.

Line Item 3 Asset-backed securities.

Report in the appropriate columns the amortized cost and fair value of all asset-backed securities (other than mortgage-backed securities), including asset-backed commercial paper, not held for trading. Include asset backed securities issued by non-U.S. issuers.

Line Item 4 Structured financial products.

Report in the appropriate columns the amortized cost and fair value of all structured financial products not held for trading according to whether the product is a cash, synthetic, or hybrid instrument. Include structured financial products issued by non-U.S. issuers. Structured financial products generally convert a pool of assets (such as whole loans, securitized assets, and bonds) and other exposures (such as derivatives) into products that are tradable capital market debt instruments. Some of the more complex financial product structures mix asset classes in order to create investment products that diversify risk. One of the more common structured financial products is referred to as a CDO. Other products include synthetic structured financial products (such as synthetic CDOs) that use credit derivatives and a reference pool of assets, hybrid structured products that mix cash and synthetic instruments, CBOs, resecuritizations such as CDOs squared or cubed (which are CDOs backed primarily by the tranches of other CDOs), and other similar structured financial products. See Part A, item 8 above for more detail.

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Line Item 5 Other debt securities.

Report in the appropriate columns the amortized cost and fair value of all other debt securities that are not held for trading that cannot properly be reported in Part C, items 1 through 4 above. See Part A, item 9 above for additional detail.

Line Item 5(a) Other domestic debt securities.

Report in the appropriate columns the amortized cost and fair value of all other domestic debt securities not held for trading.

Include in this item:

- (1) Preferred stock of U.S.-chartered corporations and business trusts that by its terms either must be redeemed by the issuing corporation or trust or is redeemable at the option of the holder, including trust preferred securities subject to mandatory redemption.
- (2) Detached U.S. government security coupons and ex-coupon U.S. government securities held as the result of either their purchase or the Reporter's stripping of such securities and Treasury receipts such as CATs, TIGRs, COUGARs, LIONs, and ETRs. (Refer to the Glossary entry for "coupon stripping, Treasury receipts, and STRIPS" for additional information.)

Line Item 5(b) Other foreign debt securities.

Report in the appropriate columns the amortized cost and fair value of all other foreign debt securities not held for trading issued by non-U.S.-chartered corporations, foreign governments, or special international organizations.

Other Foreign debt securities include:

- (1) Debt securities issued by foreign governmental units.
- (2) Debt securities issued by international organizations such as the World Bank, Inter-American Development Bank, and Asian Development Bank.
- (3) Preferred stock of non-U.S.-chartered corporations that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor (i.e., redeemable or limited-life preferred stock).

Line Item 6 Total

Report in the appropriate columns the sum of item 1 through 5(b).

Memoranda

Line Item M1 Pledged securities.

Report the amortized cost of all held-to-maturity securities and the fair value of all available-for-sale securities included in this schedule that are pledged to secure deposits, repurchase transactions, or other borrowings (regardless of the balance of the deposits or other liabilities against which the securities are pledged), as performance bonds under futures or forward contracts, or for any other purpose. Include as pledged securities:

- (1) Held-to-maturity and available-for-sale securities that have been "loaned" in securities borrowing/lending

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transactions that do not qualify as sales under ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended).

- (2) Held-to-maturity and available-for-sale securities held by consolidated VIEs that can be used only to settle obligations of the same consolidated VIEs.
- (3) Held-to-maturity and available-for-sale securities owned by consolidated insurance subsidiaries and held in custodial trusts that are pledged to insurance companies external to the consolidated Reporter.

Line Item M2 Remaining maturity or next repricing date of debt securities (Reported in Part A, line items 1 through 9).

Report in Memorandum items 2(a) through 2(e) below the remaining maturity or next repricing date of debt securities held by the consolidated Reporter that are included in Part A, items 1 through 9 above. Report the amortized cost of held-to-maturity securities and the fair value of available-for-sale securities as reported in column A and D above in the appropriate subitems.

Exclude from Memorandum item 2 the Reporter's holdings of equity securities with readily determinable fair values (reported in Part A, items 11-14 above), investments in mutual funds, common stock, preferred stock. Also exclude those debt securities that are reported as "nonaccrual" in Schedule IRC-C, Part B, item 7, column C.

For purposes of this memorandum item, the following definitions apply:

Remaining maturity is the amount of time remaining from the report date until the final contractual maturity of the instrument without regard to the instrument's repayment schedule, if any.

A *fixed interest rate* is a rate that is specified at the origination of the transaction, is fixed and invariable during the term of the debt security, and is known to both the borrower and the lender. Also treated as a fixed interest rate is a predetermined interest rate which is a rate that changes during the term of the debt security on a predetermined basis, with the exact rate of interest over the life of the debt security known with certainty to both the borrower and the lender when the debt security is acquired.

A *floating rate* is a rate that varies, or can vary, in relation to an index, to some other interest rate such as the rate on certain U.S. Government securities or the "prime rate," or to some other variable criterion the exact value of which cannot be known in advance. Therefore, the exact rate the debt security carries at any subsequent time cannot be known at the time of origination.

When the rate on a debt security with a floating rate has reached a contractual floor or ceiling level, the debt security is to be treated as "fixed rate" rather than as "floating rate" until the rate is again free to float.

Next repricing date is the date the interest rate on a floating rate debt security can next change in accordance with the terms of the contract (without regard to the security's repayment schedule, if any, or expected prepayments) or the contractual maturity date of the security, whichever is earlier.

Reporters whose records or information systems provide data on the final contractual maturities, next repricing dates, and expected average lives of their debt securities for time periods that closely approximate the maturity periods specified in Memorandum items 2(a) through 2(e) (e.g., 359 or 360 days rather than 1 year) may use these dates to complete Memorandum items 2(a) through 2(e).

For debt securities with scheduled contractual payments, Reporters whose records or information systems provide repricing data that take into account these scheduled contractual payments, with or without the effect of

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anticipated prepayments, may adjust these data in an appropriate manner to derive reasonable estimates for the final contractual maturities of fixed rate debt securities and floating rate debt securities and the next repricing dates of floating rate debt securities.

Callable fixed rate debt securities should be reported in Memorandum items 2(a) through 2(e) without regard to their next call date unless the security has actually been called. When fixed rate debt securities have been called, they should be reported on the basis of the time remaining until the call date. Callable floating rate debt securities should be reported on the basis of their next repricing date without regard to their next call date if the security has not been called. Those that have been called should be reported based on the earlier of their next repricing date or their actual call date.

Fixed rate mortgage pass-through securities (such as those guaranteed by GNMA or issued by FHLMC, FNMA, and certain banks, savings associations, and securities dealers) and fixed rate SBA "Guaranteed Loan Pool Certificates" should be reported on the basis of the time remaining until their final contractual maturity without regard to either expected prepayments or scheduled contractual payments. Floating rate mortgage pass-through securities and SBA "Guaranteed Loan Pool Certificates" should be reported on the basis of their next repricing date.

Fixed rate debt securities that provide the Reporter with the option to redeem them at one or more specified dates prior to their contractual maturity date, so-called "put bonds," should be reported on the basis of the time remaining until the next "put" date. Floating rate "put bonds" should be reported on the basis of their next repricing date without regard to "put" dates if the Reporter has not exercised the put. If a "put" has been exercised but the security has not yet been repaid, the "put" bond should be reported based on the earlier of its next repricing date or its scheduled repayment date.

Zero coupon debt securities, including U.S. Treasury bills, should be treated as fixed rate debt securities for purposes of this Memorandum item.

Line Item M2(a) 1 year and less.

Report in this item all securities held by the Reporter with a remaining maturity or amount of time remaining until next repricing date of one year or less.

Line Item M2(b) Over 1 year to 5 years.

Report in this item all securities held by the Reporter with a remaining maturity or amount of time remaining until next repricing date over one year but less than five years.

Line Item M2(c) Over 5 years to 10 years.

Report in this item all securities held by the Reporter with a remaining maturity or amount of time remaining until next repricing date of over five years but less than ten years.

Line Item M2(d) Over 10 years to 20 years.

Report in this item all securities held by the Reporter with a remaining maturity or amount of time remaining until next repricing date of over ten years but less than twenty years.

Line Item M2(e) Over 20 years

Report in this item all securities held by the Reporter with a remaining maturity or amount of time remaining until next repricing date of over twenty years.

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Line Item M3 Amortized cost of held-to-maturity securities sold or transferred to available-for-sale or trading securities during the calendar year-to-date.

If the Reporter has sold any held-to-maturity debt securities or has transferred any held-to-maturity debt securities to the available-for-sale or to trading securities during the calendar year-to-date, report the total amortized cost of these held-to-maturity debt securities as of their date of sale or transfer.

Exclude the amortized cost of any held-to-maturity debt security that has been sold near enough to (e.g., within three months of) its maturity date (or call date if exercise of the call is probable) that interest rate risk is substantially eliminated as a pricing factor. Also exclude the amortized cost of any held-to-maturity debt security that has been sold after the collection of a substantial portion (i.e., at least 85 percent) of the principal outstanding at acquisition due to prepayments on the debt security, or, if the debt security is a fixed rate security, due to scheduled payments payable in equal installments (both principal and interest) over its term.

Line Item M4 Structured notes.

Report in this item all structured notes included in the held-to-maturity and available-for-sale accounts and reported in Part A, items 2, 3, 4, 6, 7, and 8, above. In general, structured notes are debt securities whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options or are otherwise commonly known as “structured notes.” Include as structured notes any asset backed securities (other than mortgage-backed securities) which possess the aforementioned characteristics. Structured notes include, but are not limited to, the following common structures:

- (1) Floating rate debt securities whose payment of interest is based upon:
 - (a) A single index of a Constant Maturity Treasury (CMT) rate or a Cost of Funds Index (COFI), or
 - (b) Changes in the Consumer Price Index (CPI). However, exclude from structured notes all U.S. Treasury Inflation-Protected Securities (TIPS).
- (2) Step-up Bonds. Step-up securities initially pay the investor an above-market yield for a short noncall period and then, if not called, “step up” to a higher coupon rate (which will be below current market rates). The investor initially receives a higher yield because of having implicitly sold one or more call options. A step-up bond may continue to contain call options even after the bond has stepped up to the higher coupon rate. A multistep bond has a series of fixed and successively higher coupons over its life. At each call date, if the bond is not called, the coupon rate increases.
- (3) Index Amortizing Notes (IANs). IANs repay principal according to a predetermined amortization schedule that is linked to the level of a specific index (usually the London Interbank Offered Rate—LIBOR—or a specified prepayment rate). As market interest rates increase (or prepayment rates decrease), the maturity of an IAN extends, similar to that of a collateralized mortgage obligation. When the principal payments on these notes are indexed to the prepayment performance of a reference pool of mortgages or a reference mortgage-backed security, but the notes themselves are not collateralized by the mortgages or the mortgage-backed security, the notes are sometimes marketed as Prepayment-Linked-Notes.
- (4) Dual Index Notes. These bonds have coupon rates that are determined by the difference between two market indices, typically the CMT and LIBOR. These bonds often have a fixed coupon rate for a brief period, followed by a longer period of variable rates, e.g., 8 percent fixed for two years, then 10-year CMT plus 300 basis points minus three-month LIBOR.
- (5) De-leveraged Bonds. These bonds pay investors according to a formula that is based upon a fraction of the

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increase or decrease in a specified index, such as the CMT rate or the prime rate. For example, the coupon might be the 10-year CMT rate multiplied by 0.5, plus 150 basis points. The deleveraging multiplier (0.5) causes the coupon to lag overall movements in market yields. A leveraged bond would involve a multiplier greater than 1.

- (6) Range Bonds. Range bonds (or accrual bonds) pay the investor an above-market coupon rate as long as the reference rate is between levels established at issue. For each day that the reference rate is outside this range, the bonds earn no interest. For example, if LIBOR is the reference rate, a bond might pay LIBOR plus 75 basis points for each day that LIBOR is between 3.5 and 5.0 percent. When LIBOR is less than 3.5 percent or more than 5 percent, the bond would accrue no interest.
- (7) Inverse Floaters. These bonds have coupons that increase as rates decline and decrease as rates rise. The coupon is based upon a formula, such as 12 percent minus three-month LIBOR.

Exclude from structured notes floating rate debt securities denominated in U.S. dollars whose payment of interest is based upon a single index of a Treasury bill rate, the prime rate, or LIBOR and which do not contain adjusting caps, adjusting floors, leverage, or variable principal redemption. Furthermore, debt securities that do not possess the aforementioned characteristics of a structured note need not be reported as structured notes solely because they are callable as of a specified date at a specified price. In addition, debt securities that in the past possessed the characteristics of a structured note, but which have “fallen through” their structures (e.g., all of the issuer’s call options have expired and there are no more adjustments to the interest rate on the security), need not be reported as structured notes.

Generally, municipal and corporate securities that have periodic call options should not be reported as structured notes. Although many of these securities have features similar to those found in some structured notes (e.g., step-ups, which generally remain callable after a step-up date), they are not commonly known as structured notes.

Examples of such callable securities that should not be reported as structured notes include:

- (1) Callable municipal and corporate bonds which have single (or multiple) explicit call dates and then can be called on any interest payment date after the last explicit call date (i.e., they are continuously callable).
- (2) Callable federal agency securities that have continuous call features after an explicit call date, except step-up bonds (which are structured notes).

The mere existence of simple caps and floors does not necessarily make a security a structured note. Securities with adjusting caps or floors (i.e., caps or floors that change over time), however, are structured notes. Therefore, the following types of securities should not be reported as structured notes:

- (1) Variable rate securities, including SBA “Guaranteed Loan Pool Certificates,” unless they have features of securities which are commonly known as structured notes (i.e., they are inverse, range, or de-leveraged floaters, index amortizing notes, dual index or variable principal redemption or step-up bonds), or have adjusting caps or floors.
- (2) Mortgage-backed securities.

Line Item M4(a) Amortized cost.

Report the amortized cost of all structured notes included in the held-to-maturity and available-for-sale accounts. The amortized cost of these securities should also be reported in column A and C of the body of Schedule IRC-B.

Schedule IRC-B

Line Item M4(b) Fair value.

Report the fair (market) value of structured notes reported in Memorandum item 4(a) above. The fair value of these securities should also be reported in column B and D of the body of Schedule IRC-B. Do not combine or otherwise net the fair value of any structured note with the fair or book value of any related asset, liability, or off-balance-sheet derivative instrument.

Line Item M5 Structured financial products by underlying collateral or reference assets.

Report in the appropriate columns of the appropriate subitems the amortized cost and fair value of all structured financial products (as defined in Part A, item 8(b), above) not held for trading by the predominant type of collateral or reference assets supporting the product. For each column, the sum of Memorandum items 5(a) through 5(g) must equal the sum of Part A, item 8(a) through 8(c).

Line Item M5(a) Trust preferred securities issued by financial institutions.

Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by trust preferred securities issued by financial institutions.

Line Item M5(b) Trust preferred securities issued by real estate investment trusts.

Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by trust preferred securities issued by real estate investment trusts.

Line Item M5(c) Corporate and similar loans.

Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by corporate and similar loans.

Exclude securities backed by loans that are commonly regarded as asset-backed securities rather than collateralized loan obligations in the marketplace (report in Part A, item 7(a) above).

Line Item M5(d) 1-4 family residential MBS issued or guaranteed by U.S. government-sponsored enterprises (GSEs).

Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by 1-4 family residential mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises.

Line Item M5(e) 1-4 family residential MBS not issued or guaranteed by GSEs.

Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by 1-4 family residential mortgage-backed securities not issued or guaranteed by U.S. government-sponsored enterprises.

Line Item M5(f) Diversified (mixed) pools of structured financial products.

Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by diversified (mixed) pools of structured financial products. Include such products as CDOs squared and cubed (also known as “pools of pools”).

Schedule IRC-B

Line Item M5(g) Other collateral or reference assets.

Report in the appropriate columns the amortized cost and fair value of structured financial products supported predominantly by other types of collateral or reference assets not identified above.

DRAFT

LINE ITEM INSTRUCTIONS FOR

Loan and Lease Financing Receivables Schedule IRC-C

Part A. Loan and lease financing receivables

General Instructions

Loans and lease financing receivables are extensions of credit resulting from either direct negotiation between the Reporter or its consolidated subsidiaries and its customers or the purchase of such assets from others. (See the Glossary entries for “loan” and for “lease accounting” for further information).

All Reporters must complete this schedule regardless of whether or not it has foreign or domestic offices.

Report all loans and leases that the Reporter has the intent and ability to hold for the foreseeable future or until maturity or payoff, i.e., loans and leases held for investment. Also report in all loans and leases held for sale as part of the consolidated Reporter’s mortgage banking activities or activities of a similar nature involving other types of loans. Include the fair value of all loans held for investment and all loans and leases held for sale that the Reporter has elected to report at fair value under a fair value option. Loans reported at fair value in Schedule IRC-C should include only the fair value of the funded portion of the loan. If the unfunded portion of the loan, if any, is reported at fair value, this fair value should be reported as an “Other assets” or an “Other liabilities,” as appropriate, in Schedule IRC, item 19 or item 31, respectively.

Exclude all loans and leases classified as trading (report in Schedule IRC, item 3, “Trading assets,” and, in the appropriate items of Schedule IRC-D, Trading Assets and Liabilities).

When a loan is acquired (through origination or purchase) with the intent or expectation that it may or will be sold at some indefinite date in the future, the loan should be reported as held for sale or held for investment, based on facts and circumstances, in accordance with generally accepted accounting principles and related supervisory guidance. In addition, a loan acquired and held for securitization purposes should be reported as a loan held for sale, provided the securitization transaction will be accounted for as a sale under ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*). Notwithstanding the above, Reporters may classify loans as trading if the Reporter applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a Reporter would generally not classify a loan that meets these criteria as a trading asset unless the Reporter holds the loan for one of the following purposes: (a) for market making activities, including such activities as accumulating loans for sale or securitization; (b) to benefit from actual or expected price movements; or (c) to lock in arbitrage profits.

Loans and leases held for sale (not classified as trading in accordance with the preceding instruction) shall be reported at the lower of cost or fair value as of the report date, except for those that the Reporter has elected to account for at fair value under a fair value option. For loans and leases held for sale that are reported at the

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lower of cost or fair value, the amount by which cost exceeds fair value, if any, shall be accounted for as a valuation allowance. For further information, see ASC Subtopic 948-310, Financial Services-Mortgage Banking – Receivables (formerly FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*), as amended), ASC Subtopic 310-10, Receivables – Overall (formerly AICPA Statement of Position 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*), and the March 26, 2001, Interagency Guidance on Certain Loans Held for Sale.

Report loans and leases held for investment in this schedule without any deduction for loss allowances for loans and leases or allocated transfer risk reserves related to loans and leases. Each item in this schedule should be reported net of (1) unearned income (to the extent possible) and (2) deposits accumulated for the payment of personal loans (hypothecated deposits). Net unamortized loan fees represent an adjustment of the loan yield, and shall be reported in this schedule in the same manner as unearned income on loans, i.e., deducted from the related loan balances (to the extent possible) or deducted from total loans in Schedule IRC-C, Part A, item 7, “LESS: Any unearned income on loans reflected in items 1–6 above.” Net unamortized direct loan origination costs shall be added to the related loan balances in each item in this schedule. (See the Glossary entry for “loan fees” for further information).

“Purchased credit-impaired loans” are loans accounted for in accordance with ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*), that a Reporter has purchased, including those acquired in a purchase business combination, where there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the Reporter will be unable to collect all contractually required payments receivable. Neither the accretible yield nor the nonaccretible difference associated with purchased credit-impaired loans should be reported as unearned income in Schedule IRC-C, Part A, item 7. In addition, the nonaccretible difference, must not be recognized as an adjustment of yield, loss accrual, or valuation allowance.

If, as a result of a change in circumstances, the Reporter regains control of a loan previously accounted for appropriately as having been sold because one or more of the conditions for sale accounting in ASC Topic 860 are no longer met, such a change should be accounted for in the same manner as a purchase of the loan from the former transferee (purchaser) in exchange for liabilities assumed. The rebooked loan must be reported as a loan asset in Schedule IRC-C either as a loan held for sale or a loan held for investment, based on facts and circumstances, in accordance with generally accepted accounting principles. This accounting and reporting treatment applies, for example, to U.S. Government-guaranteed or insured residential mortgage loans backing GNMA mortgage-backed securities that a Reporter services after it has securitized the loans in a transfer accounted for as a sale. If and when individual loans later meet delinquency criteria specified by GNMA, the loans are eligible for repurchase, the Reporter is deemed to have regained effective control over these loans, and the delinquent loans must be brought back onto the Reporter’s books as loan assets.

Exclude all intracompany (i.e., between subsidiaries of the consolidated Reporter) transactions and all loans and leases held for trading purposes.

All loans are classified according to security, borrower, or purpose. Loans covering two or more classifications are sometimes difficult to classify. In such instances, classify the entire loan according to the major criterion.

Report in this schedule all loans that the Reporter or its consolidated subsidiaries have sold under repurchase agreements. Also report all loans and leases on the books of the Reporter even if on the report date they are past due and collection is doubtful. Exclude any loans or leases the Reporter has sold or charged off. Also exclude the fair value of any assets received in full or partial satisfaction of a loan or lease (unless the asset received is itself reportable as a loan or lease) and any loans for which the Reporter has obtained physical possession of the underlying collateral regardless of whether formal foreclosure or repossession proceedings have been instituted against the borrower. Refer to the Glossary entries for “troubled debt restructurings” and

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“foreclosed assets” for further discussions of these topics.

When a Reporter acquires either (1) a portion of an entire loan that does not meet the definition of a participating interest (i.e., a nonqualifying loan participation) or (2) a qualifying participating interest in a transfer that does not meet all of the conditions for sale accounting, it should normally report the loan participation or participating interest in Schedule IRC, item 4, “Loans and leases, net of unearned income.” The Reporter also should report the loan participation or participating interest in Schedule IRC-C, in the loan category appropriate to the underlying loan, e.g., as a “commercial and industrial loan” in item 4 or as a “loan secured by real estate” in item 1. See the Glossary entry for “transfers of financial assets” for further information.

Exclude, for purposes of this schedule, the following:

- (1) Lending transactions in the form of securities purchased under agreements to resell (report in Schedule IRC, item 8, “Securities purchased under agreements to resell”).
- (2) Undisbursed loan funds, sometimes referred to as incomplete loans or loans in process, unless the borrower is liable for and pays the interest thereon. 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.
- (3) All holdings of commercial paper (report in Schedule IRC, item 3, if held for trading; report in Schedule IRC-B, Part A, item 6(b), “Other residential mortgage-backed securities,” item 7, “Asset-backed securities,” or item 9, “Other debt securities,” as appropriate, if held for purposes other than trading).

Line Item 1 Loans secured by real estate.

Report all loans that meet the definition of a “loan secured by real estate.” See the Glossary entry for “loan secured by real estate” for the definition of this term.

Include all loans (other than those to states and political subdivisions in the U.S.), regardless of purpose and regardless of whether originated by the Reporter or purchased from others, that are secured by real estate at origination as evidenced by mortgages, deeds of trust, land contracts, or other instruments, whether first or junior liens (e.g., equity loans, second mortgages) on real estate.

Include as loans secured by real estate:

- (1) Loans secured by residential properties that are guaranteed by the Farmers Home Administration (FmHA) and extended, collected, and serviced by a party other than the FmHA.
- (2) Loans secured by properties and guaranteed by governmental entities in foreign countries.
- (3) Participations in pools of Federal Housing Administration (FHA) Title I improvement loans that are secured by liens (generally, junior liens) on residential properties.
- (4) Loans secured by real estate that are guaranteed by the SBA. Include SBA “Guaranteed Interest Certificates,” which represent a beneficial interest in the entire SBA-guaranteed portion of an individual loan, provided the loan is a loan secured by real estate. (*Exclude* SBA “Guaranteed Loan Pool Certificates,” which represent an undivided interest in a pool of SBA-guaranteed portions of loans. SBA “Guaranteed Loan Pool Certificates” should be reported as securities in Schedule IRC-D, item 4, “Other trading assets”).

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Exclude the following from loans secured by real estate:

- (1) Obligations (other than securities) of states and political subdivisions in the U.S. secured by real estate (report in Part A, item 6 below).
- (2) Loans to real estate companies, real estate investment trusts, mortgage lenders, and foreign non-governmental entities that specialize in mortgage loan originations and that service mortgages for other lending institutions when the real estate mortgages or similar liens on real estate are not sold to the Reporter but are merely pledged as collateral (report below in Part B, item 2, "Loans to depository institutions and acceptances of other banks," or as all other loans in Part B, item 6, "All other loans," as appropriate).
- (3) Notes issued and insured by the FmHA and instruments (certificates of beneficial ownership and insured note insurance contracts) representing an interest in FmHA-insured notes (report in Schedule IRC-B, Part A, item 2, "U.S. government agency obligations").
- (4) Bonds issued by FNMA or by FHLMC that are collateralized by residential mortgages (report in Schedule IRC-B, Part A, item 2 "U.S. government agency obligations").
- (5) Pooled residential mortgages for which participation certificates have been issued or guaranteed by GNMA, FNMA, or FHLMC (report in Schedule IRC-B, Part A, item 6(a) "Residential mortgage pass-through securities"). However, if the Reporter is the seller-servicer of the residential mortgages backing such securities and, as a result of a change in circumstances, it must rebook any of these mortgages because one or more of the conditions for sale accounting in ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended by FASB Statement No. 166, *Accounting for Transfers of Financial Assets*), are no longer met, the rebooked mortgages should be included in Schedule IRC-C, as loans secured by real estate.

Line Item 1(a) Secured by 1-4 family residential properties.

Report in this item open-end and closed-end loans secured by real estate as evidenced by mortgages (FHA, FmHA, VA, or conventional) or other liens on the following:

- (1) Nonfarm property containing 1-4 dwelling units (including vacation homes) or more than 4 dwelling units if each is separated from other units by dividing walls that extend from ground to roof (e.g., row houses, townhouses, or the like).
- (2) Mobile homes where (a) state laws define the purchase or holding of a mobile home as the purchase or holding of real property *and* where (b) the loan to purchase the mobile home is secured by that mobile home as evidenced by a mortgage or other instrument on real property.
- (3) Individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units.
- (4) Housekeeping dwellings with commercial units combined where use is primarily residential and where only 1-4 family dwelling units are involved.

Exclude loans for 1-4 family residential property construction and land development purposes (report in Part A, item 6 below). Also, exclude loans secured by vacant lots in established single-family residential sections or in areas set aside primarily for 1-4 family homes (report in Part A, item 6 below).

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Line Item 1(a)(1) Secured by first liens.

Report the amount of all loans secured by first liens on 1-4 family residential properties.

Line Item 1(a)(2) Secured by junior liens.

Report the amount of all loans secured by junior (i.e., other than first) liens on 1-4 family residential properties.

Line Item 1(b) Secured by farmland.

Report in this item loans secured by farmland and improvements thereon, as evidenced by mortgages or other liens.

Farmland includes all land known to be used or usable for agricultural purposes, such as crop and livestock production. Farmland includes grazing or pasture land, whether tillable or not and whether wooded or not.

Include loans secured by residential properties that are guaranteed by the FmHA and extended, collected, and serviced by a party other than the FmHA.

Exclude, however, loans extended, serviced, collected, and insured by FmHA (report in Schedule IRC-B, Part A, item 2, “U.S. government agency obligations.”) Also exclude loans for farm property construction and land development.

Line Item 1(c) Secured by multifamily (5 or more) residential properties.

Report in this item all other nonfarm residential loans secured by real estate as evidenced by mortgages (FHA and conventional) or other liens. Specifically, include loans on the following:

- (1) Nonfarm properties with 5 or more dwelling units in structures (including apartment buildings and apartment hotels) used primarily to accommodate households on a more or less permanent basis.
- (2) 5 or more unit housekeeping dwellings with commercial units combined where use is primarily residential.
- (3) Cooperative-type apartment buildings containing 5 or more dwelling units.

Exclude loans for multifamily residential property construction and land development purposes (report in Part A, item 1(b) above). Also *exclude* loans secured by nonfarm nonresidential properties (report in Part A, item 1(d) below).

Line Item 1(d) Secured by nonfarm nonresidential properties.

Report loans secured by real estate as evidenced by mortgages or other liens on nonfarm nonresidential properties, including business and industrial properties, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, association buildings, “homes” for aged persons and orphans, golf courses, recreational facilities, and similar properties.

Exclude loans for nonfarm nonresidential property construction and land development purposes (report in Part A, item 6 below).

Line Item 2 Loans to depository institutions and acceptances of other banks.

Report all loans (other than those that meet the definition of a “loan secured by real estate”), including overdrafts

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to banks, other depository institutions, and other associations, companies, and financial intermediaries whose primary business is to accept deposits and to extend credit for business or for personal expenditure purposes and holdings at all bankers' acceptances accepted by other banks and not held for trading.

Depository institutions cover:

- (1) Commercial banks in the U.S., including:
 - (a) U.S. branches and agencies of foreign banks, U.S. branches and agencies of foreign official banking institutions, and investment companies that are chartered under Article XII of the New York State banking law and are majority-owned by one more foreign banks; and
 - (b) All other commercial banks in the U.S., i.e., U.S. branches of U.S. banks;
- (2) Depository institutions in the U.S., other than commercial banks, including:
 - (a) Credit unions;
 - (b) Mutual or stock savings banks;
 - (c) Savings or building and loan associations;
 - (d) Cooperative banks;
 - (e) Other similar depository institutions;
- (3) Banks in foreign countries, including:
 - (a) Foreign-domiciled branches of other U.S. banks; and
 - (b) Foreign-domiciled branches of foreign banks. See the Glossary entry for "banks, U.S. and foreign" and "depository institutions in the U.S." for further discussion of these terms.

Include the following as loans to depository institutions and acceptances of other banks:

- (1) Loans to depository institutions for the purpose of purchasing or carrying securities.
- (2) Loans to depository institutions for which the collateral is a mortgage instrument and not the underlying real property. Report loans to depository institutions where the collateral is the real estate itself, as evidenced by mortgages or similar liens, in Part A, item 1 above.
- (3) Purchases of mortgages and other loans under agreements to resell that do not involve the lending of immediately available funds or that mature in more than one business day, if acquired from depository institutions.
- (4) The acceptances of the consolidated subsidiary banks of Reporter discounted and held in their portfolios when the account party is another depository institution.
- (5) Any borrowing or lending of immediately available funds that matures in more than one business day, other than security repurchase and resale agreements.

Exclude the following from loans to depository institutions:

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- (1) Loans secured by real estate, even if extended to depository institutions (report in Part A, item 1 above).
- (2) Loans to holding companies of depository institutions not owned or controlled by the Reporter (report in Part A, item 6 below).
- (3) Loans to real estate investment trusts and to mortgage companies that specialize in mortgage loan originations and warehousing or in mortgage loan servicing (report in Part A, item 6 below).
- (4) Loans to finance companies and insurance companies (report in Part A, item 6 below).
- (5) Loans to brokers and dealers in securities, investment companies, and mutual funds (report in Part A, item 6 below).
- (6) Loans to Small Business Investment Companies (report in Part A, item 6 below).
- (7) Loans to lenders other than brokers, dealers, and banks whose principal business is to extend credit for the purpose of purchasing or carrying securities (as described in Federal Reserve Regulation U) and loans to “plan lenders” (as defined in Federal Reserve Regulation G) (report in Part A, item 6 below).
- (8) Loans to federally sponsored lending agencies (report in Part A, item 6 below). (Refer to the Glossary entry for “federally sponsored lending agency” for the definition of this term).
- (9) Dollar exchange acceptances created by foreign governments and official institutions (report in Part A, item 5 below).
- (10) Loans to foreign governments and official institutions, including foreign central banks (report in Part A, item 5 below). See the Glossary entry for “foreign governments and official institutions” for the definition of this term.
- (11) Acceptances accepted by the Reporter, discounted, and held in its portfolio, when the account party is not another depository institution. Report such acceptances in other items of Part A, according to the account party.

Line Item 2(a) To U.S. banks and other U.S. depository institutions.

Report in this item for the fully consolidated Reporter all loans and acceptances and all other instruments evidencing loans (except those secured by real estate) to depository institutions chartered and headquartered in the U.S. (including U.S.-chartered banks owned by foreigners), but excluding U.S. branches and agencies of foreign banks. Include in this item loans to both the U.S. and foreign branches of U.S. banks. U.S. depository institutions cover the following:

- (1) U.S. commercial banks and their branches, wherever located; and
- (2) Other depository institutions in the U.S., i.e.,
 - (a) Credit unions;
 - (b) Mutual or stock savings banks;
 - (c) Savings or building and loan associations;
 - (d) Cooperative banks; and

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- (e) Other similar depository institutions.

Line Item 2(b) To foreign banks.

Report in this item all loans and acceptances and other instruments evidencing loans to both the U.S. and foreign branches of banks chartered and headquartered in a foreign country. Foreign banks cover the following:

- (1) U.S. branches and agencies of foreign banks; and
- (2) Foreign-domiciled branches of foreign banks.

For purposes of these reports, U.S. branches and agencies of foreign banks include U.S. branches and agencies of foreign official banking institutions and investment companies that are chartered under Article XII of the New York State banking law and that are majority-owned by one or more foreign banks (See the Glossary entry for “banks, U.S. and foreign” for further discussion of these terms).

Exclude the following from this item:

- (1) Dollar exchange acceptances created by foreign governments and official institutions (report in Part A, item 5); and
- (2) Loans to foreign governments and official institutions, including foreign central banks (report in Part A, item 5) (See the Glossary entry for “foreign governments and official institutions” for the definition of this term).

Also report in this item the Reporter’s holdings of all bankers acceptances accepted by other banks (both U.S. and non-U.S. banks) and not held in trading accounts. Acceptances accepted by other banks may be purchased in the open market or discounted by the Reporter or its consolidated subsidiaries (For further information, see the Glossary entry for “bankers’ acceptances.”).

Exclude acceptances accepted by the consolidated subsidiary banks of the Reporter, discounted, and held in their portfolios. Such acceptances are to be reported in other items of this schedule according to the account party.

Line Item 3 Loans to finance agricultural production and other loans to farmers.

Report in columns A and B, as appropriate, loans for the purpose of financing agricultural production. Include such loans whether secured (other than those that meet the definition of a “loan secured by real estate”) or unsecured and whether made to farm and ranch owners and operators (including tenants) or to nonfarmers. All other loans to farmers, other than those excluded below, should also be reported in this item.

Include the following as loans to finance agricultural production and other loans to farmers:

- (1) Loans and advances made for the purpose of financing agricultural production, including the growing and storing of crops, the marketing or carrying of agricultural products by the growers thereof, and the breeding, raising, fattening, or marketing of livestock.
- (2) Loans and advances made for the purpose of financing fisheries and forestries, including loans to commercial fishermen.
- (3) Agricultural notes and other notes of farmers that the Reporter has discounted for, or purchased from, merchants and dealers, either with or without recourse to the seller.

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- (4) Loans to farmers that are guaranteed by the FmHA or by the SBA and that are extended, serviced, and collected by a party other than the FmHA or SBA. Include SBA "Guaranteed Interest Certificates," which represent a beneficial interest in the entire SBA-guaranteed portion of an individual loan, provided the loan is for the financing of agricultural production or other lending to farmers (Exclude SBA "Guaranteed Loan Pool Certificates," which represent an undivided interest in a pool of SBA-guaranteed portions of loans. SBA "Guaranteed Loan Pool Certificates" should be reported as securities in Schedule IRC-B, Part A, item 2(a), "Issued by U.S. government agencies, or, if held for trading, in Schedule IRC-D, item 4, "Other trading assets").
- (5) Loans and advances to farmers for purchases of farm machinery, equipment, and implements.
- (6) Loans and advances to farmers for all other purposes associated with the maintenance or operations of the farm, including the following:
 - (a) Purchases of private passenger automobiles and other retail consumer goods; and
 - (b) Provisions for the living expenses of farmers or ranchers and their families.

Loans to farmers for household, family, and other personal expenditures (including credit cards and related plans) that are not readily identifiable as being made to farmers need not be broken out of Part A, item 6 below for inclusion in this item.

Exclude the following from loans to finance agricultural production and other loans to farmers:

- (1) Loans secured by real estate (report in Part A, item 1 above).
- (2) Loans to farmers for commercial and industrial purposes, e.g., when a farmer is operating a business enterprise as well as a farm (report in Part A, item 4).
- (3) Loans to farmers for the purpose of purchasing or carrying stocks, bonds, and other securities (report in Part A, item 6).
- (4) Loans to farmers secured by oil or mining production payments (report in Part A, item 4).
- (5) Notes insured by the Farmers Home Administration (FmHA) and instruments (certificates of beneficial ownership, insured note insurance contracts) representing an interest in FmHA-insured notes (report in Schedule IRC-B, Part A, item 2, "U.S. government agency obligations"). Such notes and instruments are backed by loans made, serviced, and collected by the FmHA and were issued prior to January 1, 1975.

Line Item 4 Commercial and industrial loans.

Report loans for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises, whether secured (other than those that meet the definition of a "loan secured by real estate") or unsecured, single-payment, or installment. These loans may take the form of direct or purchased loans.

Include the acceptances of the consolidated banking subsidiaries of the Reporter that they hold in their 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. Exclude all commercial and industrial loans held in trading accounts.

Include loans of the types listed below. These descriptions may overlap and are not all inclusive.

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- (1) Loans for commercial, industrial, and professional purposes to
 - (a) Mining, oil-and gas-producing, and quarrying companies;
 - (b) Manufacturing companies of all kinds, including those that process agricultural commodities;
 - (c) Construction companies;
 - (d) Transportation and communications companies and public utilities;
 - (e) Wholesale and retail trade enterprises and other dealers in commodities;
 - (f) Cooperative associations including farmers' cooperatives;
 - (g) Service enterprises such as hotels, motels, laundries, automotive service stations, and nursing homes and hospitals operated for profit;
 - (h) Insurance agents; and
 - (i) Practitioners of law, medicine, and public accounting.
- (2) Loans for the purpose of financing capital expenditures and current operations.
- (3) Loans to business enterprises guaranteed by the SBA. Include SBA "Guaranteed Interest Certificates," which represent a beneficial interest in the entire SBA-guaranteed portion of an individual loan, provided the loan is for commercial and industrial purposes (Exclude SBA "Guaranteed Loan Pool Certificates," which represent an undivided interest in a pool of SBA-guaranteed portions of loans. SBA "Guaranteed Loan Pool Certificates" should be reported as securities in Schedule IRC-B, Part A, item 2(a), or, if held for trading, in Schedule IRC, item 3).
- (4) Loans to farmers for commercial and industrial purposes (when farmers operate a business enterprise as well as a farm).
- (5) Loans supported by letters of commitment from the Agency for International Development.
- (6) Loans made to finance construction that do not meet the definition of a "loan secured by real estate."
- (7) Loans to merchants or dealers on their own promissory notes secured by the pledge of their own installment paper.
- (8) Loans extended under credit cards and related plans that are readily identifiable as being issued in the name of a commercial or industrial enterprise.
- (9) Dealer flooring or floor-plan loans.
- (10) Loans collateralized by production payments (e.g., oil or mining production payments). Treat as a loan to the original seller of the production payment rather than to the holder of the production payment. For example, report in this item, as a loan to an oil company, a loan made to a nonprofit organization collateralized by an oil production payment; do not include in Part A, item 6 below as a loan to the nonprofit organization.
- (11) Loans and participations in loans secured by conditional sales contracts made to finance the purchase

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of commercial transportation equipment.

(12) Commercial and industrial loans guaranteed by foreign governmental institutions.

(13) Overnight lending for commercial and industrial purposes.

Exclude the following from commercial and industrial loans:

- (1) Loans that meet the definition of a “loan secured by real estate,” even if for commercial and industrial purposes (report in Part A, item 1 above).
- (2) Loans to depository institutions (report in Part A, item 2 above).
- (3) Loans to nondepository financial institutions such as real estate investment trusts, mortgage companies, and insurance companies (report in Part A, item 6 above).
- (4) Loans for the purpose of purchasing or carrying securities (report in Part A, item 6 below).
- (5) Loans for the purpose of financing agricultural production, whether made to farmers or to non-agricultural businesses (report in Part A, item 3 above).
- (6) Loans to nonprofit organizations, such as hospitals or educational institutions (report in Part A, item 6 below), except those for which oil or mining production payments serve as collateral that are to be reported in this item.
- (7) Holdings of acceptances accepted by other banks, i.e., that are not consolidated on this report by the Reporter (report in Part A, item 2 above).
- (8) Holdings of acceptances of banking subsidiaries of the consolidated Reporter when the account party is another bank (report in Part A, item 2 above) or a foreign government or official institution (report in Part A, item 5 below).
- (9) Equipment trust certificates (report in Schedule IRC-B, Part A, item 14 “Other equity securities or Schedule IRC, item 19 “Other assets”, as appropriate).
- (10) Any commercial or industrial loans and bankers acceptances, held in the Reporter’s trading accounts (report in Schedule IRC, item 3, “Trading assets”).
- (11) Commercial paper (report in Schedule IRC-B or Schedule IRC-D, as appropriate).

Line Item 4(a) To U.S. addressees (domicile).

Report in column A, as appropriate, all commercial and industrial loans to U.S. addressees. (For a detailed discussion of U.S. and non-U.S. addressees, see the Glossary entry for “domicile.”)

Line Item 4(b) To non-U.S. addressees (domicile).

Report in column A, as appropriate, all commercial and industrial loans to non-U.S. addressees (For a detailed discussion of U.S. and non-U.S. addressees, see the Glossary entry for “domicile.”)

Line Item 5 Loans to foreign governments and official institutions.

Report (in columns A and B when appropriate) all loans (other than those secured by real estate), including

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planned and unplanned overdrafts, to governments in foreign countries, to their official institutions, and to international and regional institutions (See the Glossary entry for “foreign governments and official institutions” for the definition of this term).

Include bankers acceptances accepted by the subsidiary banks of the Reporter and held in their portfolio when the account party is a foreign government or official institution, including such acceptances for the purpose of financing dollar exchange. Exclude acceptances that are held in trading accounts.

Include loans to foreign governments, official institutions, and international and regional institutions (other than those that meet the definition of a “loan secured by real estate”), including planned and unplanned overdrafts.

Exclude the following from loans to foreign governments and official institutions:

- (1) Loans to nationalized banks and other banking institutions owned by foreign governments and not functioning as central banks, banks of issue, or development banks (report in Part A, item 2 above).
- (2) Loans to U.S. branches and agencies of foreign official banking institutions (report as a loan to a commercial bank in the U.S. in Part A, item 2 above).
- (3) Loans to foreign-government-owned nonbank corporations and enterprises (report in Part A, item 4 or 6, as appropriate).

Line Item 6 All other loans and leases.

Report loans to nondepository financial institutions, loans for purchasing or carrying securities, and all other loans and leases that cannot properly be reported in one of the preceding items in this schedule.

Loans to nondepository financial institutions include:

- (1) Loans (other than those that meet the definition of a “loan secured by real estate”) to real estate investment trusts and to mortgage companies that specialize in mortgage loan originations and warehousing or in mortgage loan servicing (Exclude outright purchases of mortgages or similar instruments by the Reporter from such companies, which – unless held for trading – are to be reported in Part A, item 1 above).
- (2) Loans to other unrelated holding companies.
- (3) Loans to insurance companies.
- (4) Loans to finance companies, mortgage finance companies, factors and other financial intermediaries, short-term business credit institutions that extend credit to finance inventories or carry accounts receivable, and institutions whose functions are predominantly to finance personal expenditures (exclude loans to financial corporations whose sole function is to borrow money and relend it to its affiliated companies or a corporate joint venture in which an affiliated company is a joint venturer).
- (5) Loans to federally-sponsored lending agencies (see the Glossary entry for “federally-sponsored lending agency” for the definition of this term).
- (6) Loans to investment banks.
- (7) Loans and advances made to a bank subsidiary’s own trust department.

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(8) Loans to other domestic and foreign financial intermediaries whose functions are predominantly the extending of credit for business purposes, such as investment companies that hold stock of operating companies for management or development purposes.

(9) Loans to Small Business Investment Companies.

Other loans include (1) loans for purchasing or carrying securities and (2) all other loans, as described below.

Loans for purchasing or carrying securities include:

- (1) All loans to brokers and dealers in securities (other than those that meet the definition of a “loan secured by real estate” and those to depository institutions).
- (2) All loans, whether secured (other than those that meet the definition of a “loan secured by real estate”) or unsecured, to any other borrower for the purpose of purchasing or carrying securities, such as:
 - (a) Loans made to provide funds to pay for the purchase of securities at settlement date.
 - (b) Loans made to provide funds to repay indebtedness incurred in purchasing securities.
 - (c) Loans that represent the renewal of loans to purchase or carry securities.
 - (d) Loans to investment companies and mutual funds, but excluding loans to Small Business Investment Companies.
 - (e) Loans to “plan lenders” as defined in Section 221.4(a) of Federal Reserve Regulation U.
 - (f) Loans to Employee Stock Ownership Plans (ESOPs).

For purposes of this report, the purpose of a loan collateralized by “stock” is determined as follows:

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

Exclude from loans for purchasing or carrying securities:

- (1) Loans to banks in foreign countries that act as brokers and dealers in securities (report in Part A, item 2 above).
- (2) Loans to depository institutions for the purpose of purchasing or carrying securities (report Part A, item 2 above).
- (3) Loans that meet the definition of a “loan secured by real estate” (report in Part A, item 1).

All other loans include all loans and discounts (other than loans to nondepository financial institutions and loans for purchasing or carrying securities) that cannot properly be reported in one of the preceding items in Part A, such as:

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- (1) Unplanned overdrafts to deposit accounts (except overdrafts of depository institutions, which are to be reported in Part A, item 2 above; and overdrafts of foreign governments and official institutions, which are to be reported in Part A, item 5 above).
- (2) Loans (other than those that meet the definition of a “loan secured by real estate”) to nonprofit organizations (e.g., churches, hospitals, educational and charitable institutions, clubs, and similar associations) except those collateralized by production payments where the proceeds ultimately go to a commercial or industrial organization (which are to be reported in Part A, item 4 above).
- (3) Loans to individuals for investment purposes (as distinct from commercial, industrial, or professional purposes), other than those that meet the definition of a “loan secured by real estate.”
- (4) Obligations (other than securities and leases) of states and political subdivisions in the U.S.

Exclude from all other loans extensions of credit initially made in the form of planned or “advance agreement” overdrafts other than those made to borrowers of the types whose obligations are specifically reportable in this item (report such planned overdrafts in other items of Part A, as appropriate). For example, report advances to banks in foreign countries in the form of “advance agreement” overdrafts as loans to depository institutions in Part A, item 2 above, and overdrafts under consumer check-credit plans as “All other loans and leases” in this line item. Report both planned and unplanned overdrafts on “due to” deposit accounts of depository institutions in Part A, item 2 above.

Report all outstanding balances relating to direct financing and leveraged leases on property acquired by the Reporter for leasing purposes. Report the total amount of these leases and a breakdown of these leases for the fully consolidated Reporter between leases to individuals for household, family, and other personal expenditures and all other leases. These balances should include the estimated residual value of leased property and *must* be net of unearned income. For further discussion of leases where the Reporter is the lessor, refer to the Glossary entry for “lease accounting.” Include all leases to states and political subdivisions in the U.S. in this item.

Report all outstanding balances relating to direct financing and leveraged leases on property acquired by the fully consolidated Reporter for leasing to individuals for household, family, and other personal expenditures (i.e., consumer leases).

Report all outstanding balances relating to all other direct financing and leveraged leases on property acquired by the fully consolidated Reporter for leasing to lessees other than for household, family, and other personal expenditure purposes.

Line Item 7 LESS: Unearned income on loans reflected in items 1–6 above.

To the extent possible, the preferred treatment is to report the specific loan categories net of both unearned income and net unamortized loan fees. A Reporter should enter in columns A and B of this item, as appropriate, unearned income and net unamortized loan fees only to the extent that these amounts are included in (i.e., not deducted from) the various loan items (items 1 through 6) of this schedule. If a Reporter reports each loan item of this schedule net of both unearned income and net unamortized loan fees, enter a zero in this item.

Do not include net unamortized direct loan origination costs in this item; such costs must be added to the related loan balances reported in Part A, items 1 through 6. In addition, do not include unearned income on lease financing receivables in this item. Leases should be reported net of unearned income in Part A, item 6.

Line Item 8 Total loans and leases, net of unearned income.

Report the sum of Part A items 1 through 6 less the amount reported in item 7.

Part B. Past Due and Nonaccrual Loans, Leases and Other Assets

General Instructions

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

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

- (1) Closed-end installment loans, amortizing loans secured by real estate, and any other loans and lease financing receivables with payments scheduled monthly are to be reported as past due when the borrower is in arrears two or more monthly payments. (At a Reporter's option, loans and leases with payments scheduled monthly may be reported as past due when one scheduled payment is due and unpaid for 30 days or more.) Other multipayment obligations with payments scheduled other than monthly are to be reported as past due when one scheduled payment is due and unpaid for 30 days or more.
- (2) Open-end credit such as charge-card plans, check credit, and other revolving credit plans are to be reported as past due when the customer has not made the minimum payment for two or more billing cycles.
- (3) Single payment and demand notes, debt securities, and other assets providing for the payment of interest at stated intervals are to be reported as past due after one interest payment is due and unpaid for 30 days or more.
- (4) Single payment notes, debt securities, and other assets providing for the payment of interest at maturity are to be reported as past due after maturity if interest *or* principal remains unpaid for 30 days or more.
- (5) Unplanned overdrafts are to be reported as past due if the account remains continuously overdrawn for 30 days or more.

For purposes of this schedule, 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.

Nonaccrual— For purposes of this schedule, an asset is to be reported as being in nonaccrual status if: (1) it is maintained on a cash basis because of deterioration in the financial condition of the borrower, (2) payment in full of principal or interest is not expected, or (3) principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection.

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

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legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

For purposes of applying the third test for nonaccrual status 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 it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

In the following situations, an asset need not be placed in nonaccrual status:

- (1) The criteria for accrual of income under the interest method specified in ASC Subtopic 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality* (formerly AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*), are met for a purchased credit-impaired loan, pool of loans, or debt security accounted for in accordance with that Subtopic, regardless of whether the loan, the loans in the pool, or debt security had been maintained in nonaccrual status by its seller. (For purchased credit impaired loans with common risk characteristics that are aggregated and accounted for as a pool, the determination of nonaccrual or accrual status should be made at the pool level, not at the individual loan level.) For further information, see the Glossary entry for “purchased credit-impaired loans and debt securities.”
- (2) The asset upon which principal or interest is due and unpaid for 90 days or more is a consumer loan (as defined for Schedule IRC-C, item 6, “All other loans and leases”) or a loan secured by a 1-4 family residential property (as defined for Schedule IRC-C, item 1(a), Loans “Secured by 1-4 family residential properties”). Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the Reporter’s net income is not materially overstated. To the extent that the Reporter has elected to carry such a loan in nonaccrual status on its books, the loan must be reported as nonaccrual in this schedule.

As a general rule, a nonaccrual asset may be restored to accrual status when:

- (1) None of its principal and interest is due and unpaid, and the Reporter expects repayment of the remaining contractual principal and interest, or
- (2) When it otherwise becomes well secured and in the process of collection. For purposes of meeting the first test for restoration to accrual status, the Reporter must have received repayment of the past due principal and interest unless, as discussed in the Glossary entry for “nonaccrual status,”
- (3) The asset has been formally restructured and qualifies for accrual status,
- (4) The asset is a purchased credit-impaired loan, pool of loans, or debt security accounted for in accordance with ASC Subtopic 310-30 and it meets the criteria for accrual of income under the interest method specified in that Subtopic,
- (5) The borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though the loan has not been brought fully current, and certain repayment criteria are met.

Restructured in Troubled Debt Restructurings— A troubled debt restructuring is a restructuring of a loan in which a Reporter, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. For purposes of this schedule, the concession consists of a modification of terms, such as a reduction of the loan’s stated interest rate, principal, or accrued interest or an extension of the loan’s maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, regardless of whether the loan is secured or unsecured and regardless of whether the loan is

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guaranteed by the government or by others. Once an obligation has been restructured in a troubled debt restructuring, it continues to be considered a troubled debt restructuring until paid in full or otherwise settled, sold, or charged off. However, if a restructured obligation is in compliance with its modified terms and the restructuring agreement specifies an interest rate that at the time of the restructuring is greater than or equal to the rate that the Reporter was willing to accept for a new extension of credit with comparable risk, the loan need not continue to be reported as a troubled debt restructuring in calendar years after the year in which the restructuring took place. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered a troubled debt restructuring.

Column Instructions

The columns of Part B are mutually exclusive. Any given loan, lease, debt security, or other asset should be reported in only one column – in either column A, B or C. Information reported for any given off-balance sheet contract should also be reported in only column – in either column A or B.

Report in columns A and B of Part B the recorded investments (not just delinquent payments) of loans, leases, debt securities, and other assets that are past due and upon which the Reporter continues to accrue interest, as follows:

- (1) In column A, report closed-end monthly installment loans, amortizing loans secured by real estate, lease financing receivables, and open-end credit in arrears two or three monthly payments; other multipayment monthly when one scheduled payment is due and unpaid for 30 through 89 days; single payment and demand notes, debt securities, and other assets providing for payment of interest at stated intervals after one interest payment is due and unpaid for 30 through 89 days; single payment notes, debt securities, and other assets providing for payment of interest at maturity, on which interest *or* principal remains unpaid for 30 through 89 days after maturity; unplanned overdrafts, whether or not the Reporter is accruing interest on them, if the account remains continuously overdrawn for 30 through 89 days.
- (2) In column B, report the loans, lease financing receivables, debt securities, and other assets as specified above on which payment is due and unpaid for 90 days or more.

Include in columns A and B, as appropriate, all loans, leases, debt securities, and other assets which, subsequent to their restructuring by means of a modification of terms, have become 30 days or more past due and upon which the Reporter continues to accrue interest. Exclude from columns A and B all loans, leases, debt securities, and other assets that are in nonaccrual status.

Report in column C the recorded investments in loans, leases, debt securities, and other assets that are in nonaccrual status. Include all restructured loans, leases, debt securities, and other assets that are in nonaccrual status. However, restructured loans, leases, debt securities, and other assets with a zero percent effective interest rate are *not* to be reported in this column as nonaccrual assets

Item Instructions

The loan category definitions used IRC-C, Part B correspond with the loan category definitions found in Schedule IRC-C, Part A. Consistent with Schedule IRC-C, Part A, the category-by-category breakdown of loans and leases in Part B includes (1) loans and leases held for sale and (2) loans and leases that the Reporter has the intent and ability to hold for the foreseeable future or until maturity or payoff.

Line Item 1 Loans secured by real estate.

Report in the appropriate subitem and column all past due and nonaccrual loans secured by real estate included in Part A, item 1 above).

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Line Item 1(a) Secured by 1–4 family residential properties.

Report in the appropriate column all past due and nonaccrual loans secured by 1–4 family residential properties included in Part A, item 1(a) above.

Line Item 1(b) Secured by farmland.

Report in the appropriate column all past due and nonaccrual loans in domestic offices secured by farmland and improvements thereon, included in Part A item 1(b) above.

Line Item 1(c) Secured by multifamily (5 or more) residential properties.

Report in the appropriate column all past due and nonaccrual loans secured by (5 or more) residential properties included in Part A, item 1(c) above.

Line Item 1(d) Secured by nonfarm nonresidential properties.

Report in the appropriate subitem and column the amount of all loans secured by nonfarm residential properties included in Part A item 1(d) above, that are past due 30 days or more or are in nonaccrual status as of the report date.

Line Item 2 Loans to depository institutions and acceptances of other banks.

Report in the appropriate column all past due and nonaccrual loans to depository institutions and acceptances of other banks included in Part A, item 2 above.

Line Item 2(a) To U.S. banks and other U.S. depository institutions

Report in the appropriate column all past due and nonaccrual loans to and acceptances of U.S. banks and other depository institutions included on Part A, item 2(a) above.

Line Item 2(b) To foreign banks.

Report in the appropriate column all past due and nonaccrual loans to and acceptances of foreign banks included in Part A, item 2(b) above.

Line Item 3 Loans to finance agricultural production and other loans to farmers.

Report in the appropriate column all past due and nonaccrual loans to finance agricultural production and other loans to farms included in Part A, item 3 above.

Line Item 4 Commercial and industrial loans.

Report in the appropriate column all past due and nonaccrual commercial and industrial loans included in Part A, item 4 above.

Line Item 5 Loans to foreign governments and official institutions.

Report in the appropriate column all past due and nonaccrual loans to foreign governments and official institutions included in Part A, item 5 above.

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Line Item 6 All other loans and leases.

Report in the appropriate column all other past due and nonaccrual loans to nondepository financial institutions and other loans included in Part A, item 6.

Line Item 7 Total.

Report the sum of Part B, items 1 through 6.

Part C. Credit quality of loans secured by real estate

General Instructions

Report in column A and B, the recorded investment in loans that are secured by nonfarm residential properties and farmland, respectively as defined above in the Part A instructions. The columns are mutually exclusive so that any given loan should be reported in only one column.

Item instructions

Line Item 1 Loan-to-value ratios.

Loan to value ratio is defined as the principal amount of loan amount divided by appraised value of collateral securing the loan. The appraised value of collateral securing the loan should be the same as the firm's internal figures used for other public audited financials. The columns represent the type of appraised value of collateral as defined above.

Line Item 1(a) Less than 65%.

Report in the appropriate column the amount of all loans with a loan to value ratio of less than 65% as defined above.

Line Item 1(b) 65%-75%.

Report in the appropriate column the amount of loans with a loan to value ratio between 65% and 75% as defined above.

Line Item 1(c) 76%-80%.

Report in the appropriate column the amount of loans with a loan to value ratio between 76% and 80% as defined above.

Line Item 1(d) Greater than 80%.

Report in the appropriate column the amount of loans with a loan to value ratio greater than 80% as defined above.

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Memoranda

Line Item M1 Loans restructured in troubled debt restructurings that are in compliance with their modified terms.

Report in the appropriate subitem loans that have been restructured in troubled debt restructurings and are in compliance with their modified terms. As set forth in ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*,” as amended by FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*), a troubled debt restructuring is a restructuring of a loan in which a Reporter, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. For purposes of this Memorandum item, the concession consists of a modification of terms, such as a reduction of the loan’s stated interest rate, principal, or accrued interest or an extension of the loan’s maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, regardless of whether the loan is secured or unsecured and regardless of whether the loan is guaranteed by the government or by others.

Once an obligation has been restructured in a troubled debt restructuring, it continues to be considered a troubled debt restructuring until paid in full or otherwise settled, sold, or charged off. However, if a restructured obligation is in compliance with its modified terms and the restructuring agreement specifies an interest rate that at the time of the restructuring is greater than or equal to the rate that the Reporter was willing to accept for a new extension of credit with comparable risk, the loan need not continue to be reported as a troubled debt restructuring in this Memorandum item in calendar years after the year in which the restructuring took place. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered a troubled debt restructuring. For further information, see the Glossary entry for “troubled debt restructurings.”

Include in the appropriate subitem all loans restructured in troubled debt restructurings as defined above that are in compliance with their modified terms, that is, restructured loans (1) on which *all* contractual payments of principal or interest scheduled that are due under the modified repayment terms have been paid or (2) on which contractual payments of both principal *and* interest scheduled under the modified repayment terms are less than 30 days past due.

Exclude from this item (1) those loans restructured in troubled debt restructurings on which under their modified repayment terms either principal *or* interest is 30 days or more past due and (2) those loans restructured in troubled debt restructurings that are in nonaccrual status under their modified repayment terms. Report such loans restructured in troubled debt restructurings in the category and column appropriate to the loan in Schedule IRC-C, Part B, items 1 through 6, column A, B, or C.

Loan amounts should be reported net of unearned income to the extent that they are reported net of unearned income in Schedule IRC-C, Part A.

Line Item M1(a) Secured by 1-4 family residential loans.

Report all loans secured by 1-4 family residential properties (as defined for Part A, item 1(a)) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item loans secured by 1-4 family residential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Part B item 1(a)). Also include all 1-4 family construction loans that have been restructured in troubled debt restructurings and are in compliance with their modified terms.

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Line Item 1(b) Secured by farmland.

Report in this item loans secured by farmland and improvements thereon, as evidenced by mortgages or other liens, (as defined for Part A, item 1(b)) above that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item loans secured by farmland restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Part B, item 1(b)).

Line Item M1(c) Secured by multifamily (5 or more) residential properties.

Report all loans secured by multifamily (5 or more) residential properties (as defined for Part A, item 1(c)) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item loans secured by multifamily residential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Part B, item 1(c)).

Line Item M1(d) Secured by nonfarm nonresidential properties.

Report all loans secured by nonfarm nonresidential properties (as defined for Part A, item 1(d)) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item loans secured by nonfarm nonresidential properties restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Part B, item 1(d)).

Line Item M1(e) Commercial and industrial loans.

Report all commercial and industrial loans (as defined for Part A, item 4) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Report a breakdown of these restructured loans between those to U.S. and non-U.S. addressees in Memorandum items 1(e)(1) and 1(e)(2). Exclude commercial and industrial loans restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Part B, item 4).

Line Item M1(e)(1) To U.S. addressees (domicile).

Report all commercial and industrial loans to U.S. addressees (as defined for Part A, item 4(a)) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item commercial and industrial loans to U.S. addressees restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Part B, item 4).

Line Item M1(e)(2) To non-U.S. addressees (domicile).

Report all commercial and industrial loans to non-U.S. addressees (as defined for Part A, item 4(b)) that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item commercial and industrial loans to non-U.S. addressees restructured in troubled debt restructurings that, under their modified repayment terms, are past due 30 days or more or are in nonaccrual status (report in Part B, item 4).

Line Item M1(f) All other loans.

Report all other loans that cannot properly be reported in Memorandum items 1(a) through 1(e) above that have been restructured in troubled debt restructurings and are in compliance with their modified terms. Exclude from this item all other loans restructured in troubled debt restructurings that, under their modified repayment

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terms, are past due 30 days or more or are in nonaccrual status (report in Part B, items 5 and 6).

Include in this item loans in the following categories that have been restructured in troubled debt restructurings and are in compliance with their modified terms:

- (1) Loans to depository institutions and acceptances of other banks (as defined for Part A, item 2);
- (2) Loans to finance agricultural production and other loans to farmers (as defined for Part A, item 3);
- (3) Loans to individuals for household, family, and other personal expenditures (as defined for Part A, item 6);
- (4) Loans to foreign governments and official institutions (as defined for Part A, item 5);
- (5) Obligations (other than securities and leases) of states and political subdivisions in the U.S. (included in Part A, item 6);
- (6) Loans to nondepository financial institutions and other loans (as defined for Part A, item 6).

LINE ITEM INSTRUCTIONS FOR

Trading Assets and Liabilities

Schedule IRC-D

General Instructions

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

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

Exclude from this schedule all available-for-sale securities and all loans and leases that do not satisfy the criteria for classification as trading as described above. (Also see the Glossary entry for “trading account.”) Available-for-sale securities are generally reported in Schedule IRC, item 1(b) and 2(a), and in Schedule IRC-B, Part A, column C and D. However, a Reporter may have certain assets that fall within the definition of “securities” in ASC Topic 320, Investments – Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*) (e.g., nonrated industrial development obligations) that the Reporter has designated as “available-for-sale” which are reported for purposes of this report in a balance sheet category other than “Securities” (e.g., “Loans and lease financing receivables”). Loans and leases that do not satisfy the criteria for the trading account should be reported in Schedule IRC, item 4, “Loans and leases net of unearned income and allowance” and in Schedule IRC-C, Part A.

Report all balances as of the balance sheet date.

Trading assets

Line Item 1 Fixed maturity securities.

Report the total fair value of all fixed maturity securities held for trading.

Line Item 2 Equity securities.

Report the total fair value of all equity securities held for trading.

Line Item 3 Derivatives with a positive fair value.

Report the amount of revaluation gains (i.e., assets) from the “marking to market” of interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts held for trading purposes. Revaluation gains and losses (i.e., assets and liabilities) from the “marking to market” of the Reporter’s derivative

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contracts executed with the same counterparty that meet the criteria for a valid right of setoff contained in ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*) (e.g., those contracts subject to a qualifying master netting arrangement) may be reported on a net basis using this item and item 7 below, as appropriate. (For further information, see the Glossary entry for “offsetting.”)

Line Item 4 Other trading assets.

Report the total fair value of all trading assets that cannot properly be reported in items 1 through 3 above. Include certificates of deposit held for trading.

Line Item 5 Total trading assets.

Report the sum of items 1 through 4. This amount must equal Schedule IRC, item 3, “Trading assets.”

Trading liabilities

Line Item 6 Liability for short positions.

Report the total fair value of trading liabilities resulting from sales of assets that the Reporter does not own (see the Glossary entry for “short position”).

Line Item 6(a) Equity securities.

Report the fair value of trading liabilities resulting from sales of equity securities that the Reporter does not own, thereby establishing a short position.

Line Item 6(b) Debt securities.

Report the fair value of trading liabilities resulting from sales of debt securities that the Reporter does not own, thereby establishing a short position.

Line Item 6(c) All other assets.

Report the fair value of the trading liabilities resulting from sales of all assets other than equity securities or debt securities that the Reporter does not own, thereby establishing a short position.

Line Item 7 Derivatives with a negative fair value.

Report the amount of revaluation losses (i.e., liabilities) from the “marking to market” of interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts held for trading purposes. Revaluation gains and losses (i.e., assets and liabilities) from the “marking to market” of the Reporter’s interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts executed with the same counterparty that meet the criteria for a valid right of setoff contained in ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*) (e.g., those contracts subject to a qualifying master netting arrangement) may be reported on a net basis using this item and item 3 above, as appropriate. (For further information, see the Glossary entry for “offsetting.”)

Schedule IRC-D

Line Item 8 All other trading liabilities.

Report the total fair value of all trading liabilities other than the Reporter's liability for short positions not included in items 6(a) through 7. Exclude revaluation losses on interest rate, foreign exchange rate, commodity, equity, and credit derivative contracts (report in item 7 above).

Line Item 9 Total trading liabilities.

Report the sum of items 6(a) through 8. This amount must equal Schedule IRC, item 28, "Trading liabilities."

LINE ITEM INSTRUCTIONS FOR

Insurance-Related Underwriting Activities (Including Reinsurance) Schedule IRC-I

General Instructions

Schedule IRC-I, Insurance-Related Underwriting Activities (Including Reinsurance), must be submitted by all Reporters on a consolidated basis. Report all items in this schedule in accordance with GAAP. Schedule IRC-I includes the following sections:

- (1) Section I. Property and Casualty Underwriting
- (2) Section II. Life and Health Underwriting
- (3) Section III. Reinsurance Assets

Refer to each section for detailed instructions.

Section I. Property and Casualty Underwriting

General Instructions

Reporters engaged in property and casualty underwriting activities must complete Schedule IRC-I, Section I. Property and Casualty Underwriting, which includes the following parts:

- Part A. Loss and Loss Adjustment Expense Reserves by Line of Business
- Part B. Loss and Loss Adjustment Expense Reserves Roll Forward

Section I should also be prepared in conjunction with Schedule IRI-C Property and Casualty Underwriting Results by Line of Business.

For a description of property and casualty insurance underwriting related activities, refer to the Glossary entry “property and casualty”.

Part A. Loss and Loss Adjustment Expense Reserves by Line of Business

General Instructions

The balance sheet line item “Loss and loss adjustment expense reserves” (Schedule IRC, item 22) represents the estimated ultimate cost of investigating and settling claims relating to insured events that have occurred on or

Schedule IRC-I

before a particular date (ordinarily the balance sheet date), whether or not reported to the insurer. Part A requires the breakdown of “Loss and loss adjustment expense reserves” by line of business on an undiscounted basis (gross) and on a reported basis (gross and net). “Gross” refers to direct and assumed amounts, while “net” refers to gross amounts *less* reinsurance ceded.

Item Instructions

Refer to the Item Instructions in Schedule IRI-C Property and Casualty Underwriting Results by Line of Business for further information.

Column Instructions

Column A, Undiscounted Loss and Loss Adjustment Expense Reserves, Gross: For each applicable item (i.e. line of business) report the loss and loss adjustment expense reserve amount on an undiscounted gross basis.

Column B(1), Loss and Loss Adjustment Expense Reserves, Gross: For each applicable item (i.e. line of business) report the loss and loss adjustment expense reserve amount on a discounted gross basis. If reserves for certain lines of business are not discounted, then Column B(1) should equal Column A.

Column B(1), item 25 must equal Schedule IRC, item 22, “Loss and loss adjustment expense reserves”.

Column B(2), Loss and Loss Adjustment Expense Reserves, Net: For each applicable item (i.e. line of business) report the loss and loss adjustment expense reserve amount on a discounted basis, net of any reinsurance ceded balances.

Part B. Loss and Loss Adjustment Expense Reserves Roll Forward

General Instructions

Part B provides a calendar year-to-date roll forward of the consolidated balance sheet line item “Loss and loss adjustment expense reserves” balance (Schedule IRC, item 22). The roll forward captures changes from the end of previous calendar year (item 1) to the end of current reporting period (item 10). Roll forward amounts should be reported gross of reinsurance ceded balances.

Line Item 1 Loss and loss adjustment expense reserves, end of previous calendar year.

Report the balance of loss and loss adjustment expense reserves from the consolidated financial statements (FR 2085) most recently reported at the previous calendar year-end.

Line Item 2 LESS: Reinsurance recoverable, end of previous calendar year.

Report the reinsurance recoverable balance from unaffiliated property and casualty reinsurers as of the end of previous calendar year. See the Glossary entry “reinsurance recoverable” for further information

Line Item 3 Foreign exchange revaluation adjustment.

Report the impact of foreign exchange revaluation adjustment during the calendar year-to-date. Report negative values with a minus (-) sign.

Line Item 4 Acquisitions and dispositions.

Report reserves related to business assumed during the current reporting period through retroactive reinsurance

Schedule IRC-I

contracts such as loss portfolio transfers, mergers, acquisitions or other means valued as of the time of the acquisition or disposition with subsequent development being included in the other rows. Do not include the impact of retroactive reinsurance contracts that were effective in prior years.

Line Item 5 Total.

Report the sum of items 1, 3 and 4 minus item 2.

Line Item 6 Loss and loss adjustment expenses incurred.

Report in the appropriate subitem loss and loss adjustment expenses incurred during the calendar year-to-date. *Exclude paid* losses, which should be reported in item 7 below.

Line Item 6(a) Current accident year.

Report loss and loss adjustment expenses incurred related to covered events (as defined by the terms of the contract) that occurred during the calendar year-to-date.

Line Item 6(b) Prior accident years development, excluding discount.

Report changes in the loss and loss adjustment expenses incurred related to covered events (as defined by the terms of the contract) that occurred during calendar year for prior accident years. Amounts reported should exclude the impact of any discounting of reserves, which are reported in item 6(c) below.

Line Item 6(c) Prior accident years development, discount charge (benefit).

Report changes in the discount charge (benefit) of loss and loss adjustment expenses incurred related to covered events (as defined by the terms of the contract) that occurred during the calendar year for prior accident years.

Line Item 7 Loss and loss adjustment expenses paid.

Report in the appropriate subitem loss and loss adjustment expenses *paid* during the calendar year-to-date.

Line Item 7(a) Current accident year.

Report the loss and loss adjustment expenses *paid* related to covered events (as defined by the terms of the contract) that occurred during the current calendar year-to-date.

Line Item 7(b) Prior accident years.

Report the loss and loss adjustment expenses *paid* related to covered events (as defined by the terms of the contract) that occurred during the calendar year for prior accident years.

Line Item 8 Net, loss and loss adjustment expense reserves, end of period.

Report sum of items 5 through 7(b).

Line Item 9 Reinsurance recoverable.

Report the reinsurance recoverable balance from unaffiliated property and casualty reinsurers as of the balance sheet date. See the Glossary entry “reinsurance recoverable” for further information.

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Line Item 10 Loss and loss adjustment expense reserves, end of period.

Report the sum of items 8 and 9.

Section II. Life and Health Underwriting

General Instructions

Reporters engaged in life, health and/or annuities underwriting activities must complete Section II. Life and Health Underwriting. Section II. Life and Health Underwriting includes the following parts:

- Summary
- Part A. Future Policy Benefits Roll Forward by Line of Business
 - A-1 Domestic Individual
 - A-2 Domestic Group
 - A-3 International
- Part B. Policyholder Account Balances
 - B-1 Domestic Individual
 - B-2 Domestic Group
 - B-3 International
- Part C. Variable Annuities
- Part D. Closed Block
- Part E. Deferred Policy Acquisition Costs and Value of Business Acquired Roll Forward by Line of Business
 - E-1 Domestic
 - E-2 International

Refer to each part for detailed instructions.

For a description of life and health insurance underwriting related activities, refer to the Glossary entry “life and health”.

Summary

The following instructions apply for parts A, B, and E of the Summary schedule. The Summary schedule is broken down first by column, and then by part.

Columns A, D and G, Domestic: Report balances from the entity’s domestic lines of business.

Columns B, E and H, International: Report balances from the entity’s international lines of business.

Columns C, F and I, Total: Report the sum of the relevant columns for Parts A, B and E.

Part A. Future Policy Benefits

General Instructions

Part A provides the consolidated balance sheet line item “Future policy benefits” balance (Schedule IRC, item 24(a)). All values in Part A are derived from IRC-I, Section II, Parts A-1, A-2 and A-3.

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Item Instructions

Column A(1), Individual

Line Item 1 Life.

Derived from the sum of item 13, columns A through D of Schedule IRC-I, Section II, Part A-1.

Line Item 2 Accident and Health.

Derived from the sum of item 13, columns E through H of Schedule IRC-I, Section II, Part A-1.

Line Item 3 Annuities.

Derived from the sum of item 13, columns I through M of Schedule IRC-I, Section II, Part A-1.

Line Item 4 Closed Block.

Derived from item 13, column N of Schedule IRC-I, Section II, Part A-1.

Line Item 5 Other (items excluded from roll forward).

Derived from item 16(g) of Schedule IRC-I, Section II, Part A-1.

Line Item 6 Total reserve.

Derived from the sum of items 1 through 5, above.

Line Item 7 Less: Reinsurance recoverable.

Derived from item 14, column O of Schedule IRC-I, Section II, Part A-1.

Line Item 8 Total reserve, net.

Derived from item 6 minus item 7, above.

Column A(2), Group

Line Item 1 Life.

Derived from the sum of item 13, columns A through D of Schedule IRC-I, Section II, Part A-2.

Line Item 2 Accident and Health.

Derived from the sum of item 13, columns E through H of Schedule IRC-I, Section II, Part A-2.

Line Item 3 Annuities.

Derived from the sum of item 13, columns I through M of Schedule IRC-I, Section II, Part A-2.

Line Item 4 Closed Block.

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Derived from item 13, column N of Schedule IRC-I, Section II, Part A-2.

Line Item 5 Other (items excluded from roll forward).

Derived from item 16.g of Schedule IRC-I, Section II, Part A-2.

Line Item 6 Total reserve.

Derived from the sum of items 1 through 5, above.

Line Item 7 Less: Reinsurance recoverable.

Derived from item 14, column O of Schedule IRC-I, Section II, Part A-2.

Line Item 8 Total reserve, net.

Derived from item 6 minus item 7, above.

Column A(3), Total

Line Item 1 Life.

Derived from the sum of columns A(1) and A(2).

Line Item 2 Accident and Health.

Derived from the sum of columns A(1) and A(2).

Line Item 3 Annuities.

Derived from the sum of columns A(1) and A(2).

Line Item 4 Closed Block.

Derived from the sum of columns A(1) and A(2).

Line Item 5 Other (items excluded from roll forward).

Derived from the sum of columns A(1) and A(2).

Line Item 6 Total reserve.

Derived from the sum of columns A(1) and A(2).

Line Item 7 Less: Reinsurance recoverable.

Derived from the sum of columns A(1) and A(2).

Line Item 8 Total reserve, net.

Derived from the sum of columns A(1) and A(2).

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Column B, International

Line Item 1 Life.

Derived from the sum of item 13, columns A through C of Schedule IRC-I, Section II, Part A-3.

Line Item 2 Accident and Health.

Derived from the sum of item 13, columns D and E of Schedule IRC-I, Section II, Part A-3.

Line Item 3 Annuities.

Derived from the sum of item 13, columns F through H of Schedule IRC-I, Section II, Part A-3.

Line Item 4 Closed Block.

Derived from item 13, column I of Schedule IRC-I, Section II, Part A-3.

Line Item 5 Other (items excluded from roll forward).

Derived from item 16(g) of Schedule IRC-I, Section II, Part A-3.

Line Item 6 Total reserve.

Derived from the sum of items 1 through 5, above.

Line Item 7 Less: Reinsurance recoverable.

Derived from item 14, column J of Schedule IRC-I, Section II, Part A-3.

Line Item 8 Total reserve, net.

Derived from item 6 minus item 7, above.

Column C, Total

Line Item 1 Life.

Derived from the sum of columns A(3) and B.

Line Item 2 Accident and Health.

Derived from the sum of columns A(3) and B.

Line Item 3 Annuities.

Derived from the sum of columns A(3) and B.

Line Item 4 Closed Block.

Derived from the sum of columns A(3) and B.

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Line Item 5 Other (items excluded from roll forward).

Derived from the sum of columns A(3) and B.

Line Item 6 Total reserve.

Derived from the sum of columns A(3) and B.

Line Item 7 Less: Reinsurance recoverable.

Derived from the sum of columns A(3) and B.

Line Item 8 Total reserve, net.

Derived from the sum of columns A(3) and B.

Part B. Policyholder Account Balances

General Instructions

Part B provides the consolidated balance sheet line item "Policyholder account balances" (Schedule IRC, item 24(b)). All values in Part B are derived from IRC-I, Section II, Parts B-1, B-2 and B-3.

Item Instructions

Column D(1), Individual

Line Item 1 Life.

Derived from the sum of item 10, columns A through D of Schedule IRC-I, Section II, Part B-1.

Line Item 2 Health.

Derived from the sum of item 10, columns E through H of Schedule IRC-I, Section II, Part B-1.

Line Item 3 Annuities.

Derived from the sum of item 10, columns I through M of Schedule IRC-I, Section II, Part B-1.

Line Item 4 Closed Block.

Derived from item 10, column N of Schedule IRC-I, Section II, Part B-1.

Line Item 5 Other (items excluded from roll forward).

Derived from item 13(f) of Schedule IRC-I, Section II, Part B-1.

Line Item 6 Total reserve.

Derived from the sum of items 1 through 5, above.

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Line Item 7 Less: Reinsurance recoverable.

Derived from item 11, column O of Schedule IRC-I, Section II, Part B-1.

Line Item 8 Total reserve, net.

Derived from item 6 minus item 7.

Column D(2), Group

Line Item 1 Life.

Derived from the sum of item 10, columns A through D of Schedule IRC-I, Section II, Part B-2.

Line Item 2 Accident and Health.

Derived from the sum of item 10, columns E through H of Schedule IRC-I, Section II, Part B-2.

Line Item 3 Annuities.

Derived from the sum of item 10, columns I through M of Schedule IRC-I, Section II, Part B-2.

Line Item 4 Closed Block.

Derived from item 10, column N of Schedule IRC-I, Section II, Part B-2.

Line Item 5 Other (items excluded from roll forward).

Derived from item 13(f) of Schedule IRC-I, Section II, Part B-2.

Line Item 6 Total reserve.

Derived from the sum of items 1 through 5, above.

Line Item 7 Less: Reinsurance recoverable.

Derived from item 11, column O of Schedule IRC-I, Section II, Part B-2.

Line Item 8 Total reserve, net.

Derived from item 6 minus item 7, above.

Column D(3), Total

Line Item 1 Life.

Derived from the sum of columns D(1) and D(2).

Line Item 2 Accident and Health.

Derived from the sum of columns D(1) and D(2).

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Line Item 3 Annuities.

Derived from the sum of columns D(1) and D(2).

Line Item 4 Closed Block.

Derived from the sum of columns D(1) and D(2).

Line Item 5 Other (items excluded from roll forward).

Derived from the sum of columns D(1) and D(2).

Line Item 6 Total reserve.

Derived from the sum of columns D(1) and D(2).

Line Item 7 Less: Reinsurance recoverable.

Derived from the sum of columns D(1) and D(2).

Line Item 8 Total reserve, net.

Derived from the sum of columns D(1) and D(2).

Column E, International

Line Item 1 Life.

Derived from the sum of item 10, columns A through C of Schedule IRC-I, Section II, Part B-3.

Line Item 2 Accident and Health.

Derived from the sum of item 10, columns D and E of Schedule IRC-I, Section II, Part B-3.

Line Item 3 Annuities.

Derived from the sum of item 10, columns F through H of Schedule IRC-I, Section II, Part B-3.

Line Item 4 Closed Block.

Derived from item 10, column I of Schedule IRC-I, Section II, Part B-3.

Line Item 5 Other (items excluded from roll forward).

Derived from item 13(f) of Schedule IRC-I, Section II, Part B-3.

Line Item 6 Total reserve.

Derived from the sum of items 1 through 5, above.

Line Item 7 Less: Reinsurance recoverable.

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Derived from item 11, column J of Schedule IRC-I, Section II, Part B-3.

Line Item 8 Total reserve, net.

Derived from item 6 minus item 7, above.

Column F, Total

Line Item 1 Life.

Derived from the sum of columns D(3) and E.

Line Item 2 Accident and Health.

Derived from the sum of columns D(3) and E.

Line Item 3 Annuities.

Derived from the sum of columns D(3) and E.

Line Item 4 Closed Block.

Derived from the sum of columns D(3) and E.

Line Item 5 Other (items excluded from roll forward).

Derived from the sum of columns D(3) and E.

Line Item 6 Total reserve.

Derived from the sum of columns D(3) and E.

Line Item 7 Less: Reinsurance recoverable.

Derived from the sum of columns D(3) and E.

Line Item 8 Total reserve, net.

Derived from the sum of columns D(3) and E.

Part E. Deferred Acquisition Costs (DAC) and Value of Business Acquired (VOBA)

General Instructions

Part E provides the consolidated DAC and VOBA balance. All values in Part E are derived from IRC-I, Section II, Parts E-1 and E-2.

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Item Instructions

Column G, Domestic

Line Item 1 Life.

Derived from the sum of item 12, columns A through D of Schedule IRC-I, Section II, Part E-1.

Line Item 2 Accident and Health.

Derived from the sum of item 12, columns E through H of Schedule IRC-I, Section II, Part E-1.

Line Item 3 Annuities.

Derived from the sum of item 12, columns I through M of Schedule IRC-I, Section II, Part E-1.

Line Item 4 Closed Block.

Derived from item 12, column N of Schedule IRC-I, Section II, Part E-1.

Line Item 5 Other (items excluded from roll forward).

Derived from item 15(a) of Schedule IRC-I, Section II, Part E-1.

Line Item 6 Total reserve.

Derived from the sum of items 1 through 5, above.

Line Item 7 Less: Reinsurance recoverable.

Derived from item 13, column O of Schedule IRC-I, Section II, Part E-1.

Line Item 8 Total reserve, net.

Derived from item 6 minus item 7, above.

Column H, International

Line Item 1 Life.

Derived from the sum of item 12, columns A through C of Schedule IRC-I, Section II, Part E-2.

Line Item 2 Accident and Health.

Derived from the sum of item 12, columns D and E of Schedule IRC-I, Section II, Part E-2.

Line Item 3 Annuities.

Derived from the sum of item 12, columns F through H of Schedule IRC-I, Section II, Part E-2.

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Line Item 4 Closed Block.

Derived from item 12, column I of Schedule IRC-I, Section II, Part E-2.

Line Item 5 Other (items excluded from roll forward).

Derived from item 15(a) of Schedule IRC-I, Section II, Part E-2.

Line Item 6 Total reserve.

Derived from the sum of items 1 through 5, above.

Line Item 7 Less: Reinsurance recoverable.

Derived from item 13, column J of Schedule IRC-I, Section II, Part E-2.

Line Item 8 Total reserve, net.

Derived from item 6 minus item 7, above.

Column I, Total

Line Item 1 Life.

Derived from the sum of columns G and H.

Line Item 2 Accident and Health.

Derived from the sum of columns G and H.

Line Item 3 Annuities.

Derived from the sum of columns G and H.

Line Item 4 Closed Block.

Derived from the sum of columns G and H.

Line Item 5 Other (items excluded from roll forward).

Derived from the sum of columns G and H.

Line Item 6 Total reserve.

Derived from the sum of columns G and H.

Line Item 7 Less: Reinsurance recoverable.

Derived from the sum of columns G and H.

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Line Item 8 Total reserve, net.

Derived from the sum of columns G and H.

Lines of Business

Domestic (Column Instructions for Parts A-1, A-2, B-1, B-2 and E-1)

Columns A through N define domestic only lines of business. Life (Column A – D), Accident and Health (Column E – H), Annuities (Column I – M), and Closed Block (Column N). Column O captures the total of these amounts.

If a policy has a base contract and a rider and the reserves are calculated separately for each component, then report each component in the corresponding line of business (e.g., report the reserve for the term life base contract in column A and the reserve for the long term care rider in column G). If a policy has a base contract and a rider and the reserves are calculated together, then report total reserves in the line of business associated with the base contract (e.g. report reserves for the base contract and rider together in column A only).

Life

Column A, Term Life: An insurance policy that provides a benefit only if the insured dies within the period of time specified in the contract. Term life insurance generally has no loan or cash value.

Column B, Variable/Universal Life: Life insurance under which (a) premiums are generally flexible, (b) the level of death benefits may be adjusted, and/or (c) mortality, expense, and other charges may vary. The benefits payable upon death or surrender typically vary to reflect the crediting rate / investment experience of the separate account or the general account supporting such policies. Such policies typically contain a cash surrender value. Examples of products may include variable life, universal life, variable universal life and interest sensitive endowment.

Column C, Whole Life: An insurance policy that provides both a death and cash value benefit through the accumulation of net premiums and dividends received. The insurance contract pays a benefit (contractual amount adjusted for items such as policy loans and dividends, if any) at the death of the insured. Whole life has no termination date. Examples of products may include whole life and fixed endowment.

Column D, Other Life: Any life insurance policy that is not reported in column A, B or C.

Accident and Health

Column E, Short-Term Accident and Health: An insurance policy that protects against loss by illness or injury, including but not limited to medical, dental, disability with protection for a fixed period of short-duration. Amounts should reflect only those policies or contracts written out of life and health insurance entities. Short-term accident and health policies or contracts written out of property and casualty insurance entities should be reported in Schedule IRC-I, Section I. Property and Casualty Underwriting. See the Glossary entries for “property and casualty” and “life and health” to distinguish property and casualty underwriting activities from life and health underwriting activities.

Column F, Long-Term Disability: An insurance policy that makes periodic payments in the event of incapacity due to accident or illness for a fixed period of long-duration. Exclude short-duration contracts, which should be

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reported in column E.

Column G, Long-Term Care: An insurance policy that provides coverage for services and benefits including nursing home, home health care, community-based care or a combination of the above for a fixed period of long-duration. Exclude short-duration contracts, which should be reported in column E.

Column H, Other Long-Term Accident and Health: Any accident and health insurance policy that is not reported in column F or G. Examples of products may include certain cancer products, hospital indemnity, personal accident, accidental death and dismemberment, scheduled medical reimbursement plans, and other. Exclude short-duration contracts, which should be reported in column E.

Annuities

Column I, Fixed Deferred Annuities: An annuity which begins on a future date tied to age attainment or expiration of a fixed number of periods, at which time insurer provides *fixed periodic payments* from a stated or contingent date and continuing for a specified period, such as number of years of life.

Column J, Variable Deferred Annuities: An annuity in which the amounts of payments by the insurer are to be made at a later date, at which time the amount will be determined based on the account value (or benefits base) in the annuity fund.

Column K, Life Contingent Payout Annuities: An annuity in which payments are made if the contract holder is alive when the payments are due. Example of products may include fixed immediate annuities, pension close-outs, structured settlements with life contingencies, annuitized contracts (annuity or life insurance products) and any product with longevity exposure (e.g. longevity insurance).

Column L, Deposit-Type Contracts: Contracts issued by life insurers that do not incorporate mortality or morbidity risks. Benefit payments under these contracts are not contingent upon death or disability as they are in life and disability insurance contracts, or upon continued survival as they are in annuity contracts. Examples products may include Guaranteed Investment Contracts (GICs), supplementary contracts without life contingencies, annuities certain, premium and other deposit funds, dividend and coupon accumulations, lottery payouts, structured settlements and international retirement and savings products with rate guarantees.

Column M, Other Annuities: Any annuity contract not reported in column I, J, K, or L. Examples of products may include fixed indexed annuities.

Closed Block

Column N, Regulatory Closed Block: Segregated group of participating or dividend-paying policies and contracts identified as a regulatory closed block. Closed blocks are often tied to insurance policies and annuities issued prior to the demutualization of an insurer. These insurance policies and annuities are legally segregated from all the general and separate account assets and obligations of an insurer.

Total

Column O, Total: Report the sum of columns A through N.

International (Column Instructions for Parts A-3, B-3 and E-2)

Columns A through J define international only lines of business. Life (Column A – C), Accident and Health (Column D – E), Annuities (Column F – H), and Closed Block (Column I). Column J captures the total of these amounts.

If a policy has a base contract and a rider and the reserves are calculated separately for each component, then report each component in the corresponding line of business (e.g., report the reserve for the term life base contract in column A and the reserve for the long term care rider in column G). If a policy has a base contract and a rider and the reserves are calculated together, then report total reserves in the line of business associated with the base contract (e.g. report reserves for the base contract and rider together in column A only).

Amounts reported for each line of business should reflect policies and contracts issued to both individuals and groups.

Life

Column A, Short Duration Insurance: A life insurance policy which either the insurer or the policyholder has the right to cancel the contract unilaterally or within a period of short notice and is accounted for as a short duration contract in accordance with ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises (FAS 60)*).

Column B, Long Duration Insurance – Fixed Terms: A life insurance policy which is expected to be long-lived and with fixed and guaranteed terms accounted for under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises (FAS 60)*) or similarly accounted or long-duration, fixed term policies (e.g. limited payment contracts).

Column C, Long Duration Insurance – Variable Terms: A life insurance policy which is expected to be long-lived, and with variable terms accounted for under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments (FAS 97)*) or similarly accounted for long-duration, variable term policies or contracts. Examples of products may include variable life, universal life and variable universal life contracts.

Accident and Health

Column D, Short Duration Insurance: An accident and health contract which either the insurer or the policyholder has the right to cancel the contract unilaterally or within a period of short notice and accounted for under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises (FAS 60)*). Examples of products may include group disability.

Column E, Long Duration Insurance: An accident and health contract which is expected to be long-lived and accounted for under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises (FAS 60)*) Examples of products may include long-term care.

Annuities

Column F, Long Duration Insurance – Fixed: Annuity contracts which are expected to be long-lived, with fixed and guaranteed terms, and that subject the reporter to risks arising from policyholder mortality or morbidity and

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are accounted for under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* (FAS 60)) or similarly accounted or long-duration, fixed term policies. Examples of products may include structured settlements with life contingencies.

Column G, Long Duration Insurance – Variable: Annuity contracts which are expected to be long-lived, with variable terms that subject the reporter to risks arising from policyholder mortality or morbidity and are accounted for as insurance contracts under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* (FAS 97)).

Column H, Long Duration Investment Contracts: Investment Contracts which are expected to be long-lived that do not subject the reporter to risks arising from policyholder mortality or morbidity that are accounted for as investment contracts under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* (FAS 97)) or ASC Topic 310-30 (formerly FASB Statement No. 91, *Accounting for nonrefundable fees and costs associated with originating or acquiring loans and initial direct costs of leases* (FAS 91)). Examples of products may include fixed deferred annuity contracts, guaranteed investment contracts and stable value wraps.

Closed Block

Column I, Regulatory Closed Block: Segregated group of participating or dividend-paying policies and contracts identified as a regulatory closed block. Closed blocks are often tied to insurance policies and annuities issued prior to the demutualization of an insurer. The insurance policies and annuities are legally segregated from all the general and separate account assets and obligations of an insurer.

Total

Column J, Total: Report the sum of columns A through I.

Part A. Future Policy Benefits Roll Forward by Line of Business

General Instructions

Future policy benefits is reported on the consolidated balance sheet as item 24(a) (Schedule IRC, item 24(a)). The liability for future policy benefits represents the present value of future policy benefits to be paid to or on behalf of policyholders and related expenses less the present value of future net premiums. This line item primarily represents policy liabilities accounted for under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* (FAS 60)) or similarly accounted or long-duration, fixed term policies (e.g. limited payment contracts).

Part A contains three sub-sections, each with a roll forward for future policy benefits by line of business as follows:

- A-1 Domestic Individual
- A-2 Domestic Group
- A-3 International

Refer to each sub-section for detailed instructions.

Part A-1 Future Policy Benefits Roll Forward by Line of Business (Domestic / Individual)

Part A-1 provides a calendar year-to-date roll forward individual future policy benefits for policies and contracts written domestically. The roll forward captures changes from the end of previous calendar year (item 1) to the end of current reporting period (item 15) for general account reserves only. Roll forward amounts should be reported gross of reinsurance ceded balances. Report decreases with a minus (-) sign.

Certain components of future policy benefits are excluded from the roll forward, such as guarantee reserves accounted for as insurance contracts and embedded derivative liabilities as they are difficult to report in the roll forward. Such amounts should be reported separately in item 16.

Column Instructions

See Section II. General Instructions– Line of Business – Domestic for column instructions.

Item Instructions

Report the following line items for columns A through N, as applicable. Report **domestic individual** future policy benefits in Part A-1, report **domestic group** future policy benefits in Part A-2 and report **international** individual and group future policy benefits in Part A-3.

Line Item 1 Future policy benefits, end of previous calendar year.

Report the balance of policyholder liabilities from the consolidated financial statements (FR 2085) most recently reported at the previous calendar year-end.

Line Item 2 LESS: Shadow account adjustments, end of previous calendar year.

Report the cumulative adjustment to future policy benefits which would result from the realization of unrealized gains and losses on fixed maturities classified as “available for sale” included in AOCI for the end of previous calendar year.

Line Item 3 Future policy benefits (before Shadow accounting adjustments), end of previous calendar year.

Report item 1 minus item 2.

Line Item 4 Net premiums.

For policy liabilities accounted for under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* (FAS 60)) or similarly accounted for long-duration, fixed term policies, report net premiums related to new and existing policies for the calendar year-to-date by line of business.

Net premiums represent the portion of gross premiums needed to fund future policy benefits and maintenance expenses which is calculated by dividing the present value of policyholder benefits and maintenance expenses by the present value of premiums using a discount rate reflecting the expected net investment yield.

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Line Item 5 Acquisitions and dispositions.

Report increases in new policies or contracts resulting from business combinations or new reinsurance blocks assumed during the calendar year-to-date. Report decreases in policies or contracts resulting from dispositions during the calendar year-to-date.

Line Item 6 Interest accrued.

Report interest accrued on future policy benefits for new and existing policies or contracts.

Line Item 7 Reserves released and expenses.

Report changes in future policy benefits due to experience and amortization of maintenance expense for existing policies or contracts. Amounts reported in this line item should reflect reserve releases resulting from actual experience emerging both as expected or differently than what was expected according to original product pricing design and actuarial assumptions (or to the last time best estimate assumptions were updated) for new or existing policies or contracts. Amounts reported in this line item would include variances (or “true ups” to expected changes in reserves based on actual experience only, or on a retrospective basis.

Line Item 8 Changes in actuarial assumptions and methodologies.

Report changes in policyholder liabilities attributable to changes in future actuarial assumptions and methodologies for new and existing policies or contracts. Amounts reported in this line item are limited to changes in assumptions and/or methodologies (or “unlocking”) which will impact policyholder liabilities amounts on a prospective basis. Amounts reported in this line item would reflect any loss recognition adjustments.

Line Item 9 Foreign currency translation.

Report any changes attributable to adjustments for foreign currency translation.

Line Item 10 Other.

Report all other increases or decreases in future policy benefits that are not reported in items 2 through 9 above.

Line Item 11 Future policy benefits (before Shadow accounting adjustments), end of period.

Report the sum of items 3 through 10 above.

Line Item 12 ADD: Shadow accounting adjustments.

Report the cumulative adjustment to future policy benefits which would result from the realization of unrealized gains and losses on fixed maturities classified as “available for sale” included in AOCI for the current period end.

Line Item 13 Future policy benefits, end of period.

Report the sum of items of 11 and 12.

Line Item 14 LESS: Reinsurance recoverable.

Report the reinsurance recoverable balance from unaffiliated life and health reinsurers as of the balance sheet

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date. See the Glossary entry “reinsurance recoverable” for further information.

Line Item 15 Net future policy benefits, end of period.

Report item 13 minus item 14.

Line Item 16 Liabilities excluded from future policy benefits roll forward above, end of year.

Certain items are difficult to report in the roll forward template above. As applicable, report amounts as of the balance sheet date for the following items excluded from the future policy benefits roll forward above:

Line Item 16(a) Deferred profit liabilities on limited pay contracts

Report any balances representing liabilities for deferred profit on limited payment contracts included in Schedule IRC, item 24(a) “Future policy benefits”, but excluded from the roll forward above.

Line Item 16(b) Unearned premium reserve

Report the unearned premium reserve balances included in Schedule IRC, item 24(a) “Future policy benefits”, but excluded from the roll forward above.

Line Item 16(c) In Course of Settlement (ICOS) / Incurred But Not Reported (IBNR)

Report any ICOS/IBNR balances included in Schedule IRC, item 24(a) “Future policy benefits”, but excluded from the roll forward above.

Line Item 16(d) Guarantee reserves

Report any reserve balances accounted for under ASC Topic 944 Financial Services – Insurance (formerly Statement of Position SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long Duration Contracts and for Separate Accounts*) included in Schedule IRC, item 24(a) “Future policy benefits”, but excluded from the roll forward above.

Line Item 16(e) Embedded derivative liabilities

Report changes in future policy benefits attributable to changes in the fair value of liabilities accounted for as derivatives for new and existing policies or contracts. Examples may include among others, variable deferred annuities with certain guarantees accounted for as embedded derivatives in accordance with ASC Topic 815 Derivatives and Hedging (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*).

Line Item 16(f) Other

Report any other items included Schedule IRC, item 24(a) “Future policy benefits”, but excluded from the roll forward above that are not already reported in items 16(a) through 16(e) above.

Line Item 16(g) Total

Report the sum of items 16(a) through 16(f).

Part A-2. Future Policy Benefits Roll Forward by Line of Business (Domestic / Group)

General Instructions

Part A-2 provides a calendar year-to-date roll forward of group future policy benefits for policies and contracts written domestically. The roll forward captures changes from the end of previous calendar year (item 1) to the end of current reporting period (item 15) for general account reserves only. Roll forward amounts should be reported gross of reinsurance ceded balances. Report decreases with a minus (-) sign.

Certain components of future policy benefits are excluded from the roll forward, such as guarantee reserves accounted for as insurance contracts and embedded derivative liabilities as they are difficult to report in the roll forward. Such amounts should be reported separately in item 16.

Column Instructions

See Section II. General Instructions – Line of Business – Domestic for column instructions.

Item Instructions

See Section II. Part A-1 - Item Instructions for item instructions.

Part A-3. Future Policy Benefits Roll Forward by Line of Business (International)

General Instructions

Part A-3 provides a calendar year-to-date roll forward of combined individual and group future policy benefits for policies and contracts written internationally. The roll forward captures changes from the end of previous calendar year (item 1) to the end of current reporting period (item 15) for general account reserves only. Roll forward amounts should be reported gross of reinsurance ceded balances. Report decreases with a minus (-) sign.

Certain components of future policy benefits are excluded from the roll forward, such as guarantee reserves accounted for as insurance contracts and embedded derivative liabilities as they are difficult to report in the roll forward. Such amounts should be reported separately in item 16.

Column Instructions

See Section II. General Instructions – Line of Business – International for column instructions.

Item Instructions

See Section II. Part A-1 - Item Instructions for item instructions.

Part B. Policyholder Account Balances Roll Forward by Line of Business

Policyholder account balances is reported on the consolidated balance sheet as item 24(b) (Schedule IRC, item 24(b)). Policyholder account balances represents the receipts from the issuance of contracts that do not incorporate significant insurance risk as the concept is contemplated in FAS 60. This line item primarily includes policy liabilities account for under ASC Topic 944 Financial Services – Insurance (formerly FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments (FAS 97)*) or similarly accounted for long-duration, variable term policies or contracts.

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Part B contains three sub-sections, each with a roll forward for policyholder account balances by line of business as follows:

- B-1 Domestic Individual
- B-2 Domestic Group
- B-3 International

Refer to each sub-section for detailed instructions.

Part B-1. Policyholder Account Balances Roll Forward by Line of Business (Domestic / Individual)

General Instructions

Part B-1 provides a calendar year-to-date roll forward of individual policyholder account balances for policies and contracts written domestically. The roll forward captures changes from the end of previous calendar year (item 1) to the end of current reporting period (item 10) for general account reserves only. Roll forward amounts should be reported gross of reinsurance ceded balances. Report decreases with a minus (-) sign.

Certain components of policyholder account balances are excluded from the roll forward, such as embedded derivative liabilities as they are difficult to report in the roll forward. Such amounts should be reported separately in item 13.

Column Instructions

See Section II. General Instructions – Line of Business – Domestic for column instructions.

Item Instructions

Report the following line items for columns A through N, as applicable. Report **domestic individual** policyholder account balances in Part B-1, report **domestic group** policyholder account balances in Part B-2 and report **international individual and group** policyholder account balances in Part B-3.

Line Item 1 Policyholder account balances, end of previous calendar year.

Report the balance of policyholder account balances from the consolidated financial statements (FR 2085) most recently reported at the previous calendar year-end.

Line Item 2 Deposits.

For policy liabilities accounted for under FAS 97 or similarly accounted for long duration, variable term policies or contracts, report deposits for new and existing policies or contracts for the calendar year-to-date by line of business. Deposits represent premiums or other payments received for policies or contracts that require deposit accounting under FAS 97.

Line Item 3 Interest credited.

Report interest credits on policyholder account balances for new and existing policies and contracts.

Line Item 4 Acquisitions and dispositions.

Report increases in new policies or contracts resulting from business combinations or new reinsurance blocks

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assumed during the calendar year-to-date. Report decreases in policies or contracts resulting from dispositions during the calendar year-to-date.

Line Item 5 Deductions.

Report decreases in policyholder account balances resulting from any fees, charges (i.e. surrender charges) and expenses loads for new and existing policies or contracts.

Line Item 6 Account value released for benefits.

Report decreases in policyholder account balances due to terminations (i.e. death, withdrawal, etc.) for new and existing policies or contracts.

Line Item 7 Transfers from / to Separate Accounts.

Report changes in policyholder account balances resulting from transfers from and/or to Separate Accounts.

Line Item 8 Foreign currency translation.

Report any changes attributable to adjustments for foreign currency translation.

Line Item 9 Other.

Report all other increases or decreases in future policy benefits that are not reported in items 2 through 8 above.

Line Item 10 Policyholder account balances, end of period.

Report the sum of items 1 through 9 above.

Line Item 11 LESS: Reinsurance recoverable.

Report the reinsurance recoverable balance from unaffiliated life and health reinsurers as of the balance sheet date. See the Glossary entry "reinsurance recoverable" for further information.

Line Item 12 Net, Policyholder account balances, end of period.

Report item 10 minus item 11.

Line Item 13 Items excluded from policyholder account balances roll forward above, end of year.

Certain items are difficult to report in the roll forward template above. As applicable, report amounts as of the balance sheet date for the following items excluded from the policyholder account balances roll forward above:

Line Item 13(a) Unearned revenue.

Report any balances representing liabilities for deferred profit/unearned revenue included in Schedule IRC, item 24(b), "Policyholder account balances", but excluded from the roll forward above.

Line Item 13(b) Persistency bonus.

Report any balances representing liabilities for persistency bonus included in Schedule IRC, item 24(b),

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“Policyholder account balances”, but excluded from the roll forward above.

Line Item 13(c) Short durations accrued experience of refund.

Report any balances representing liabilities for experience rating refunds included in Schedule IRC, item 24(b), “Policyholder account balances”, but excluded from the roll forward above.

Line Item 13(d) Embedded derivatives.

Report changes in policyholder account balances attributable to changes in the fair value of liabilities accounted for as derivatives for new and existing policies or contracts. Examples may include among others, variable deferred annuities with certain guarantees accounted for as embedded derivatives in accordance with ASC Topic 815 Derivatives and Hedging (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*).

Line Item 13(e) Other.

Report any other items included in Schedule IRC, item 24(b), “Policyholder account balances”, but excluded from the roll forward above and that are not already reported in items 13(a) through 13(d) above.

Line Item 13(f) Total

Report sum of items 13(a) through 13(e).

Part B-2. Policyholder Account Balances Roll Forward by Line of Business (Domestic / Group)

General Instructions

Part B-2 provides a calendar year-to-date roll forward of **group** policyholder account balances for policies and contracts written domestically. The roll forward captures changes from the end of previous calendar year (item 1) to the end of current reporting period (item 10) for general account reserves only. Roll forward amounts should be reported gross of reinsurance ceded balances. Report decreases with a minus (-) sign.

Certain components of policyholder account balances are excluded from the roll forward, such as embedded derivative liabilities as they are difficult to report in the roll forward. Such amounts should be reported separately in item 13.

Column Instructions

See Section II. General Instructions – Line of Business – Domestic for column instructions.

Item Instructions

See Section II. Part B-1 – Item Instructions for item instructions.

Part B-3. Policyholder Account Balances Roll Forward by Line of Business (International)

General Instructions

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Part B-3 provides a calendar year-to-date roll forward of combined individual and group policyholder account balances for policies or contracts written internationally. The roll forward captures changes from the end of previous calendar year (item 1) to the end of current reporting period (item 10) for general account reserves only. Roll forward amounts should be reported gross of reinsurance ceded balances. Report decreases with a minus (-) sign.

Certain components of policyholder account balances are excluded from the roll forward, such as embedded derivative liabilities. Such amounts should be reported separately in item 13.

Column Instructions

See Section II. General Instructions – Line of Business – International for column instructions.

Item Instructions

See Section II. Part B-1 – Item Instructions for item instructions.

Part C. Variable Annuities

General Instructions

Part C captures a breakdown of variable annuity contract and guarantee reserve liability balances by guarantee type as well as a net amount at risk and fair value and notional amounts related to guarantee reserves accounted for as embedded derivatives. Amounts reported are as of the balance sheet date. For purposes of this reporting schedule, variable annuities are defined as annuity contracts in which the policyholder directs the allocation of their account value to various investment options and payment amounts vary according to the investment experience. Variable annuities often include specified guarantees (or “riders”) providing for example a minimum death benefit, minimum withdrawal payments or a minimum crediting rate.

Column Instructions

Column A, Account Value: Report reserve amounts in accordance with ASC Topic 944, Financial Services – Insurance (formerly FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*). Report general account values in column A(1) and separate account values in column A(2). Column A(3) is equal to the sum of column A(1) and column A(2).

Column B, Net Amount At Risk (NAR): The NAR amount is calculated as the excess of the present value of future guaranteed benefit amount over the contractholder current account balance. Report NAR amount for Death Benefit in Column B(1) and for Living Benefits in Column B(2). For Columns B(1) and B(2), report gross values in Column B(1)(a) and B(2)(a) and values net of reinsurance in Column B(1)(b) and B(2)(b).

Column C, Guarantee Reserves - Accounted for as Insurance: Report guarantee reserve amounts accounted for under ASC Topic 944, (formerly Statement of Position (SOP) 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*) for minimum death benefit (GMDB) in column C(1) and for living benefits (e.g. GMIB) in column C(2). Report gross values in columns C(1)(a) and C(2)(a) and values net of any reinsurance in columns C(1)(b) and C(2)(b).

Column D, Guarantee Reserves – Accounted for as Derivatives: Report the fair value in Column D(1) and notional amounts in Column D(2) related to guarantee reserve amounts accounted for under ASC Topic 815 Derivatives and Hedging (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* and FASB Statement No. 157, *Fair Value Measurements*). Report gross values in columns D(1)(a) and D(2)(a) and values net of reinsurance in columns D(1)(b) and D(2)(b).

Item Instructions

Variable annuity products often include some form of guarantee (e.g. death benefit and/or living benefit). Report, in the appropriate column, balances related to the following guarantee types as of the balance sheet date.

Line Item 1 No guarantee.

Report amounts for variable annuity contracts with no associated guarantee. A variable annuity with no guarantee has neither a death nor living benefit rider included with the base contract. For variable annuities with no guarantee, columns B, C and D would equal zero.

Line Item 2 Guaranteed Minimum Death Benefit (GMDB) only.

Report amounts for variable annuity contracts that only include a guaranteed amount of benefit that will be paid in the event of death of an individual policyholder or contract holder. Do not report in this line item contracts with any living benefit guarantees.

Line Item 3 GMDB and Guaranteed Minimum Accumulation Benefit (GMAB).

Report amounts for variable annuity contracts that include a minimum accumulation benefit or a guaranteed account value floor that is available to a variable annuity contract holder possessing this rider in cash. Contracts included in this line item may also include a minimum death benefit.

Line Item 4 GMDB and Guaranteed Minimum Income Benefit (GMIB).

Report amounts for variable annuity contracts that include guarantees that, regardless of performance of base contract (i.e. separate account investment performance), the contract holder will be able to annuitize after a specified date and receive a defined minimum periodic benefit. These benefits are available only if the contract holder elects to annuitize. Contracts included in this line item may also include a minimum death benefit.

Line Item 5 GMDB and Guaranteed Minimum Withdrawal Benefit (GMWB).

Report amounts for variable annuity contracts that include a guarantee minimum or living withdrawal benefit stipulating that a minimum amount (usually stated as a percentage of premiums) will be available for withdrawal over a specified period or over the life of the contract holder regardless of the account value. Contracts included in this line item may also include a minimum death benefit.

Line Item 6 GMDB and Other Living Benefits.

Report amounts for variable annuity contracts that include all other guarantee living benefits which are excluded from items 3 through 5 above. Contracts included in this line item may also include a minimum death benefit.

Line Item 7 Total variable annuities with guaranteed living benefits.

Report sum of items 3 through 6.

Line Item 8 Total variable annuities.

Report sum of items 1, 2 and 7.

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Line Item 9 Total guarantee reserve

Report the total guarantee reserve accounted for as insurance under ASC Topic 944, (formerly Statement of Position (SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Account*) for death benefits only. Report gross values in column C(1)(a) and values net of reinsurance in column C(1)(b).

Part D. Closed Block

General Instructions

Part D requires the reporting of assets, liabilities and maximum future earnings amounts designated to a regulatory Closed Block as of the balance sheet date. The balance sheet line items in this schedule are condensed, but correspond to the consolidated balance sheet in Schedule IRC. See Schedule IRC line item instructions for further information.

Assets:

Line Item 1 Investments.

Report investment assets.

Line Item 2 Other assets.

Report all other assets not reported in item 1 above.

Line Item 3 Total assets.

Report the sum of items 1 and 2.

Liabilities:

Line Item 4 Future policy benefits.

Report future policy benefits.

Line Item 5 Policyholder account balances.

Report policyholder account balances.

Line Item 6 Policyholders' dividends.

Report policyholders' dividends. This item includes the policyholders' dividend payable and policyholders' dividend obligation, which are amounts to be paid to Closed Block policyholders as an additional dividend due to favorable experience (i.e. cumulative closed block earnings exceeded expected earnings).

Line Item 7 Other liabilities.

Report all other liabilities not reported in items 4 through 6 above.

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Line Item 8 Total liabilities.

Report the sum of items 4 through 7.

Maximum Future Earnings from Closed Block:

Line Item 9 Excess closed block liabilities over assets.

Report item 8 minus item 3.

Line Item 10 Accumulated other comprehensive income (AOCI) related to unrealized investment gains (losses), net of tax.

Report the amount of net unrealized gains (losses) on investment gains included in accumulated other comprehensive income, net of applicable income taxes. If the amount is a net gain, report it as a positive value. If the amount is a net loss, report it as a negative value.

Line Item 11 AOCI allocated to policyholders' dividends, net of tax.

Report the amount of net unrealized gains (losses) allocated from accumulated other comprehensive income to policyholders' dividends, net of applicable income taxes. If the amount is a net gain, report it as a positive value. If the amount is a net loss, report it as a negative value.

Line Item 12 Total maximum future earnings from Closed Block.

Report the sum of items 9 through 11.

Part E. Deferred Policy Acquisition Costs and Value of Business Acquired Roll Forward by Line of Business

Deferred policy acquisition costs and value of business acquired are reported in the consolidated balance sheet, item 15 (Schedule IRC, item 15). Part E provides a calendar year-to-date roll forward of deferred policy acquisition costs and value of business acquired related to life and health underwriting activities by line of business. The roll forward captures changes from the end of previous calendar year (item 1) to the end of the current reporting period (item 12).

Certain components of the DAC and VOBA balance are excluded from the roll forward and separately reported in item 15.

Part E-1. Deferred Policy Acquisition Costs and Value of Business Acquired Roll Forward by Line of Business (Domestic)

Column Instructions

See Section II. General Instructions – Line of Business – Domestic for column instructions.

Item Instructions

Report the following line items for Column A through N, as applicable. Separately report the components of DAC and VOBA related to policies or contracts written domestically and internationally in Schedule E-1 and Schedule E-2, respectively.

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Line Item 1 DAC and VOBA, end of previous calendar-year.

Report the balance of deferred policy acquisition costs and value of business acquired from the consolidated financial statements (FR 2085) most recently reported at the previous calendar year-end.

Line Item 2 LESS: Shadow accounting adjustments, end of previous calendar-year.

Report the cumulative adjustment to deferred acquisition costs and value of business acquired which would result from the realization of unrealized gains and losses on fixed maturities classified as “available for sale” included in AOCI for the end of previous calendar year.

Line Item 3 DAC and VOBA (before Shadow accounting adjustments), end of previous calendar-year.

Report item 1 minus item 2.

Line Item 4 Capitalization of acquisition expenses.

Report increases attributable to insurance acquisition costs that can be capitalized in accordance with ASC Subtopic 944-30, “Acquisition Costs” during the reporting period by product type. *Exclude*, among others, changes due to (1) amortization, (2) unrealized investment gains (losses) and (3) foreign currency translation adjustments.

Line Item 5 Acquisitions and dispositions.

Report increases resulting from acquisitions and the application of acquisition accounting and/or any dispositions made during the calendar year-to-date.

Line Item 6 Interest accrued.

Report interest accrued on the deferred acquisition costs and values of business acquired amounts for the calendar year-to-date.

Line Item 7 Amortization – impact of assumptions and experience unlocking and true-ups.

Report changes resulting from the impact of assumptions and experience unlocking (i.e. prospective basis) and true-ups (i.e. retrospective basis).

Line Item 8 Amortization – all other.

Report all other amortization expense not included in item 7 above.

Line Item 9 Write-off due to loss recognition testing.

Report amounts written off due to results of loss recognition testing. Loss recognition is the common terminology used to describe a situation in which a premium deficiency exists. In accordance with ASC Subtopic 944-60, if a premium deficiency exists for short-duration or long-duration contracts, deferred policy acquisition costs are written off after any margins for adverse deviations (or “PADs”) to the extent that there remains a deficiency.

Line Item 10 Foreign currency translation.

Report any changes attributable to adjustments for foreign currency translation.

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Line Item 11 Other.

Report all other changes that are not reported in items 4 through 9 above (e.g. impact of an internal replacement that results in a replacement contract that is substantially changed from the replaced contract).

Line Item 12 DAC and VOBA acquired (before Shadow accounting adjustments), end of period.

Report sum of items 3 through 11.

Line Item 13 ADD: Shadow accounting adjustments.

Report the cumulative adjustment to deferred acquisition costs and value of business acquired which would result from the realization of unrealized gains and losses on fixed maturities classified as “available for sale” included in AOCI for the current period end.

Line Item 14 DAC and VOBA, end of period.

Report sum of items 12 and 13.

Line Item 15 Items excluded from the DAC and VOBA roll forward

Report any other items included in Schedule IRC, item 14 “Deferred policy acquisition costs and value of business acquired”, but excluded from the roll forward above.

Part E-2 Deferred Policy Acquisition Costs and Value of Business Acquired Roll Forward by Line of Business (International)

Column Instructions

See Section II. General Instructions – Line of Business – International for column instructions.

Item Instructions

See Section II. Part E-1 – Item Instructions for item instructions.

Section III. Reinsurance Assets

General Instructions

Section III requests information on assets related to reinsurance contracts on both a consolidated and individual reinsurer counterparty basis. Report individual reinsurer counterparties whose credit risk exposure to the Reporter is greater than five percent of the consolidated reinsurance recoverable balance as of the balance sheet date. See the Glossary entry “reinsurance recoverable” for further information.

Column Instructions

Column A, Reinsurance Assets, Reported: Report the reinsurance assets balance as of the balance sheet date.

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See instructions for Schedule IRC, item 13 “Reinsurance assets, net of allowance” for further information. Column A, item 1, must equal Schedule IRC, item 13 “Reinsurance assets, net of allowance”.

Column B, Collateral Held: Report the amount of collateral held as security under the reinsurance contract as of the balance sheet date. Collateral held represents the funds required to be held, which could take the form of funds withheld, trusts, letters of credit or other.

Column C, Reinsurance Deposit Assets: Report the amount of reinsurance deposit assets as of the balance sheet date. Reinsurance deposit assets primarily reflect amounts paid by the Reporter to the reinsurance company that are treated as a deposit because the underlying contract does not qualify as reinsurance. Deposit accounting is required to be applied to those contracts that do not qualify as reinsurance. Column C, item 1 is reported in Schedule IRC, item 19, “Other assets”.

Column D, Charge-offs: Report the amount of charge-offs during the current reporting period. Charge-offs represent the amount of direct write-downs of receivables charged against the allowance for doubtful accounts. Such amounts are deemed uncollectible.

Item Instructions

Line Item 1 Total reinsurers.

Report, in the appropriate column, consolidated reinsurance recoverable amounts as of the balance sheet date and for the calendar year-to-date (where applicable). See the Glossary entry “reinsurance recoverable” for further information.

Line Item 2 Individual reinsurer exposer representing in excess of five percent of total reinsurance recoverable assets.

Report in line items 2(a) through 2(c), in the appropriate column, amounts related to individual reinsurers. Report the full amount only for those individual reinsurers that have a reinsurance recoverable balance that exceeds five percent of the total consolidated reinsurance recoverable balance as of the balance sheet date. See Glossary entry “reinsurance recoverable” for further information. Use the drop-down listing to identify the individual reinsurer counterparty on a consolidated exposure basis. If an individual reinsurer counterparty exposure exceeds five percent of the total reinsurance recoverable balance as of the balance sheet date and is not listed on the drop-down listing then write-in the specific legal name of the reinsurer counterparty.

Drop-down listing:

Scor SE
Swiss Re
Munich Re
Reinsurance Group of America
Canada Life
Hannover Re
ING Goep Nv
Assured Guaranty Ltd
XL Group PLC
Nomura Holdings Inc
Lowe's Corp / CAN
ICI Mutual Group
Syndicates of Lloyds
American International Group
ACE Ltd

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NKSJ Holdings Inc / Sompo Japan
Chubb Corp
Lincoln National Corp
Zurich Insurance Group
Alleghany / Transatlantic Re
BMO Life Assurance Co.
Berkshire Hathaway Inc.
HDI / Hannover Re
Everest Re
Fairfax / Odyssey Re
Partner Re
Renaissance Re
Aspen
Equitas (Lloyd's Pre-1992 runoff)
Japan Earthquake Re
Tokio Marine
White Mountains / Sirius
Arch
Market Corp (Alterra)
Validus
Hartford

LINE ITEM INSTRUCTIONS FOR

Derivatives and Off-Balance-Sheet Items Schedule IRC-L

General Instructions

Report on a fully consolidated basis the following selected commitments, contingencies, and other off-balance sheet items. Exclude from this schedule contingencies arising in connection with litigation. For those asset-backed commercial paper program conduits that the Reporter consolidates onto its balance sheet (Schedule IRC) in accordance with ASC Subtopic 810-10, Consolidation – Overall (formerly FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities*, as amended by FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*), any credit enhancements and liquidity facilities the Reporter provides to the programs should not be reported in Schedule IRC-L. In contrast, for conduits that the Reporter does not consolidate, the Reporter should report the credit enhancements and liquidity facilities it provides to the programs in the appropriate items of Schedule IRC-L.

Column Instructions

Column A, Interest Rate Contracts: Interest rate contracts are contracts related to an interest-bearing financial instrument or whose cash flows are determined by referencing interest rates or another interest rate contract (e.g., an option on a futures contract to purchase a Treasury bill). These contracts are generally used to adjust the Reporter's interest rate exposure or, if the Reporter is an intermediary, the interest rate exposure of others. Interest rate contracts include single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate options, including caps, floors, collars, and corridors.

Exclude contracts involving the exchange of one or more foreign currencies (e.g., cross-currency swaps and currency options) and other contracts whose predominant risk characteristic is foreign exchange risk, which are to be reported in column B as foreign exchange contracts.

Unsettled securities transactions that exceed regular way settlement time limit that is customary in each relevant market must be reported as forward contracts in item 1(b).

Column B, Foreign Exchange Contracts: Foreign exchange contracts are contracts to purchase foreign (non-U.S.) currencies and U.S. dollar exchange in the forward market, i.e., on an organized exchange or in an over-the-counter market. A purchase of U.S. dollar exchange is equivalent to a sale of foreign currency. Foreign exchange contracts include cross-currency interest rate swaps where there is an exchange of principal, forward foreign exchange contracts (usually settling three or more business days from trade date), and currency futures and currency options. Exclude spot foreign exchange contracts which are to be reported in item 8.

Only one side of a foreign currency transaction is to be reported. In those transactions where foreign (non-U.S.) currencies are bought or sold against U.S. dollars, report only that side of the transaction that involves the foreign (non-U.S.) currency. For example, if the Reporter enters into a futures contract which obligates the Reporter to purchase U.S. dollar exchange against which it sells Japanese yen, then the Reporter would report (in U.S. dollar equivalent values) the amount of Japanese yen sold in item 1(a). In cross-currency transactions, which involve the purchase and sale of two non-U.S. currencies, only the purchase side is to be reported.

All amounts in column B are to be reported in U.S. dollar equivalent values.

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Column C, Equity Derivative Contracts: Equity derivative contracts are contracts that have a return, or a portion of their return, linked to the price of a particular equity or to an index of equity prices, such as the Standard and Poor's 500.

The contract amount to be reported for equity derivative contracts is the quantity, e.g., number of units, of the equity instrument or equity index contracted for purchase or sale multiplied by the contract price of a unit.

Column D, Commodity and Other Contracts: Commodity contracts are contracts that have a return, or a portion of their return, linked to the price of or to an index of precious metals, petroleum, lumber, agricultural products, etc. Commodity and other contracts also include any other contracts that are not reportable as interest rate, foreign exchange, or equity derivative contracts.

The contract amount to be reported for commodity and other contracts is the quantity, e.g., number of units, of the commodity or product contracted for purchase or sale multiplied by the contract price of a unit.

The notional amount to be reported for commodity contracts with multiple exchanges of principal is the contractual amount multiplied by the number of remaining payments (i.e., exchanges of principal) in the contract.

Item Instructions

Derivatives Position Indicators

Line Item 1 Gross amounts (e.g., notional amounts) of derivatives contracts.

Report in the appropriate column and subitem the gross par value (stated in U.S. dollars) (e.g., futures, forwards, and option contracts) or the notional amount (stated in U.S. dollars) (e.g., forward rate agreements and swaps), as appropriate, of all contracts that meet the definition of a derivative and must be accounted for in accordance with ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended). Include freestanding derivative contracts only. Report each contract according to its underlying risk exposure: interest rate, foreign exchange, equity, and commodity and other. Contracts with multiple risk characteristics should be classified based upon the predominant risk characteristics at the origination of the derivative. However, exclude from items 1 through 4, all credit derivatives, which should be reported in item 7 below. Also exclude embedded derivatives that must be accounted for separately from their host contract under ASC Topic 815.

The notional amount or par value to be reported for a derivative contract with a multiplier component is the contract's effective notional amount or par value. For example, a swap contract with a stated notional amount of \$1,000,000 whose terms called for quarterly settlement of the difference between 5% and LIBOR multiplied by 10 has an effective notional amount of \$10,000,000.

All transactions within the Reporter should be reported on a consolidated basis (i.e., intercompany transactions should be eliminated). No other netting of contracts is permitted for purposes of this item. Therefore, do not net: (1) obligations of the Reporter to purchase from third parties against the Reporter's obligations to sell to third parties, (2) written options against purchased options, or (3) contracts subject to bilateral netting agreements.

For each column, the sum of items 1(a) through 1(e) must equal the sum of items 2 and 3.

Line Item 1(a) Futures contracts.

Futures contracts represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a

Schedule IRC-L

specified price or yield. Futures contracts are standardized and are traded on organized exchanges that act as the counterparty to each contract.

Report, in the appropriate column, the aggregate par value of futures contracts that have been entered into by the Reporter and are outstanding (i.e., open contracts) as of the report date. Do not report the par value of financial instruments intended to be delivered under such contracts if this par value differs from the par value of the contracts themselves.

Contracts are outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying financial instruments or by offset. Offset is the liquidating of a purchase of futures through the sale of an equal number of contracts of the same delivery month on the same underlying instrument, or the covering of a short sale of futures through the purchase of an equal number of contracts of the same delivery month on the same underlying instrument on the same exchange.

Column Instructions

Column A, Interest Rate Futures: Report futures contracts committing the Reporter to purchase or sell financial instruments and whose pre-dominant risk characteristic is interest rate risk. Some of the more common interest rate futures include futures on 90-day U.S. Treasury bills; 12-year GNMA pass-through securities; and 2-, 4-, 6-, and 10-year U.S. Treasury notes.

Column B, Foreign Exchange Futures: Report the gross amount (stated in U.S. dollars) of all futures contracts committing the Reporter to purchase foreign (non-U.S.) currencies and U.S. dollar exchange and whose predominant risk characteristic is foreign exchange risk.

A currency futures contract is a standardized agreement for delayed delivery of a foreign (non-U.S.) currency or U.S. dollar exchange in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified amount at a specified exchange rate.

Column C, Equity Derivative Futures: Report futures contracts committing the Reporter to purchase or sell equity securities or instruments based on equity indexes such as the Standard and Poor's 500, or the Nikkei.

Column D, Commodity and Other Futures: Report the contract amount for all futures contracts committing the Reporter to purchase or sell commodities such as agricultural products (e.g., wheat, coffee), precious metals (e.g., gold, platinum), and nonferrous metals (e.g., copper, zinc). Include any other futures contract that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B, or C.

Item Instructions

Line Item 1(b) Forward contracts.

Forward contracts represent agreements for delayed delivery of financial instruments or commodities in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument or commodity at a specified price or yield. Forward contracts are not traded on organized exchanges and their contractual terms are not standardized.

Report the notional value of forward contracts that have been entered into by the Reporter and are outstanding (i.e., open contracts) as of the report date. Do not report financial instruments intended to be delivered under such contracts if this notional value differs from the notional value of the contracts themselves.

Contracts are outstanding (i.e., open) until they have been cancelled by acquisition or delivery of the underlying financial instruments or settled in cash. Such contracts can only be terminated, other than by receipt of the

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underlying asset, by agreement of both buyer and seller.

Include as forward contracts in this item contracts for the purchase and sale of when-issued securities that are not excluded from the requirements of ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended). Report contracts for the purchase and sale of when-issued securities that are excluded from the requirements of ASC Topic 815, as amended, and accounted for on a settlement-date basis as “All other off-balance-sheet items” in item 13 below, subject to the existing reporting threshold for this item.

Column A, Interest Rate Forwards: Report forward contracts committing the Reporter to purchase or sell financial instruments and whose predominant risk characteristic is interest rate risk. Include in this item firm commitments (i.e., commitments that have a specific interest rate, selling date, and dollar amount) to sell loans secured by 1-to-4 family residential properties that meet the definition of a derivative contract under ASC Topic 815.

Column B, Foreign Exchange Forwards: Report the gross amount (stated in U.S. dollars) of all forward contracts committing the Reporter to purchase foreign (non-U.S.) currencies and U.S. dollar exchange and whose predominant risk characteristic is foreign exchange risk.

A forward foreign exchange contract is an agreement for delayed delivery of a foreign (non-U.S.) currency or U.S. dollar exchange in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified amount at a specified exchange rate.

Column C, Equity Derivative Forwards. Report forward contracts committing the Reporter to purchase or sell equity instruments.

Column D, Commodity and Other Forwards. Report the contract amount for all forward contracts committing the Reporter to purchase or sell commodities such as agricultural products (e.g., wheat, coffee), precious metals (e.g., gold, platinum), and nonferrous metals (e.g., copper, zinc). Include any other forward contract that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B or C.

Line Item 1(c) Exchange-traded option contracts.

Option contracts convey either the right or the obligation, depending upon whether the Reporter is the purchaser or the writer, respectively, to buy or sell a financial instrument or commodity at a specified price by a specified future date. Some options are traded on organized exchanges.

The buyer of an option contract has, for compensation (such as a fee or premium), acquired the right (or option) to sell to, or purchase from, another party some financial instrument or commodity at a stated price on a specified future date. The seller of the contract has, for such compensation, become obligated to purchase or sell the financial instrument or commodity at the option of the buyer of the contract. A put option contract obligates the seller of the contract to purchase some financial instrument or commodity at the option of the buyer of the contract. A call option contract obligates the seller of the contract to sell some financial instrument or commodity at the option of the buyer of the contract.

Line Item 1(c)(1) Written options.

Report in this item the aggregate par value of the financial instruments or commodities that the Reporter has, for compensation (such as a fee or premium), obligated itself to either purchase or sell under exchange-traded option contracts that are outstanding as of the report date.

Column A, Written Exchange-Traded Interest Rate Options: For exchange-traded option contracts obligating the Reporter to either purchase or sell an interest rate futures contract and whose predominant risk characteristic

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is interest rate risk, report the par value of the financial instrument underlying the futures contract. An example of such a contract is a Chicago Board Options Exchange option on the 13-week Treasury bill rate.

Column B, Written Exchange-Traded Foreign Exchange Options: Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the Reporter has, for compensation, obligated itself to either purchase or sell under exchange-traded option contracts whose predominant risk characteristic is foreign exchange risk. In the case of option contracts obligating the Reporter to either purchase or sell a foreign exchange futures contract, report the gross amount (stated in U.S. dollars) of the foreign (non-U.S.) currency underlying the futures contract. Exchange-traded options on major currencies such as the Japanese Yen and British Pound Sterling and options on futures contracts of major currencies are examples of such contracts.

Column C, Written Exchange-Traded Equity Derivative Options: Report the contract amount for those exchange-traded option contracts where the Reporter has obligated itself, for compensation, to purchase or sell an equity instrument or equity index.

Column D, Written Commodity and Other Exchange-Traded Options: Report the contract amount for those exchange-traded option contracts where the Reporter has obligated itself, for compensation, to purchase or sell a commodity or product. Include any other written, exchange-traded option that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B or C.

Line Item 1(c)(2) Purchased options.

Report in this item the aggregate par value of the financial instruments or commodities that the Reporter has, for a fee or premium, purchased the right to either purchase or sell under exchange-traded option contracts that are outstanding as of the report date.

Column A, Purchased Exchange-Traded Interest Rate Options: For exchange-traded option contracts giving the Reporter the right to either purchase or sell an interest rate futures contract and whose predominant risk characteristic is interest rate risk, report the par value of the financial instrument underlying the futures contract. An example of such a contract is a Chicago Board Options Exchange option on the 13-week Treasury bill rate.

Column B, Purchased Exchange-Traded Foreign Exchange Options: Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the Reporter has, for a fee, purchased the right to either purchase or sell under exchange-traded option contracts whose predominant risk characteristic is foreign exchange risk. In the case of option contracts giving the Reporter the right to either purchase or sell a currency futures contract, report the gross amount (stated in U.S. dollars) of the foreign (non-U.S.) currency underlying the futures contract. Exchange-traded options on major currencies such as the Japanese Yen and British Pound Sterling and options on futures contracts of major currencies are examples of such contracts.

Column C, Purchased Exchange-Traded Equity Derivative Options: Report the contract amount of those exchange-traded option contracts where the Reporter has, for a fee, purchased the right to purchase or sell an equity instrument or equity index.

Column D, Purchased Commodity and Other Exchange-Traded Options: Report the contract amount for those exchange-traded option contracts where the Reporter has, for a fee, or premium, purchased the right to purchase or sell a commodity or product. Include any other purchased, exchange-traded option that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B or C.

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Line Item 1(d) Over-the-counter option contracts.

Option contracts convey either the right or the obligation, depending upon whether the Reporter is the purchaser or the writer, respectively, to buy or sell a financial instrument or commodity at a specified price by a specified future date. Options can be written to meet the specialized needs of the counterparties to the transaction. These customized option contracts are known as over-the-counter (OTC) options. Thus, OTC option contracts include all option contracts not traded on an organized exchange.

The buyer of an option contract has, for compensation (such as a fee or premium), acquired the right (or option) to sell to, or purchase from, another party some financial instrument or commodity at a stated price on a specified future date. The seller of the contract has, for such compensation, become obligated to purchase or sell the financial instrument or commodity at the option of the buyer of the contract. A put option contract obligates the seller of the contract to purchase some financial instrument or commodity at the option of the buyer of the contract. A call option contract obligates the seller of the contract to sell some financial instrument or commodity at the option of the buyer of the contract. In addition, swaptions, i.e., options to enter into a swap-contract, and contracts known as caps, floors, collars, and corridors³ should be reported as options.

Commitments to lend that meet the definition of a derivative and must be accounted for in accordance with ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended) are considered options for purposes of item 1. All other commitments to lend should be reported in item 9 below.

Line Item 1(d)(1) Written options.

Report in this item the aggregate par value of the financial instruments or commodities that the Reporter has, for compensation (such as a fee or premium), obligated itself to either purchase or sell under OTC option contracts that are outstanding as of the report date. Also report the aggregate notional amount of written caps, floors, and swaptions and for the written portion of collars and corridors.

Column A, Written OTC Interest Rate Options: Interest rate options include options to purchase and sell interest-bearing financial instruments and whose predominant risk characteristic is interest rate risk as well as contracts known as caps, floors, collars, corridors, and swaptions. Include in this item the notional amount for interest rate caps and floors that the Reporter sells. For interest rate collars and corridors, report a notional amount for the written portion of the contract in item 1(d)(1), column A, and for the purchased portion of the contract in item 1(d)(2), column A.

Column B, Written OTC Foreign Exchange Options: A written currency option contract conveys the obligation to exchange two different currencies at a specified exchange rate. Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the Reporter has, for compensation, obligated itself to either purchase or sell under OTC option contracts whose predominant risk characteristic is foreign exchange risk.

Column C, Written OTC Equity Derivative Options: Report the contract amount for those OTC option contracts where the Reporter has obligated itself, for compensation, to purchase or sell an equity instrument or equity index.

Column D, Written Commodity and Other OTC Options: Report the contract amount for those OTC option contracts where the Reporter has obligated itself, for compensation, to purchase or sell a commodity or product. Include any other written, OTC option that is not reportable as an interest rate, foreign exchange, or equity derivative contract in column A, B or C.

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Line Item 1(d)(2) Purchased options.

Report in this item the aggregate par value of the financial instruments or commodities that the Reporter has, for a fee or premium, purchased the right to either purchase or sell under OTC option contracts that are outstanding as of the report date. Also report the aggregate notional amount for purchased caps, floors, and swaptions and for the purchased portion of collars and corridors.

Column A, Purchased OTC Interest Rate Options: Interest rate options include options to purchase and sell interest-bearing financial instruments and whose pre-dominant risk characteristic is interest rate risk as well as contracts known as caps, floors, collars, corridors, and swaptions. Include in this item the notional amount for interest rate caps and floors that the Reporter purchases. For interest rate collars and corridors, report a notional amount for the written portion of the contract in item 1(d)(1), column A, and for the purchased portion of the contract in item 1(d)(2), column A.

Column B, Purchased OTC Foreign Exchange Options: Report in this item the gross amount (stated in U.S. dollars) of foreign (non-U.S.) currency and U.S. dollar exchange that the Reporter has, for a fee or premium, purchased the right to either purchase or sell under option contracts whose predominant risk characteristic is foreign exchange risk.

Column C, Purchased OTC Equity Derivative Options: Report the notional amount of those OTC option contracts where the Reporter has, for a fee or premium, purchased the right to purchase or sell an equity instrument or equity index.

Column D, Purchased Commodity and Other OTC Options: Report the contract amount for those option contracts where the Reporter has, for a fee or premium, purchased the right to purchase or sell a commodity or product. Include any other purchased OTC option that is not reportable as an interest rate, foreign exchange or equity derivative contract in column A, B or C.

Line Item 1(e) Swaps.

Swaps are contracts in which two parties agree to exchange payment streams based on a specified notional amount for a specified period. Forward starting swap contracts should be reported as swaps. The notional amount of a swap is the underlying principal amount upon which the exchange of interest, foreign exchange or other income or expense is based. The notional amount reported for a swap contract with a multiplier component is the contract's effective notional amount. In those cases where the Reporter is acting as an intermediary, both sides of the transaction are to be reported.

Column A, Interest Rate Swaps: Report the notional amount of all outstanding interest rate and basis swaps whose predominant risk characteristic is interest rate risk.

Column B, Foreign Exchange Swaps: Report the notional principal amount (stated in U.S. dollars) of all outstanding cross-currency interest rate swaps. A cross-currency interest rate swap is a contract in which two parties agree to exchange principal amounts of different currencies, usually at the prevailing spot rate, at the inception of an agreement which lasts for a certain number of years. At defined intervals over the life of the swap, the counterparties exchange payments in the different currencies based on specified rates of interest. When the agreement matures, the principal amounts will be re-exchanged at the same spot rate. The notional amount of a cross-currency interest rate swap is generally the underlying principal amount upon which the exchange is based.

Column C, Equity Swaps: Report the notional amount of all outstanding equity or equity index swaps.

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Column D, Commodity and Other Swaps: Report the notional principal amount of all other swap contracts that are not reportable as either interest rate, foreign exchange, or equity derivative contracts in column A, B or C. The notional amount to be reported for commodity contracts with multiple exchanges of principal is the contractual amount multiplied by the number of remaining payments (or exchanges of principal) in the contract.

Line Item 2 Total gross notional amount of derivative contracts held for trading.

Report in the appropriate column, the total notional amount or par value of those off-balance-sheet derivative contracts in item 1 above that are held for trading purposes. Contracts held for trading purposes include those used in dealing and other trading activities accounted for at fair value with gains and losses recognized in earnings. Derivative instruments used to hedge trading activities should also be reported in this item.

Derivative trading activities include (a) regularly dealing in interest rate contracts, foreign exchange contracts, equity derivative contracts, and other off-balance-sheet commodity contracts, (b) acquiring or taking positions in such items principally for the purpose of selling in the near term or otherwise with the intent to resell (or repurchase) in order to profit from short-term price movements, or (c) acquiring or taking positions in such items as an accommodation to customers.

The trading department of a Reporter or its subsidiaries may have entered into a derivative contract with another department or business unit within the Reporter (and which has been reported on a consolidated basis in accordance with the instructions to item 1 above). If the trading department has also entered into a matching contract with a counterparty outside the consolidated Reporter, the contract with the outside counterparty should be designated as held for trading or as held for purposes other than trading consistent with the contract's designation for other financial reporting purposes.

Line Item 3 Total gross notional amount of derivative contracts held for purposes other than trading.

Report in the appropriate column, the total notional amount or par value of those contracts in item 1 above that are held for purposes other than trading.

Line Item 4 Gross fair values of derivative contracts.

Report in the appropriate column and subitem below the fair (or market) value of all derivative contracts reported in items 2 and 3 above. For each of the four types of underlying risk exposure in column A through D, the gross positive and gross negative fair values will be reported separately below for contracts held for trading (item 4(a)), and contracts held for purposes other than trading (item 4(b)). Guidance for reporting by type of underlying risk exposure is provided in item 1 above. Guidance for reporting by purpose and accounting methodology is provided in the instructions for items 2 and 3 above.

All transactions within the Reporter should be reported on a consolidated basis. For purposes of this item, do not net (1) obligations of the Reporter to buy against the Reporter's obligations to sell, (2) written options against purchased options, (3) positive fair values against negative fair values, or (4) contracts subject to bilateral netting agreements.

According to ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, *Fair Value Measurements*), fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the asset's or liability's principal (or most advantageous) market at the measurement date. For purposes of item 4, the Reporter should determine the fair value of its derivative contracts in the same manner that it determines the fair value of these contracts for other financial reporting purposes, consistent with the guidance in ASC Topic 820.

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Line Item 4(a) Contracts held for trading.

Report in the appropriate column and subitem the gross positive and gross negative fair values of those contracts held for trading reported item 2 above.

Line Item 4(a)(1) Gross positive fair value.

Report in the appropriate column the total fair value of those contracts in item 2 above with positive fair values.

Line Item 4(a)(2) Gross negative fair value.

Report in the appropriate column the total fair value of those contracts in item 2 above with negative fair values. Report the total fair value as an absolute value, do *not* enclose the total fair value in parentheses or use a minus (-) sign.

Line Item 4(b) Contracts held for purposes other than trading.

Report in the appropriate column and subitem the gross positive and gross negative fair values of those contracts held for purposes other than trading that are reported in item 3 above.

Line Item 4(b)(1) Gross positive fair value.

Report in the appropriate column the total fair value of those contracts in item 3 above with positive fair values.

Line Item 4(b)(2) Gross negative fair value.

Report in the appropriate column the total fair value of those contracts in item 3 above with negative fair values. Report the total fair value as an absolute value, do *not* enclose the total fair value in parentheses or use a minus (-) sign.

Line Item 5 Over-the-counter derivatives.

Include all OTC interest rate, foreign exchange, commodity, equity, and credit derivative contracts that are held for trading and held for purposes other than trading.

Column Instructions

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

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

Column C, Hedge Funds: Hedge funds are generally privately-owned investment funds with a limited range

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of investors. Hedge funds are not required to register with the SEC, which provides them with an exemption in many jurisdictions from regulations governing short selling, derivative contracts, leverage, fee structures, and the liquidity of investments in the fund.

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

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

Item Instructions

Line Item 5(a) Net current credit exposure.

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

Line Item 5(b) Fair value of collateral.

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

Line Item 5(b)(1) Cash – U.S. dollar.

Report in the appropriate counterparty column the total of all cash denominated in U.S. dollars held on deposit in the Reporter or by third party custodians on behalf of the Reporter that provide protection to the Reporter against counterparty risk on OTC derivatives.

Line Item 5(b)(2) Cash – Other currencies.

Report in the appropriate counterparty column in U.S. dollar equivalents the total of all cash denominated in non-U.S. currency held on deposit in the Reporter or by third party custodians on behalf of the Reporter that provide protection to the Reporter against counterparty risk on OTC derivatives.

Line Item 5(b)(3) U.S. Treasury securities.

Report in the appropriate counterparty column the fair value of U.S. Treasury securities held directly by the Reporter or by third-party custodians on behalf of the Reporter that provide protection to the Reporter against counterparty risk on OTC derivatives.

Line Item 5(b)(4) U.S. Government agency and U.S. Government-sponsored agency debt securities.

Report in the appropriate counterparty column the fair value of U.S. Government agency and U.S. Government-sponsored agency debt securities held directly by the Reporter or by third party custodians on behalf of the

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Reporter that provide protection to the Reporter against counterparty risk on OTC derivatives.

Line Item 5(b)(5) Corporate bonds.

Report in the appropriate counterparty column the fair value of corporate bonds held directly by the Reporter or by third party custodians on behalf of the Reporter that provide protection to the Reporter against counterparty risk on OTC derivatives.

Line Item 5(b)(6) Equity securities.

Report in the appropriate counterparty column the fair value of equity securities held directly by the Reporter or by third-party custodians on behalf of the Reporter that provide protection to the Reporter against counterparty risk on OTC derivatives.

Line Item 5(b)(7) All other collateral.

Report in the appropriate counterparty column the fair value of collateral that cannot properly be reported in item 5(b)(1) through item 5(b)(6), held directly by the Reporter or by third-party custodians on behalf of the Reporter that provide protection to the Reporter against counterparty risk on OTC derivatives.

Line Item 5(b)(8) Total fair value of collateral.

For each column, report the sum of item 5(b)(1) through 5(b)(7).

Line Item 6 Embedded derivatives.

Column Instructions

Report in the appropriate subitem all embedded derivative balances that have been separated from a host contract in accordance with ASC 815-15 Embedded Derivatives (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended*). Embedded derivatives are implicit or explicit terms within a contract that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument. An embedded derivative instrument must be separated from the host contract and accounted for as a derivative instrument, when certain conditions are met. For further information, see the subentry for “embedded Derivative” under the Glossary entry for “derivative”.

Report in the appropriate column and subitem:

Column A, Gross Positive Fair Values: Report all embedded derivatives with positive fair values.

Column B, Gross Negative Fair Values: Report all embedded derivatives with negative fair values.

For column A and B, report the total fair value as an absolute value; do not enclose the total fair value in parentheses or use a minus (-) sign. As defined in ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, *Fair Value Measurements*), fair value for an asset or liability is the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants (not a forced liquidation or distressed sale) in the asset’s or liability’s principal (or most advantageous) market at the measurement date. For further information, see the Glossary entry for “fair value.”

Column C, Nonperformance Risk Adjustment: Report the cumulative amount of unrealized net gain or loss related to changes in the fair value of liabilities that are due to changes in the Reporter’s own credit risk. If the amount is a net gain, report it as a positive value in this column. If the amount is a net loss, report it as a

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negative value in this column.

Item Instructions

Line Item 6(a) Net embedded derivatives within asset host contracts:

Report in the appropriate subitems all embedded derivatives that are contained within asset host contracts. Examples would include derivatives embedded in certain bonds, equity securities and ceded reinsurance contracts.

Line Item 6(a)(1) Ceded guarantee minimum benefits.

Report fair value amounts for guaranteed minimum benefits the ceding insurer expects to recover on insurance policies ceded to other insurance entities as of the report date.

Line Item 6(a)(2) Other ceded reinsurance.

Report fair value amounts for embedded derivatives included in other reinsurance agreements that do not relate to minimum guarantees. Examples may include embedded derivatives related to modified coinsurance or coinsurance with funds withheld agreements.

Line Item 6(a)(3) Options embedded in debt or equity securities.

Report the fair value of options that arise as part of a debt or equity instrument as of the balance sheet date. The most common embedded derivatives in debt and equity instruments are conversion options, puts, calls and other interest rate features.

Line Item 6(a)(4) Other.

Report the fair value and any nonperformance risk amounts of any other embedded derivatives within asset host contracts not included in items 6(a)(1) through 6(a)(3) above.

Line Item 6(b) Net embedded derivatives within liability host contracts:

Report in the appropriate sub items all embedded derivatives that are contained within liability host contracts. Examples include derivatives embedded in certain insurance liability contracts such as variable annuity riders and reinsurance assumed on such contracts.

Line Item 6(b)(1) Guaranteed minimum benefits.

Report the fair value and any nonperformance risk amounts of all guaranteed minimum benefit riders on insurance contracts including guaranteed benefits on variable annuities, equity indexed annuities, and equity indexed universal life contracts.

Line Item 6(b)(2) Guaranteed minimum benefits assumed.

Report fair value amounts for guaranteed minimum benefits the assuming insurer expects to pay on insurance policies assumed from other insurance entities as of the balance sheet date.

Line Item 6(b)(3) Other reinsurance assumed.

Report fair value amounts for insurance benefits not related to minimum guarantees that the assuming insurer

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expects to pay on insurance policies assumed from other insurance entities as of the balance sheet date. Examples include embedded derivatives related to modified coinsurance or coinsurance funds withheld agreements.

Line Item 6(b)(4) Other.

Report the fair value and any nonperformance risk amounts of any other embedded derivatives within liability host contracts not included in items 6(b)(1) through 6(b)(3) above.

Line Item 7 Credit derivatives.

In general, credit derivatives are arrangements that allow one party (the “protection purchaser” or “beneficiary”) to transfer the credit risk of a “reference asset” or “reference entity” to another party (the “protection seller” or “guarantor”). Report the notional amounts of credit derivatives by type of instrument in item 7(a)(1) through 7(a)(4). Report the gross positive and negative fair values of all credit derivatives in item 7(b)(1) and 7(b)(2). Report the notional amounts of credit derivatives by remaining maturity in item 7(c)(1)(a) through 7(c)(2)(b).

All credit derivative transactions within the Reporter should be reported on a net basis, i.e., intrabank transactions should not be reported in this item. No other netting of contracts is permitted for purposes of this item. Therefore, do not net the notional amounts or fair values of: (1) credit derivatives with third parties on which the Reporter is the protection purchaser against credit derivatives with third parties on which the Reporter is the protection seller, or (2) contracts subject to bilateral netting agreements. The notional amounts of credit derivatives should not be included in item 1 through 3, and the fair values of credit derivatives should not be included in item 4 above.

Column Instructions

Column A, Sold Protection: For both the notional amounts and gross fair values, report credit derivatives for which the Reporter is the protection seller.

Column B, Purchased Protection: For both the notional amounts and gross fair values, report credit derivatives for which the Reporter is the protection purchaser.

Item Instructions

Line Item 7(a) Notional amounts.

Report in the appropriate subitem and column the notional amount (stated in U.S. dollars) of all credit derivatives. For tranching credit derivative transactions that relate to an index, e.g., the Dow Jones CDX NA index, report as the notional amount the dollar amount of the tranche upon which the Reporter’s credit derivative cash flows are based.

Line Item 7(a)(1) Credit default swaps.

Report in the appropriate column the notional amount of all credit default swaps. A credit default swap is a contract in which a protection seller or guarantor (risk taker), for a fee, agrees to reimburse a protection purchaser or beneficiary (risk hedger) for any losses that occur due to a credit event on a particular entity, called the “reference entity.” If there is no credit default event (as defined by the derivative contract), then the protection seller makes no payments to the protection purchaser and receives only the contractually specified fee. Under standard industry definitions, a credit event is normally defined to include bankruptcy, failure to pay, and restructuring. Other potential credit events include obligation acceleration, obligation default, and repudiation/moratorium.

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Line Item 7(a)(2) Total return swaps.

Report in the appropriate column the notional amount of all total return swaps. A total return swap transfers the total economic performance of a reference asset, which includes all associated cash flows, as well as capital appreciation or depreciation. The protection purchaser (beneficiary) receives a floating rate of interest and any depreciation on the reference asset from the protection seller. The protection seller (guarantor) has the opposite profile. The protection seller receives cash flows on the reference asset, plus any appreciation, and it pays any depreciation to the protection purchaser, plus a floating interest rate. A total return swap may terminate upon a default of the reference asset.

Line Item 7(a)(3) Credit options.

Report in the appropriate column the notional amount of all credit options. A credit option is a structure that allows investors to trade or hedge changes in the credit quality of the reference asset. For example, in a credit spread option, the option writer (protection seller or guarantor) assumes the obligation to purchase or sell the reference asset at a specified “strike” spread level. The option purchaser (protection purchaser or beneficiary) buys the right to sell the reference asset to, or purchase it from, the option writer at the strike spread level.

Line Item 7(a)(4) Other credit derivatives.

Report in the appropriate column the notional amount of all other credit derivatives. Other credit derivatives consist of any credit derivatives not reportable as a credit default swap, a total return swap, or a credit option. Credit linked notes are cash securities and should not be reported as other credit derivatives.

Line Item 7(b) Gross fair values:

Report in the appropriate subitem and column the gross fair values of all credit derivatives. As defined in ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, *Fair Value Measurements*), fair value for an asset or liability is the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants (not a forced liquidation or distressed sale) in the asset’s or liability’s principal (or most advantageous) market at the measurement date. For further information, see the Glossary entry for “fair value.” For purposes of this item, the Reporter should determine the fair value of its credit derivative contracts in the same manner that it determines the fair value of these contracts for other financial reporting purposes.

Line Item 7(b)(1) Gross positive fair value.

Report in the appropriate column the total fair value of those credit derivatives reported in items 7(a)(1) through 7(a)(4), above, with positive fair values.

Line Item 7(b)(2) Gross negative fair value.

Report in the appropriate column the total fair value of those credit derivatives reported in items 7(a)(1) through 7(a)(4), above, with negative fair values. Report the total fair value as an absolute value; do not enclose the total fair value in parentheses or use a minus (-) sign.

Line Item 7(c) Notional amounts by remaining maturity.

Report in the appropriate subitem and column the notional amount of all credit derivative contracts by remaining maturity. Report notional amounts in the column corresponding to the contract’s remaining term to maturity from the report date.

Column Instructions

Column A, One Year or Less: Report credit derivatives with a remaining maturity of one year or less.

Column B, Over One Year through Five Years: Report credit derivatives with a remaining maturity of over one year through five years.

Column C, Over Five Years: Report credit derivatives with a remaining maturity of over five years.

Item Instructions

Line Item 7(c)(1) Sold credit protection.

Report the notional amount of all credit derivative contracts where the Reporter is the protection seller (guarantor).

Line Item 7(c)(1)(a) Investment grade.

Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the Reporter's internal credit rating system.

Line Item 7(c)(1)(b) Subinvestment grade.

Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the Reporter's internal credit rating system.

Line Item 7(c)(2) Purchased credit protection:

Report the notional amount of all credit derivative contracts where the Reporter is the protection purchaser (beneficiary).

Line Item 7(c)(2)(a) Investment grade.

Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated investment grade or, if not rated, is the equivalent of investment grade under the Reporter's internal credit rating system.

Line Item 7(c)(2)(b) Subinvestment grade.

Report the remaining maturities of credit derivative contracts where the underlying reference asset is rated below investment grade, i.e., subinvestment grade, or, if not rated, is the equivalent of below investment grade under the Reporter's internal credit rating system.

Line Item 8 Spot foreign exchange contracts.

Report the gross amount (stated in U.S. dollars) of all spot contracts committing the Reporter to purchase foreign (non-U.S.) currencies and U.S. dollar exchange that are outstanding as of the report date. All transactions within the Reporter should be reported on a consolidated basis.

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A spot contract is an agreement for the immediate delivery, usually within two business days or less (depending on market convention), of a foreign currency at the prevailing cash market rate. Contracts where market convention is for delivery of a foreign currency in less than two days, e.g., T+1 day (for example, Canadian dollar-U.S. dollar contracts), should be reported as spot contracts. Any contract exceeding the market convention should be reported as a foreign exchange forward contract in Schedule IRC-L, item 1(b), column B. Spot contracts are considered outstanding (i.e. open) until they have been cancelled by acquisition or delivery of the underlying currencies.

Only one side of a spot foreign exchange contract is to be reported. In those transactions where foreign (non-U.S.) currencies are bought or sold against U.S. dollars, report only that side of the transaction that involves the foreign (non-U.S.) currency. For example, if the Reporter enters into a spot contract which obligates the Reporter to purchase U.S. dollar exchange against which it sells Japanese yen, then the Reporter would report (in U.S. dollar equivalent values) the amount of Japanese yen sold in this item. In cross-currency spot foreign exchange transactions, which involve the purchase and sale of two non-U.S. currencies, only the purchase side is to be reported (in U.S. dollar equivalent values).

Line Item 9 Unused commitments.

Report in the appropriate subitem the unused portions of commitments. Unused commitments are to be reported gross, i.e., include in the appropriate subitem the unused amount of commitments acquired from and conveyed or participated to others. However, exclude commitments conveyed or participated to others that the Reporter is not legally obligated to fund even if the party to whom the commitment has been conveyed or participated fails to perform in accordance with the terms of the commitment.

For purposes of this item, commitments include:

- (1) Commitments to make or purchase extensions of credit in the form of loans or participations in loans, lease financing receivables, or similar transactions.
- (2) Commitments for which the Reporter has charged a commitment fee or other consideration.
- (3) Commitments that are legally binding.
- (4) Loan proceeds that the Reporter is obligated to advance, such as:
 - a. Loan draws;
 - b. Construction progress payments; and
 - c. Seasonal or living advances to farmers under prearranged lines of credit.
- (5) Rotating, revolving, and open-end credit arrangements, including, but not limited to, retail credit card lines and home equity lines of credit.
- (6) Commitments to issue a commitment at some point in the future, where the Reporter has extended terms, the borrower has accepted the offered terms, and the extension and acceptance of the terms:
 - a. Are in writing, regardless of whether they are legally binding on the Reporter and the borrower, or
 - b. If not in writing, are legally binding on the Reporter and the borrower,⁵ even though the related

⁵ For example, either the extension or the acceptance of the terms or both are verbal, but they are nonetheless legally binding on both parties under applicable law.

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loan agreement has not yet been signed and even if the commitment to issue a commitment is revocable, provided any revocation has not yet taken effect as of the report date.

- (7) Overdraft protection on depositors' accounts offered under a program where the Reporter advises account holders of the available amount of overdraft protection, for example, when accounts are opened or on depositors' account statements or ATM receipts.
- (8) The Reporter's own takedown in securities underwriting transactions.
- (9) Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements, which are facilities under which a borrower can issue on a revolving basis short-term paper in its own name, but for which the underwriting Reporter has a legally binding commitment either to purchase any notes the borrower is unable to sell by the rollover date or to advance funds to the borrower.
- (10) *Exclude* forward contracts and other commitments that meet the definition of a derivative and must be accounted for in accordance with ASC Topic 815, Derivatives and Hedging (formerly Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended), which should be reported in item 3 above. Include the amount (not the fair value) of the unused portions of loan commitments that do not meet the definition of a derivative that the Reporter has elected to report at fair value under a fair value option. Also include forward contracts that do not meet the definition of a derivative.

The unused portions of commitments are to be reported in the appropriate subitem regardless of whether they contain "material adverse change" clauses or other provisions that are intended to relieve the issuer of its funding obligations under certain conditions and regardless of whether they are unconditionally cancelable at any time.

In the case of commitments for syndicated loans, report only the Reporter's proportional share of the commitment.

For purposes of reporting the unused portions of revolving asset-based lending commitments, the commitment is defined as the amount a Reporter is obligated to fund — as of the report date — based on the contractually agreed upon terms. In the case of revolving asset-based lending, the unused portions of such commitments should be measured as the difference between (a) the lesser of the contractual borrowing base (i.e., eligible collateral times the advance rate) or the note commitment limit, and (b) the sum of outstanding loans and letters of credit under the commitment. The note commitment limit is the overall maximum loan amount beyond which the Reporter will not advance funds regardless of the amount of collateral posted. This definition of "commitment" is applicable only to revolving asset-based lending, which is a specialized form of secured lending in which a borrower uses current assets (e.g., accounts receivable and inventory) as collateral for a loan. The loan is structured so that the amount of credit is limited by the value of the collateral.

Line Item 9(a) Revolving, open-end loans secured by 1-4 family residential properties, e.g., home equity lines.

Report the unused portion of commitments to extend credit under revolving, open-end lines of credit secured by 1-4 family residential properties. These lines, commonly known as home equity lines, are typically secured by a junior lien and are usually accessible by check or credit card.

Line Item 9(b) Commitments to fund commercial real estate, construction, and land development loans secured by real estate.

Report in the appropriate subitem the unused portion of commitments to extend credit for the specific purpose of financing commercial and multifamily residential properties (e.g., business and industrial properties, hotels, motels, churches, hospitals, and apartment buildings), provided that such commitments, when funded, would be reportable

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as either loans secured by multifamily residential properties in Schedule IRC-C, Part A, item 1(c), or loans secured by nonfarm nonresidential properties in Schedule IRC-C, Part A, item 1(d).

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

Do not include general lines of credit that a borrower, at its option, may draw down to finance construction and land development. (Report this in item 1(c) or 1(d) below, as appropriate).

Line Item 9(c) Commitments to fund commercial real estate, construction, and land development loans NOT secured by real estate.

Report in this item the unused portions of all commitments to extend credit for the specific purpose of financing commercial and residential real estate activities, e.g., acquiring, developing and renovating commercial and residential real estate provided that such commitments, when funded, would be reportable as “Commercial and industrial loans” in, item 4, or as “All other loans” in Schedule IRC-C, item 6. Include in this item loan proceeds that the Reporter or its consolidated subsidiaries are obligated to advance as construction progresses.

Such commitments generally may include:

- (1) Commitments to extend credit for the express purpose of financing real estate ventures as evidenced by underlying commitment documentation or other circumstances connected with the commitment; or
- (2) Commitments made to organizations or individuals 80 percent of whose revenue or assets are derived from or consist of real estate ventures or holdings.

Exclude any commitments that when funded would be reported in Schedule IRC-C, Part A, item 1. Also exclude commitments made to commercial and industrial firms where the sole purpose for the financing is to construct a factory or office building to house the Reporter’s operations or employees.

Line Item 9(d) Other unused commitments.

Report in the appropriate subitem the unused portion of all commercial and industrial loan commitments, commitments for loans to financial institutions, and all other commitments not reportable in items 9(a) through 9(c), above. Include commitments to extend credit through overdraft facilities or commercial lines of credit, retail check credit and related plans, and those overdraft protection programs in which the Reporter advises account holders of the available amount of protection.

Line Item 10 Letters of credit and foreign office guarantees.

Report the amount outstanding and unused as of the report date of all letters of credit (and all legally binding commitments to issue financial standby letters of credit) issued by any office of the Reporter or its consolidated subsidiaries. (See the Glossary entry for “letter of credit” for further information).

Exclude from financial standby letters of credit the following:

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- (1) Letters of credit where the beneficiary is a consolidated subsidiary of the Reporter.
- (2) Signature or endorsement guarantees of the type associated with the clearing of negotiable instruments or securities in the normal course of business.

Line Item 11 Securities lent.

Report the appropriate amount of all securities lent against collateral or on an uncollateralized basis. Report the book value of Reporter-owned securities that have been lent. In addition, for customers who have been indemnified against any losses by the Reporter or its consolidated subsidiaries, report the market value as of the report date of such customers' securities, including customers' securities held in the Reporter's trust department, that have been lent. If the Reporter or its consolidated subsidiaries have indemnified their customers against any losses on their securities that have been lent by the Reporter or its subsidiaries, the commitment to indemnify—either through a standby letter of credit or other means—should not be reported in any other item in this schedule.

Line Item 12 Securities borrowed.

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

Line Item 13 All other off-balance-sheet items (exclude derivatives).

With the exceptions listed below, report all significant types of off-balance-sheet items not covered in other items of this schedule. Exclude off-balance-sheet derivative contracts that are reported elsewhere in this schedule.

Report only the aggregate amount of those types of “other off-balance sheet items” that individually exceed 10 percent of the total equity capital reported in Schedule IRC, item 38(a). If the Reporter has no types of “other off-balance sheet items” that individually exceed 10 percent of total equity capital, report a zero.

Disclose in items 13(a) through 13(f) each type of “other off-balance sheet items” reportable in this item, and the dollar amount of the off-balance sheet item, that individually exceeds 25 percent of the total equity capital reported in Schedule IRC, item 38(a). For each type of off-balance-sheet item that exceeds this disclosure threshold for which a preprinted caption has not been provided, describe the item with a clear but concise caption in items 13(c) through 13(f). These descriptions should not exceed 50 characters in length (including spacing between words).

Include the following as other off-balance-sheet items:

- (1) Contracts for the purchase and sale of when-issued securities that are excluded from the requirements of ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended) (and therefore not reported as forward contracts in item 1(b), above), and accounted for on a settlement-date basis. (Report the amount of these commitments in item 13(a) or item 13(b), if this amount exceeds 25 percent of total equity capital reported in Schedule IRC, item 38(a).
- (2) Financial guarantee insurance that insures the timely payment of principal and interest on bond issues.
- (3) Letters of indemnity other than those issued in connection with the replacement of lost or stolen official checks.
- (4) Shipment or dockside guarantees or similar guarantees relating to missing bills of lading or title documents

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and other document guarantees that facilitate the replacement of lost or destroyed documents and negotiable instruments.

Exclude the following from other off-balance-sheet items:

- (1) All items that are required to be reported on the balance sheet of the consolidated financial statements (FR 2085), such as repurchase and resale agreements.
- (2) Commitments to purchase property being acquired for lease to others (report in item 9 above).
- (3) Contingent liabilities arising in connection with litigation in which the Reporter is involved.
- (4) Signature or endorsement guarantees of the type associated with the regular clearing of negotiable instruments or securities in the normal course of business.

LINE ITEM INSTRUCTIONS FOR

Memoranda

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Assets

Line Item 1 Other assets acquired in satisfaction of debts previously contracted.

Report in this item all assets that have been acquired in satisfaction of debts previously contracted (DPC). Include assets, such as securities, loans, and equipment that have been acquired in satisfaction of DPC.

Line Item 2 Securities purchased under agreements to resell offset against securities sold under agreements to repurchase on Schedule IRC.

Report in this item the amount of securities purchased under agreements to resell that have been offset (where the “right of setoff” exists) by securities sold under agreements to repurchase (i.e., assets removed from Schedule IRC). For further information, see the Glossary entry for “offsetting” and ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*).

Line Item 3 Net deferred tax assets.

Report the net amount after offsetting deferred tax assets (net of valuation allowance) and deferred tax liabilities measured at the report date for a particular tax jurisdiction if the net result is a debit balance. If the result for a particular tax jurisdiction is a net *credit* balance, report the amount in item 8 below. If the result for each tax jurisdiction is a net credit balance, enter a zero in this item. (A Reporter may report a net deferred tax debit, or asset, for one tax jurisdiction, such as for federal income tax purposes, and also report at the same time a net deferred tax credit, or liability, for another tax jurisdiction, such as for state or local income tax purposes.) For further information on calculating deferred taxes for different tax jurisdictions, see the Glossary entry for “income taxes.”

Line Item 4 Deferred policy acquisition costs.

Report the amount of deferred policy acquisition costs, which consists primarily of incremental direct cost of successful contract acquisition of new or renewal insurance and annuity contracts as defined under ASC Subtopic 944-30, “Acquisition Costs”. It includes compensation paid to agents and third parties, premium tax, as well as the portion of employee compensation costs related to underwriting, policy issuance and processing, and medical inspection.

Line Item 5 Value of business acquired.

Report the amount of value of business acquired, which an intangible asset is resulting from a business combination that represents the excess of book value over the estimated fair value of acquired insurance, annuity, and investment-type contracts in-force at the acquisition date.

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Line Item 6 Deferred sales inducements.

Report the amount deferred sales inducements, which include amounts that are credited to the policyholder's account balance as an enhancement to their crediting rate for certain annuity products. Those inducements may be offered in many forms, including an immediate bonus, a persistency bonus credited to the policyholder account balances after a specified period, or an enhanced crediting rate (i.e. bonus interest rate) in the initial period(s) of the contract.

Line Item 7 Intangible assets other than goodwill.

Report in the appropriate subitem intangible assets other than goodwill.

Line Item 7(a) Mortgage servicing assets.

Report the carrying amount of mortgage servicing assets, i.e., the cost of acquiring contracts to service loans secured by real estate (as defined for Schedule IRC-C, Part A, item 1, and in the Glossary entry for "loans secured by real estate") that have been securitized or are owned by another party, net of any related valuation allowances. Servicing assets resulting from contracts to service financial assets other than loans secured by real estate should be reported in line item 7(b) below. For further information, see the Glossary entry for "servicing assets and liabilities."

Line Item 7(a)(1) Estimated fair value of mortgage servicing assets.

Report the estimated fair value of the capitalized mortgage servicing assets reported in item 7(a) above. According to ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, *Fair Value Measurements*), fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants in the asset's principal (or most advantageous) market at the measurement date. For purposes of this item, the Reporter should determine the fair value of mortgage servicing assets in the same manner that determines the fair value of these assets for other financial reporting purposes, consistent with the guidance in ASC Topic 820.

Line Item 7(b) All other identifiable intangible assets.

Report the carrying amount of other specifically identifiable intangible assets recognized in a business combination. This item may include, but is not limited to:

- (1) customer relationships, such as renewal rights on short-duration contracts, cross-selling opportunities, and customer lists.
- (2) distribution channels, including the ability to generate new business from new customers.
- (3) brand name and trademarks.
- (4) insurance licenses.
- (5) service contracts and healthcare provider contracts.
- (6) computer software.
- (7) favorable leasehold rights.

Exclude goodwill, which should be reported in Schedule IRC, item 15 "Goodwill".

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Liabilities:

Line Item 8 Net deferred tax liabilities.

Report the net amount after offsetting deferred tax assets (net of valuation allowance) and deferred tax liabilities measured at the report date for a particular tax jurisdiction if the net result is a credit balance. If the result for a particular tax jurisdiction is a net *debit* balance, report the amount in item 3 above. If the result for each tax jurisdiction is a net debit balance, enter a zero in this item. (A Reporter may report a net deferred tax debit, or asset, for one tax jurisdiction, such as for federal income tax purposes, and also report at the same time a net deferred tax credit, or liability, for another tax jurisdiction, such as for state or local income tax purposes.) For further information on calculating deferred taxes for different tax jurisdictions, see the Glossary entry for “income taxes.”

Line Item 9 Other borrowed money.

Report in the appropriate subitem the amount borrowed by the Reporter.

Line Item 9(a) Commercial paper.

Report the total amount outstanding of commercial paper issued by the Reporter or its subsidiaries. (See the Glossary entry for “commercial paper” for a description of commercial paper.)

Line Item 9(b) Other borrowed money with a remaining maturity of one year or less.

Report the total amount of money borrowed by the Reporter with a remaining maturity of one year or less. For purposes of this item, remaining maturity is the amount of time remaining from the report date until final contractual maturity of a borrowing without regard to the borrowing’s repayment schedule, if any.

Report in this item mortgage indebtedness and obligations under capitalized leases with a remaining maturity of one year or less. Report the amount of mortgages, liens, or other encumbrances on premises and fixed assets for which the Reporter or its consolidated subsidiaries are liable. If the Reporter is the lessee on capitalized lease property, include the Reporter’s liability for capitalized lease payments. (See the Glossary entry for “lease accounting” for a discussion of accounting with Reporter as lessee.)

Report the total amount of money borrowed with a remaining maturity of one year or less:

- (1) On its promissory notes;
- (2) On notes and bills rediscounted (including commodity drafts rediscounted);
- (3) On financial assets (other than securities) sold under repurchase agreements that have an original maturity of more than one business day and sales of participations in pools of loans that have an original maturity of more than one business day;
- (4) By transferring financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) in transactions that do not satisfy the criteria for sale treatment under ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, *Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended) (see the Glossary entry for “transfers of financial assets” for further information);
- (5) By the creation of due bills representing the Reporter’s receipt of payment and similar instruments, whether collateralized or uncollateralized (see the Glossary entry for “due bills”);

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- (6) From Federal Reserve Banks;
- (7) By overdrawing “due from” balances with depository institutions, except overdrafts arising in connection with checks or drafts drawn by subsidiary depository institutions of the Reporter 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 or drafts drawn in the normal course of business during the period until the amount of the checks or drafts is remitted to the other depository institution (in which case, report the funds received or held in connection with such checks or drafts as deposits until the funds are remitted);
- (8) By borrowing immediately available funds in foreign offices that have an original maturity of one business day or roll over under a continuing contract that are not securities repurchase agreements;
- (9) On Federal Home Loan Bank advances; and
- (10) On any other obligation for the purpose of borrowing money that has a remaining maturity of one year or less and that is not reported elsewhere.

(For a discussion of borrowings in foreign offices, see the Glossary entry for “borrowings and deposits in foreign offices.”)

Exclude from this item the following:

- (1) Securities sold under agreements to repurchase (report in Schedule IRC, item 27, “Securities sold under agreements to repurchase”);
- (2) Liabilities resulting from the sales of assets that the Reporter or its consolidated subsidiaries does not own (see the Glossary entry for “short position”) (report in Schedule IRC, item 28, “Trading liabilities”); and
- (3) Subordinated notes and debentures (report in Schedule IRC, item 30(a), “Subordinated notes and debentures”).

Line Item 9(c) Other borrowed money with a remaining maturity of more than one year.

For purposes of this item, remaining maturity is the amount of time remaining from the report date until final contractual maturity of a borrowing without regard to the borrowing’s repayment schedule, if any.

Report in this item mortgage indebtedness and obligations under capitalized leases with a remaining maturity of more than year. Report the amount of mortgages, liens, or other encumbrances on premises and fixed assets for which the Reporter or its consolidated subsidiaries are liable.

If the Report is the lessee on capitalized lease property, include the Reporter’s liability for capitalized lease payments. (See the Glossary entry for “lease accounting” for a discussion of accounting with Reporter as lessee.)

Report the total amount of money borrowed by the Reporter with a remaining maturity of more than one year:

- (1) On its promissory notes;
- (2) In the form of perpetual debt securities that are unsecured and not subordinated;
- (3) On notes and bills rediscounted (including commodity drafts rediscounted);

Schedule IRC-M

- (4) On loans sold under repurchase agreements that mature in more than one business day;
- (5) On Federal Home Loan Bank advances; and
- (6) On any other obligation with a remaining maturity of more than one year for the purpose of borrowing money that is not reported elsewhere.

NOTE: When the Reporter has explicitly or implicitly guaranteed the long-term debt of its Employee Stock Ownership Plan (ESOP), report in this item the dollar amount outstanding of the long-term debt guaranteed.

For a discussion of borrowings in foreign offices, see the Glossary entry for “borrowings and deposits in foreign offices.”

Exclude from this item the following:

- (1) Securities sold under agreements to repurchase (report in Schedule IRC, item 27, “Securities sold under agreements to repurchase”);
- (2) Liabilities resulting from the sales of assets that the Reporter or its consolidated subsidiaries do not own (see the Glossary entry for “short position”) (report in Schedule IRC, item 28 “Trading liabilities”); and
- (3) Subordinated notes and debentures (report in Schedule IRC, item 30(a) “Subordinated notes and debentures”).

General:

Line Item 10 Has the Reporter entered into a business combination during the calendar year that was accounted for by the purchase method of accounting?

Enter a “1” for yes if the Reporter consummated the acquisition of another company during the calendar year that was accounted for by the purchase method of accounting. Enter “0” for no if the Reporter consummated no business combinations during the calendar year.

Line Item 11 Has the Reporter restated its financial statements during the last quarter as a result of new or revised Statements of Financial Accounting Standards?

Enter a “1” for yes if the Reporter has restated its financial statements during the quarter ending with the report date because a new or revised Statement of Financial Accounting Standards (SFAS) was implemented. Enter a “0” if no financial statements were revised as a result of the implementation of a new or revised SFAS. If the response to this question is “yes,” restated financial statements that reflect those changes in accounting standards should be submitted to the appropriate Federal Reserve District Bank as soon as possible.

Line Item 12 Have all changes in investments and activities been reported to the Federal Reserve on the Report of Changes in Organizational Structure (FR Y-10).

Enter a “1” for yes if the Reporter has submitted all changes, if any, in its investments and activities on the FR Y-10. If the Reporter had no changes in investments and activities and therefore was not required to file a FR Y-10, also enter a “1” in this item. Enter a “0” for no if it has not yet submitted all changes to investments and activities on the FR Y-10. **(If the answer to this question is no, the Reporter must complete the FR Y-10 report.)** The name of the official responsible for verifying that the FR Y-10 has been completed should be typed or printed on the line provided whether the answer is “yes,” or “no.” In addition, enter the area code

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and phone number of the official responsible for verifying the FR Y-10.

Line Item 13 Does the Reporter sell private label or third party mutual funds and annuities?

Indicate whether the Reporter currently sells private label or third party mutual funds and annuities. Enter a "1" for yes if the Reporter, Reporter subsidiary or other affiliate, or an unaffiliated entity sells private label or third party mutual funds and annuities:

- (1) On premises of the Reporter;
- (2) From which the Reporter receives income at the time of the sale or over the duration of the account (e.g., annual fees, Rule 12b-1 fees or "trailer fees," and redemption fees); or
- (3) Through the Reporter's trust department in transactions that are not executed in a fiduciary capacity (e.g., trustee, executor, administrator, conservator).

Otherwise, enter "0" for no.

Mutual fund is the common name for an open-end investment company whose shares are sold to the investing public. An annuity is 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 an organization's customers.

A proprietary product is a product for which the Reporter or a subsidiary or other affiliate of the Reporter acts as investment adviser and may perform additional support services. In a private label product, an unaffiliated entity acts as the investment adviser. The identity of the investment adviser is normally disclosed in the prospectus for a mutual fund or annuity. Mutual funds and annuities that are not proprietary or private label products are considered third party products. For example, third party mutual funds and annuities include products that are widely marketed by numerous parties to the investing public and have investment advisers that are not affiliated with the Reporter.

Line Item 14 Assets under management in proprietary mutual funds and annuities.

Report the amount of assets (stated in U.S. dollars) held by mutual funds and annuities as of the report date for which the Reporter or a subsidiary of the Reporter acts as investment adviser. A general description of a proprietary product is included in the instruction to item 13, above. If neither the Reporter nor any subsidiary of the Reporter acts as investment adviser for a mutual fund or annuity, the Reporter should report a zero in this item.

LINE ITEM INSTRUCTIONS FOR

Variable Interest Entities

Schedule IRC-V

General Instructions

A variable interest entity (VIE), as described in ASC Topic 810, Consolidation (formerly FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, as amended by FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*), is an entity in which equity investors do not have sufficient equity at risk for that entity to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack one or more of the following three characteristics: (a) the power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity's economic performance, (b) the obligation to absorb the expected losses of the entity, or (c) the right to receive the expected residual returns of the entity.

Variable interests in a VIE are contractual, ownership, or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. When a Reporter or other company has a variable interest or interests in a VIE, ASC Topic 810 provides guidance for determining whether the Reporter or other company must consolidate the VIE. If a Reporter or other company has a controlling financial interest in a VIE, it is deemed to be the primary beneficiary of the VIE and, therefore, must consolidate the VIE. For further information, see the Glossary entry for "variable interest entity."

Schedule IRC-V collects information on VIEs that have been consolidated by the Reporter because the Reporter or a consolidated subsidiary is the primary beneficiary of the VIE. Schedule IRC-V should be completed on a fully consolidated basis, i.e., after eliminating intercompany transactions. The asset and liability amounts to be reported in Schedule IRC-V should be the same amounts at which these assets and liabilities are reported on Schedule IRC, Consolidated Balance Sheet, e.g., held-to-maturity securities should be reported at amortized cost and available-for-sale securities should be reported at fair value.

Column Instructions

Column A, Securitization Vehicles: Securitization vehicles include VIEs that have been created to pool and repackage mortgages, other assets, or other credit exposures into securities that can be transferred to investors.

Column B, ABCP Conduits: Asset-backed commercial paper (ABCP) conduits include VIEs that primarily issue externally rated commercial paper backed by assets or other exposures.

Column C, Other VIEs: Other VIEs include VIEs other than securitization vehicles and ABCP conduits. For purposes of Schedule IRC-V, information about each consolidated VIE should be included in only one of the three columns of the schedule. The column selected for a particular consolidated VIE should be based on the purpose and design of the VIE and this column should be used consistently over time.

Item Instructions

Line Item 1 Assets of consolidated variable interest entities (VIEs) that can be used only to settle obligations of the consolidated VIEs.

Report in the appropriate subitem and column those assets of consolidated VIEs reported in Schedule IRC, Consolidated Balance Sheet, that can be used only to settle obligations of the same consolidated VIEs and any related allowance for loan and lease losses. Exclude assets of consolidated VIEs that cannot be used only to settle obligations of the same consolidated VIEs (report such assets in item 3, below).

Line Item 1(a) Fixed maturity securities.

Report in the appropriate column the amount of fixed maturity securities held by consolidated VIEs included in Schedule IRC, item 1, "Fixed maturity securities" that can be used only to settle obligations of the same consolidated VIEs.

Line Item 1(b) Equity securities.

Report in the appropriate column the amount of equity securities held by consolidated VIEs included in Schedule IRC, item 2, "Equity securities" that can be used only to settle obligations of the same consolidated VIEs.

Line Item 1(c) Trading assets (other than derivatives).

Report in the appropriate column the amount of trading assets (other than derivatives) held by consolidated VIEs included in Schedule IRC, item 3, "Trading assets" that can be used only to settle obligations of the same consolidated VIEs.

Line Item 1(d) Derivative trading assets.

Report in the appropriate column the amount of derivative trading assets held by consolidated VIEs included in Schedule IRC, item 3, "Trading assets" that can be used only to settle obligations of the same consolidated VIEs.

Line Item 1(e) Loans and leases held for sale.

Report in the appropriate column the amount of loans and leases held for sale by consolidated VIEs included in Schedule IRC, item 4, "Loans and leases net of unearned income and allowance" that can be used only to settle obligations of the same consolidated VIEs.

Line Item 1(f) Loans and leases, net of unearned income.

Report in the appropriate column the amount of loans and leases held for investment by consolidated VIEs included in Schedule IRC, item 4, "Loans and leases net of unearned income and allowance" that can be used only to settle obligations of the same consolidated VIEs.

Line Item 1(g) LESS: Allowance for loan and lease losses.

Report in the appropriate column the amount of the allowance for loan and lease losses (included in Schedule IRI-B, Part B, item 7, "Total allowance for loans and lease losses") held by consolidated VIEs allocated to these consolidated VIEs' loans and leases held for investment that can be used only to settle obligations of the same consolidated VIEs and are reported in item 1(f), above.

Schedule IRC-V

Line Item 1(h) Securities purchased under agreements to resell.

Report in the appropriate column the amount of securities purchased under agreements to resell held by consolidated VIEs included in Schedule IRC, item 7, "Securities purchased under agreements to resell" that can be used only to settle obligations of the same consolidated VIEs.

Line Item 1(i) Cash and cash equivalents.

Report in the appropriate column the amount of cash and cash equivalents held by consolidated VIEs included in Schedule IRC, item 10, "Cash and cash equivalents" that can be used only to settle obligations of the same consolidated VIEs.

Line Item 1(j) Other assets.

Report in the appropriate column the amount of all other assets held by consolidated VIEs included in Schedule IRC, item 19, "Other assets" and not reported in items 1(a) through 1(i), above, that can be used only to settle obligations of the same consolidated VIEs.

Line Item 2 Liabilities of consolidated VIEs for which creditors do not have recourse to the general credit of the Reporter.

Report in the appropriate subitem and column those liabilities of consolidated VIEs reported in Schedule IRC, Consolidated Balance Sheet, for which creditors do not have recourse to the general credit of the Reporter. Exclude liabilities of consolidated VIEs for which creditors have recourse to the general credit of the Reporter (report such liabilities in item 4, below).

Line Item 2(a) Securities sold under agreements to repurchase.

Report in the appropriate column the amount of securities sold under agreements to repurchase by consolidated VIEs reported in Schedule IRC, item 27, "Securities sold under agreements to repurchase", for which the holders of these repurchase agreements do not have recourse to the general credit of the Reporter.

Line Item 2(b) Derivative trading liabilities.

Report in the appropriate column the amount of derivative trading liabilities of consolidated VIEs reported in Schedule IRC, item 28, "Trading liabilities" for which the derivative counterparties do not have recourse to the general credit of the Reporter.

Line Item 2(c) Commercial paper.

Report in the appropriate column the amount of commercial paper issued by consolidated VIEs reported in Schedule IRC, item 29, "Other borrowed money" for which the holders of this commercial paper do not have recourse to the general credit of the Reporter.

Line Item 2(d) Other borrowed money (exclude commercial paper).

Report in the appropriate column the amount of other borrowed money (other than commercial paper) of consolidated VIEs reported in Schedule IRC, item 29, "Other borrowed money" for which the creditors on these borrowings do not have recourse to the general credit of the Reporter.

Line Item 2(e) Other liabilities.

Report in the appropriate column the amount of all other liabilities of consolidated VIEs included in Schedule IRC, item 33, "Total liabilities" and not reported in items 2(a) through 2(d), above, for which the creditors on these liabilities do not have recourse to the general credit of the Reporter.

Schedule IRC-V

Line Item 3 All other assets of consolidated VIEs.

Report in the appropriate column the amount of assets of consolidated VIEs reported in Schedule IRC, items 1 through 20 that have not been included in items 1(a) through 1(j), above. Loans and leases held for investment that are included in this item should be reported net of any allowance for loan and lease losses allocated to these loans and leases.

Line Item 4 All other liabilities of consolidated VIEs.

Report in the appropriate column the amount of liabilities of consolidated VIEs reported in Schedule IRC, items 22 through 32 that have not been included in item 2(a) through 2(e), above.

LINE ITEM INSTRUCTIONS FOR Notes to the Balance Sheet

This section has been provided to allow Reporters that so wish to explain the content of specific items in the balance sheet. The Reporter should include any transactions reported on Schedules IRC through IRC-V that it wishes to explain or that have been separately disclosed in the Reporter's quarterly reports to its shareholders, in its press releases, or on its quarterly reports to the SEC. Also include any transactions which previously would have appeared as footnotes to Schedules IRC through IRC-V.

Report in the space provided the schedule and line item for which the Reporter is specifying additional information, a description of the transaction and, in the column provided, and the dollar amount associated with the transaction being disclosed.

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Accounting Changes: *Changes in accounting principles*— The accounting principles that Reporters have adopted for the preparation of their FR 2085 should be changed only if (a) the change is required by a newly issued accounting pronouncement or (b) the Reporter can justify the use of an allowable alternative accounting principle on the basis that it is preferable when there are two or more generally accepted accounting principles for a type of event or transaction. If a Reporter changes from the use of one acceptable accounting principle to one that is more preferable at any time during the calendar year, it must report the income or expense item(s) affected by the change for the entire year on the basis of the newly adopted accounting principle regardless of the date when the change is actually made. However, a change from an accounting principle that is neither accepted nor sanctioned by the Federal Reserve to one that is acceptable to the Federal Reserve is to be reported as a correction of an error as discussed below.

New accounting pronouncements that are adopted by the Financial Accounting Standards Board (or such other body officially designated to establish accounting principles) generally include transition guidance on how to initially apply the pronouncement. In general, the pronouncements require (or allow) a Reporter to use one of the following approaches, collectively referred to as “retrospective application”:

- apply a different accounting principle to one or more previously issued financial statements; or
- make a cumulative-effect adjustment to retained earnings, assets, and/or liabilities at the beginning of the period as if that principle had always been used.

Because each Report of Income covers a single discrete period, only the second approach under retrospective application is permitted in the FR 2085. Therefore, when an accounting pronouncement requires the application of either of the approaches under retrospective application, Reporters must report the effect on the amount of retained earnings at the beginning of the year in which the new pronouncement is first adopted for purposes of the FR 2085 (net of applicable income taxes, if any) as a direct adjustment to equity capital in Schedule IRI-A, item 2.

In the FR 2085 in which a change in accounting principle is first reflected, the Reporter is encouraged to include an explanation of the nature and reason for the change in accounting principle in the “Notes to the Income Statement.”

Changes in accounting estimates—Accounting and the preparation of financial statements involve the use of estimates. As more current information becomes known, estimates may be changed. In particular, accruals are derived from estimates based on judgments about the outcome of future events and changes in these estimates are an inherent part of accrual accounting.

Reasonable changes in accounting estimates do not require the restatement of amounts of income and expenses and assets, liabilities, and capital reported in previously submitted FR 2085 reports. Computation of the cumulative effect of these changes is also not ordinarily necessary. Rather, the effect of such changes is handled on a prospective basis. That is, beginning in the period when an accounting estimate is revised, the related item of income or expense for that period is adjusted accordingly. For example, if the Reporter’s estimate of the remaining useful life of certain Reporter equipment is increased, the remaining undepreciated cost of the equipment would be spread over its revised remaining useful life. Similarly, immaterial accrual adjustments to items of income and expenses, including provisions for loan and lease losses and income taxes, are considered changes in accounting estimates and would be taken into account by adjusting the affected income and expense accounts for the year in which the adjustments were found to be appropriate.

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However, large and unusual changes in accounting estimates may be more properly treated as constituting accounting errors, and if so, must be reported accordingly as described below.

Corrections of accounting errors – A Reporter may become aware of an error in its FR 2085 after it has been submitted to the Federal Reserve through either its own or the Federal Reserve’s discovery of the error. An error in the recognition, measurement, or presentation of an event or transaction included in a report for a prior period may result from:

- a mathematical mistake;
- a mistake in applying accounting principles; or
- the oversight or misuse of facts that existed when the FR 2085 for prior periods were prepared.

According to SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), the effects of prior year errors or misstatements (“carryover effects”) should be considered when quantifying misstatements identified in current year financial statements. SAB 108 describes two methods for accumulating and quantifying misstatements. These methods are referred to as the “rollover” and “iron curtain” approaches:

- The rollover approach “quantifies a misstatement based on the amount of the error originating in the current year income statement” only and ignores the “carryover effects” of any related prior year misstatements. The primary weakness of the rollover approach is that it fails to consider the effects of correcting the portion of the current year balance sheet misstatement that originated in prior years.
- The iron curtain approach “quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement’s year(s) of origination.” The primary weakness of the iron curtain approach is that it does not consider the correction of prior year misstatements in the current year financial statements to be errors because the prior year misstatements were considered immaterial in the year(s) of origination. Thus, there could be a material misstatement in the current year income statement because the correction of the accumulated immaterial amounts from prior years is not evaluated as an error.

Because of the weaknesses in these two approaches, SAB 108 states that the impact of correcting all misstatements on current year financial statements should be accomplished by quantifying an error under both the rollover and iron curtain approaches and by evaluating the error measured under each approach. When either approach results in a misstatement that is material, after considering all relevant quantitative and qualitative factors, an adjustment to the financial statements would be required. Guidance on the consideration of all relevant factors when assessing the materiality of misstatements is provided in SEC Staff Accounting Bulletin No. 99, *Materiality* (SAB 99) (codified as Topic 1.M. in the Codification of Staff Accounting Bulletins). For purposes of the FR 2085, all Reporters should follow the sound accounting practices described in SAB 108 and SAB 99. Accordingly, Reporters should quantify the impact of correcting misstatements, including both the carryover and reversing effects of prior year misstatements, on their current year reports by applying both the “rollover” and “iron curtain” approaches and evaluating the impact of the error measured under each approach. When the misstatement that exists after recording the adjustment in the current year FR 2085 is material (considering all relevant quantitative and qualitative factors), the appropriate prior year report(s) should be amended, even though such revision previously was and continues to be immaterial to the prior year report(s). If the misstatement that exists after recording the adjustment in the current year FR 2085 is not material, then amending the immaterial errors in prior year reports would not be necessary.

When the Federal Reserve determines that the Reporter’s FR 2085 contains a material accounting error, the Reporter may be directed to file amended condition and/or income report data for each prior period that was significantly affected by the error. Normally, such refilings will not result in restatements of reports for periods exceeding five years. If amended reports are not required, the Reporter should report the effect of such

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corrections on retained earnings at the beginning of the year, net of applicable income taxes, in Schedule IRI-A, item 2, “Cumulative effect of changes in accounting principles and corrections of material accounting errors.” The effect of such corrections on income and expenses since the beginning of the year in which the error is discovered should be reflected in each affected income and expense account on a year-to-date basis in the next quarterly FR 2085 to be filed and not as a direct adjustment to retained earnings.

In addition, a change from an accounting principle that is neither accepted nor sanctioned by the Federal Reserve to one that is acceptable to the Federal Reserve is to be reported as a correction of an error. When such a change is implemented, the cumulative effect that applies to prior periods, calculated in the same manner as described above for other changes in accounting principles, should be reported in Schedule IRI-A, item 2, “Cumulative effect of changes in accounting principles and corrections of material accounting errors.” In most cases of this kind undertaken voluntarily by the Reporter in order to adopt more acceptable accounting practices, such a change will not result in a request for amended reports for prior periods unless substantial distortions in the Reporter’s previously reported results are in evidence.

In the FR 2085 in which the correction of an error is first reflected, the Reporter is encouraged to include an explanation of the nature and reason for the correction in the “Notes to the Income Statement.”

For further information on these three topics, see ASC Topic 250, Accounting Changes and Error Corrections (formerly FASB Statement No. 154, *Accounting Changes and Error Corrections*).

Allowance for Loan and Lease Losses: Each Reporter must maintain an allowance for loan and lease losses (allowance) at a level that is appropriate to cover estimated credit losses associated with its loan and lease portfolio, i.e., loans and leases that the Reporter has intent and ability to hold for the foreseeable future or until maturity or payoff. Each Reporter should also maintain, as a separate liability account, an allowance at a level that is appropriate to cover estimated credit losses associated with off-balance sheet credit instruments such as off-balance sheet loan commitments, standby letters of credit, and guarantees. This separate allowance should be reported in Schedule IRC, item 31, “Other liabilities,” not as part of the “Total allowance for loan and lease losses” in Schedule IRI-B, Part B, item 7.

With respect to the loan and lease portfolio, the term “estimated credit losses” means an estimate of the current amount of loans and leases that it is probable the Reporter will be unable to collect given facts and circumstances as of the evaluation date. Thus, estimated credit losses represent net charge-offs that are likely to be realized for a loan or pool of loans. These estimated credit losses should meet the criteria for accrual of a loss contingency (i.e., through a provision to the allowance) set forth in generally accepted accounting principles (GAAP).

As of the end of each quarter, or more frequently if warranted, the management of each Reporter must evaluate, subject to examiner review, the collectibility of the loan and lease portfolio, including any recorded accrued and unpaid interest (i.e., not already reversed or charged off), and make entries to maintain the balance of the allowance for loan and lease losses on the balance sheet at an appropriate level. Management must maintain reasonable records in support of their evaluations and entries. Furthermore, each Reporter is responsible for ensuring that controls are in place to consistently determine the allowance for loan and lease losses in accordance with GAAP (including ASC Subtopic 450-20 Contingencies—Loss Contingencies (formerly FASB Statement No. 5, *Accounting for Contingencies*) and ASC Topic 310, Receivables (formerly FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*), the Reporter’s stated policies and procedures, management’s best judgment and relevant supervisory guidance.

Additions to, or reductions of, the allowance account resulting from such evaluations are to be made through charges or credits to the “provision for loan and lease losses” (provision) in the FR 2085. When available information confirms that specific loans and leases, or portions thereof, are uncollectible, these amounts should be promptly charged off against the allowance. All charge-offs of loans and leases shall be charged directly

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to the allowance. Under no circumstances can loan or lease losses be charged directly to “Retained earnings.” Recoveries on loans and leases represent collections on amounts that were previously charged off against the allowance. Recoveries shall be credited to the allowance, provided, however, that the total amount credited to the allowance as recoveries on an individual loan (which may include amounts representing principal, interest, and fees) is limited to the amount previously charged off against the allowance on that loan. Any amounts collected in excess of this limit should be recognized as income.

ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*) prohibits a Reporter from “carrying over” or creating loan loss allowances in the initial accounting for “purchased impaired loans,” i.e., loans that a Reporter has purchased where there is evidence of deterioration of credit quality since the origination of the loan and it is probable, at the purchase date, that the Reporter will be unable to collect all contractually required payments receivable. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a purchase business combination. However, if, upon evaluation subsequent to acquisition, based on current information and events, it is probable that the Reporter is unable to collect all cash flows expected at acquisition (plus additional cash flows expected to be collected arising from changes in estimate after acquisition) on a purchased impaired loan (not accounted for as a debt security), the loan should be considered impaired for purposes of establishing an allowance pursuant to ASC Subtopic 450-20 or ASC Topic 310, as appropriate. When a Reporter makes a full or partial direct write-down of a loan or lease that is uncollectible, the Reporter establishes a new cost basis for the asset. Consequently, once a new cost basis has been established for a loan or lease through a direct write-down, this cost basis may not be “written up” at a later date. Reversing the previous write-down and “re-booking” the charged-off asset after the Reporter concludes that the prospects for recovering the charge-off have improved, regardless of whether the Reporter assigns a new account number to the asset or the borrower signs a new note, is not an acceptable accounting practice.

The allowance account 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 appropriate level *must* be charged to expense on the income statement *immediately*. A Reporter 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.

To the extent that a Reporter’s reserve for bad debts for tax purposes is greater than or less than its “allowance for loan and lease losses” on the balance sheet of the FR 2085, the difference is referred to as a temporary difference. See the Glossary entry for “income taxes” for guidance on how to report the tax effect of such a temporary difference.

Recourse liability accounts that arise from recourse obligations for any transfers of loans that are reported as sales for purposes of these reports should *not* be included in the allowance for loan and lease losses. These accounts are considered separate and distinct from the allowance account and from the allowance for credit losses on off-balance sheet credit exposures. Recourse liability accounts should be reported in Schedule IRC, item 31, “Other liabilities.”

For comprehensive guidance on the maintenance of an appropriate allowance for loan and lease losses, Reporters should refer to the Interagency Policy Statement on the Allowance for Loan and Lease Losses dated December 13, 2006. Information on the application of ASC Topic 310, Receivables, to the determination of an allowance for loan and losses on those loans covered by that accounting standard is provided in the Glossary entry for “loan impairment.”

For information on reporting on foreclosed and repossessed assets, see the Glossary entry for “foreclosed assets.”

Bankers’ Acceptances: A banker’s acceptance, for purposes of these reports, is a draft or bill of exchange that has been drawn on and accepted by a banking institution (the “accepting bank”) or its agent for payment by

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that institution at a future date that is specified in the instrument. Funds are advanced to the drawer of the acceptance by the discounting of the accepted draft either by the accepting bank or by others; the accepted draft is negotiable and may be sold and resold subsequent to its original discounting. At the maturity date specified, the holder or owner of the acceptance at that date, who has advanced funds either by initial discount or subsequent purchase, presents the accepted draft to the accepting bank for payment.

The accepting bank has an unconditional obligation to put the holder in funds (to pay the holder the face amount of the draft) on presentation on the specified date. The account party (customer) has an unconditional obligation to put the accepting bank in funds at or before the maturity date specified in the instrument.

The following description covers the treatment in the FR 2085 of (1) acceptances that have been executed by a bank subsidiary of the Reporter, that is, those drafts that have been drawn on and accepted by a subsidiary bank; (2) “participations” in acceptances, that is, “participations” in the accepting bank’s obligation to put the holder of the acceptance in funds at maturity, or participations in the accepting bank’s risk of loss in the event of default by the account party; and (3) acceptances owned by the Reporter or its subsidiaries, that is, those acceptances—whether executed by the Reporter’s subsidiary banks or by others—that a bank subsidiary has discounted or that any subsidiary of the Reporter has purchased.

- (1) *Acceptances executed by a subsidiary bank of the Reporter.* With the exceptions described below, the Reporter must report on its balance sheet the full amount of the acceptance in both (a) the liability item, “Other liabilities” (Schedule IRC, item 31), reflecting the subsidiary bank’s obligation to put the holder of the acceptance in funds at maturity, and (b) the asset item, “Other assets” (Schedule IRC, item 19), reflecting the account party’s liability to put the accepting bank subsidiary in funds at or before maturity.
- (2) Exceptions to the mandatory reporting by the Reporter of the full amount of all outstanding drafts accepted by the bank subsidiary(ies) of the Reporter in both “Other liabilities” (Schedule IRC, item 31) and “Other assets” (Schedule IRC, item 19) on the Consolidated Balance sheet of the FR 2085 occur in the following situations:
 - (a) One exception occurs in situations where the accepting bank acquires—through initial discounting or subsequent purchase—and holds its own acceptance (i.e., a draft that it has itself accepted). In this case, the bank subsidiary’s own acceptances that are held by it will not be reported in the “Other liabilities” and “Other assets” items noted above. The bank subsidiary’s holdings of its own acceptances will be reported either in “Loans and leases, net of unearned income” (Schedule IRC, item 4) or, if held in a trading account, in “Trading assets” (Schedule IRC, item 3).
 - (b) A second exception occurs where the parent Reporter or a subsidiary of the Reporter (other than the accepting bank subsidiary) purchases an acceptance executed by one of the Reporter’s subsidiary banks. In this case, the process of consolidation eliminates the consolidated Reporter’s liability on acceptances and outstanding and the customers’ liability to the accepting bank on acceptances outstanding will be reported either in Schedule IRC, item 3 or item 4.
 - (c) A third exception occurs in situations where the account party anticipates its liability to a bank subsidiary of the Reporter on an acceptance outstanding by making a payment to the bank that reduces the customer’s liability in advance of the maturity of the acceptance. In this case, the Reporter will decrease the asset item “Other assets” (Schedule IRC, item 19) by the amount of such prepayment; the prepayment will not affect the liability item “Other liabilities” (Schedule IRC, item 31) which would continue to reflect the full amount of the acceptance until the bank subsidiary has repaid the holder of the acceptance at the maturity date specified in the instrument. If the account party’s payment to the accepting bank before the maturity date is not for the purpose of immediate reduction of its indebtedness to the reporting bank or if receipt of the payment does not immediately reduce or extinguish that indebtedness, such advance payment will not reduce item 19 of Schedule IRC but should be reflected in the bank’s deposit liabilities.

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- (d) A fourth exception occurs when the Reporter has a subsidiary of the Reporter (other than the accepting bank) that is the account party (customer) in the acceptance transaction. In this case, the process of consolidation eliminates the asset item but will leave the liability item (item 31) unaffected except where the Reporter or one of its consolidated subsidiaries purchases the acceptance executed. In all situations other than these four exceptions just described, the Reporter's financial statement must reflect the full amount of its acceptances in "Other liabilities" (Schedule IRC, item 31) and in "Other assets" (Schedule IRC, item 19).

In all situations other than these four exceptions just described, the Reporter's financial statement must reflect the full amount of its acceptances in "Other liabilities" (Schedule IRC, item 31) and in "Other assets" (Schedule IRC, item 19).

- (3) "*Participations*" in acceptances. The general requirement for the accepting bank to report on its balance sheet the full amount of the total obligation to put the holder of the acceptance in funds applies also, in particular, to any situation in which the accepting bank enters into any kind of arrangement with others for the purpose of having the latter share, or participate, in the obligation to put the holder of the acceptance in funds at maturity or in the risk of loss in the event of default on the part of the account party.⁶ In any such sharing arrangement or participation agreement—regardless of its form or its contract provisions, regardless of the terminology (e.g., "funded," "risk," "unconditional," or "contingent") used to describe it and the relationships under it, regardless of whether it is described as a participation in the customer's liability or in the accepting bank's obligation or in the risk of default by the account party, and regardless of the system of debits and credits used by the accepting bank to reflect the participation arrangement—the existence of the participation or other agreement should not reduce the accepting bank's obligation to honor the full amount of the acceptance at maturity.

The existence of such participations should not be recorded on the balance sheet of the accepting bank subsidiary nor on the consolidated balance sheet (Schedule IRC) of the Reporter (except for immaterial amounts) that conveys shares in its obligation to put the holder of the acceptance in funds or shares in its risk of loss in the event of default on the part of the account party, and similarly is not to be recorded on the consolidated balance sheets (Schedule IRC) of the other Reporters or their subsidiaries that are party to, or acquire, such participations.

Acceptances owned by the Reporter. The treatment of acceptances owned or held by the Reporter (whether acquired by initial discount or subsequent purchase) depends upon whether the acceptances are held in trading account or in portfolio and upon whether the acceptances held have been accepted by a bank subsidiary of the Reporter or by a bank that is not a subsidiary of the Reporter. All acceptances held by the Reporter in trading accounts (whether acceptances of a bank of the Reporter or of banks outside the Reporter) are to be reported in Schedule IRC, item 3, "Trading assets." Reporters that must complete Schedule IRC-D, "Trading Assets and Liabilities," will identify their holdings in item 4, "Other trading assets." The Reporter's holdings of acceptances other than those in its trading account (whether acceptances of a bank subsidiary of the Reporter or of banks outside the Reporter) are to be reported in Schedule IRC, item 4, "Loans and leases, net of unearned income," and in Schedule IRC-C which calls for detail on "Loans and lease financing receivables."

In Schedule IRC-C, Part A, the Reporter's holdings of acceptances of banks outside the Reporter, other than those held in trading accounts, are to be reported in "Loans to depository institutions and acceptances of other banks" (item 2). On the other hand, the Reporter's holdings of acceptances of its bank subsidiaries, other than those held in trading accounts, are to be reported in Schedule IRC-C according to the account party of the draft. Thus, holdings of acceptances of bank subsidiaries for which the account parties are commercial or

⁶ The discussion does not deal with participation in holdings of bankers acceptances, which are reportable under loans. Such participations are treated like any participating in loans.

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industrial enterprises are to be reported in Schedule IRC-C, Part A, in “Commercial and industrial loans” (item 4); holdings of acceptances of subsidiary banks for which the account parties are banks outside the Reporter (e.g., in connection with the refinancing of another acceptance or for the financing of dollar exchange) are to be reported in Schedule IRC-C, Part A, in “Loans to depository institutions and acceptances of other banks” (item 2); and holdings of acceptances of subsidiary banks for which the account parties are foreign governments or official institutions (e.g., for the financing of dollar exchange) are to be reported in Schedule IRC-C, Part A, “Loans to foreign governments and official institutions” (item 5).

The difference in treatment between holdings of acceptances of subsidiary banks and holdings of other banks’ acceptances reflects the fact that, for other banks’ acceptances, the Reporter’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 Reporter’s immediate claim is on the account party named in the accepted draft.

If the account party prepays its acceptance liability on an acceptance of a bank subsidiary of the Reporter that is held by the bank subsidiary (either in loans or trading account) so as to immediately reduce its indebtedness to the bank subsidiary, the recording of the holding—in “Commercial and industrial loans,” “Loans to depository institutions,” or “Assets held in trading accounts,” as appropriate—is reduced by the prepayment.

Banks, U.S. and Foreign: In the classification of banks as customers of the Reporter, distinctions are drawn for purposes of the FR 2085 between “U.S. banks” and “commercial banks in the U.S.” and between “foreign banks” and “banks in foreign countries.” Some report items call for one set of these categories and other items call for the other set. The distinctions center around the inclusion or exclusion of foreign branches of U.S. banks and U.S. branches and agencies of foreign banks. For purposes of describing the office location of banks as customers of the reporting bank, the term “U.S.” covers the 50 states of the U.S., the District of Columbia, Puerto Rico, and U.S. territories and possessions. (Furthermore, for Reporters headquartered in the 50 states of the U.S. and the District of Columbia, offices of the Reporter in Puerto Rico and U.S. territories and possessions are also included in “foreign” offices, but, for Reporters headquartered in Puerto Rico and U.S. territories and possessions, offices of the Reporter in Puerto Rico and U.S. territories and possessions are included in “domestic” offices.).

U.S. banks—The term “U.S. banks” covers both the U.S. and foreign branches of banks chartered and headquartered in the U.S. (including U.S.-chartered banks owned by foreigners), but excluding U.S. branches and agencies of foreign banks. On the other hand, the term “banks in the U.S.” or “commercial banks in the U.S.” (the institutional coverage of which is described in detail later in this entry) covers the U.S. offices of U.S. banks (including their IBFs) and the U.S. branches and agencies of U.S. banks.

Foreign banks—Similarly, the term “foreign banks” covers all branches of banks chartered and headquartered in foreign countries (including foreign banks owned by U.S. nationals and institutions), including their U.S.-domiciled branches and agencies, but excluding the foreign branches of U.S. banks. In contrast, the term “banks in foreign countries” covers foreign-domiciled branches of banks, including the foreign branches of U.S. banks, but excluding the U.S. branches and agencies of foreign banks.

The following table summarizes these contrasting categories of banks considered as customers as used in the Reports of Condition and Income (“X” indicates inclusion; no entry indicates exclusion.).

Commercial banks in the U.S.—The detailed institutional composition of “commercial banks in the U.S.” includes:

- (1) the U.S.-domiciled head offices and branches of:
 - (a) national banks;
 - (b) state-chartered commercial banks;
 - (c) trust companies that perform a commercial banking business;
 - (d) industrial banks;

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- (e) International Banking Facilities (IBFs) of U.S. banks;
- (f) Edge and Agreement corporations; and
- (g) private or unincorporated banks;

(2) the U.S.-domiciled branches and agencies of foreign banks (as defined below).

	U.S. bank	Commercial banks in the U.S.	Foreign banks	Banks in foreign countries
U.S. branches of U.S. banks (including IBFs).....	X	X		
Foreign branches of U.S. banks.....	X			X
Foreign branches of foreign banks			X	X
U.S. branches and agencies of foreign banks		X	X	

This coverage includes the U.S. institutions listed above that are owned by foreigners. Excluded from commercial banks in the U.S. are branches located in foreign countries of U.S. banks.

U.S. branches and agencies of foreign banks—U.S. branches of foreign banks include any offices or places of business of foreign banks that are located in the U.S. at which deposits are accepted. U.S. agencies of foreign banks generally include any offices or places of business of foreign banks that are located in the U.S. at which credit balances are maintained incidental to or arising out of the exercise of banking powers but at which deposits may not be accepted from citizens or residents of the U.S. For purposes of the FR 2085, the term “U.S. branches and agencies of foreign banks” covers:

- a) the U.S. branches and agencies of foreign banks;
- b) the U.S. branches and agencies of foreign official banking institutions, including central banks, nationalized banks, and other banking institutions owned by foreign governments; and
- c) investment companies that are chartered under Article XII of the New York State banking law and that are majority-owned by one or more foreign banks.

Banks in foreign countries—The institutional composition of “banks in foreign countries” includes:

- (1) the foreign-domiciled head offices and branches of:
 - (a) foreign commercial banks;
 - (b) foreign savings banks or discount houses;
 - (c) nationalized banks not functioning either as central banks, as foreign development banks, or as banks of issue;
 - (d) other similar foreign institutions that accept short-term deposits; and
- (2) the foreign-domiciled branches of U.S. banks.

Borrowings and Deposits in Foreign Offices: Borrowings in foreign offices include assets rediscounted with central banks, certain participations sold in loans and securities, government funding of loans, borrowings from the Export–Import Bank, and rediscounted trade acceptances. Federal funds sold and repurchase agreements in

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foreign offices should be reported in accordance with the Glossary entries for “federal funds transactions” and “repurchase/resale agreements.” Liability accounts such as accruals and allocated capital shall not be reported as borrowings. Deposits consist of such other short-term and long-term liabilities issued or undertaken as a means of obtaining funds to be used in the banking business and include those liabilities generally characterized as placements and takings, call money, and deposit substitutes. Key factors in determining if a liability is a deposit or borrowing are the provisions of the underlying contract. If no such contract exists the confirmation may be used to determine the nature of the liability.

Business Combinations: The accounting and reporting standards for business combinations are set forth in ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), *Business Combinations*). ASC Topic 805 requires that all business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, must be accounted for using the acquisition method. The use of the pooling-of-interests method to account for business combinations is prohibited. ASC Topic 805 applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. It does not apply to the formation of a joint venture, the acquisition of assets that do not constitute a business, or a combination between entities under common control. Except for some business combinations between two or more mutual institutions, business combinations for which the acquisition date was before the beginning of the first annual reporting period beginning on or after December 15, 2008, were accounted for using the purchase method as specified in former FASB Statement No. 141, *Business Combination*, which has been superseded by ASC Topic 805.

Acquisition method – Under the acquisition method, the acquirer in a business combination shall measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their acquisition-date fair values (with limited exceptions specified in ASC Topic 805) using the definition of fair value in ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, *Fair Value Measurements*). The acquisition date is generally the date on which the acquirer legally transfers the consideration, acquires the assets, and assumes the liabilities of the acquiree, i.e., the closing date. ASC Topic 805 requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values and the acquirer may not recognize a separate valuation allowance (e.g., allowance for loan and lease losses) for the contractual cash flows that are deemed to be uncollectible at that date. The consideration transferred in a business combination shall be calculated as the sum of the acquisition-date fair values of the assets (including any cash) transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer. Acquisition-related costs are costs the acquirer incurs to effect a business combination such as finder’s fees; advisory, legal, accounting, valuation, and other professional or consulting fees; and general administrative costs. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services received. The cost to register and issue debt or equity securities shall be recognized in accordance with other applicable generally accepted accounting principles.

ASC Topic 805 provides guidance for recognizing particular assets acquired and liabilities assumed. Acquired assets may be tangible (such as securities or fixed assets) or intangible (as discussed in the following paragraph). An acquiring entity must not recognize the goodwill, if any, or the deferred income taxes recorded by an acquired entity before its acquisition. However, a deferred tax liability or asset must be recognized for differences between the assigned values and the tax bases of the recognized assets acquired and liabilities assumed in a business combination in accordance with ASC Topic 740, Income Taxes (formerly FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). (For further information, see the Glossary entry for “income taxes.”)

Under ASC Topic 805, an intangible asset must be recognized as an asset separately from goodwill if it arises from contractual or other legal rights (regardless of transferability or separability). Otherwise, an intangible asset must be recognized as an asset separately from goodwill only if it is separable, that is, it is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged either

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individually or together with a related contract, identifiable asset, or liability. Examples of intangible assets that must be recognized as an asset separately from goodwill are core deposit intangibles, purchased credit card relationships, servicing assets, favorable leasehold rights, trademarks, trade names, internet domain names, and noncompetition agreements. These intangible assets must be reported in Schedule IRC, item 17, "Other intangible assets," and in Schedule IRC-M, item 6.

In general, the excess of the sum of the consideration transferred in a business combination plus the fair value of any noncontrolling interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with ASC Topic 805 must be recognized as goodwill, which is reported in Schedule IRC, item 16. An acquired intangible asset that does not meet the criteria described in the preceding paragraph must be included in the amount recognized as goodwill. After initial recognition, goodwill must be accounted for in accordance with ASC Topic 350, Intangibles-Goodwill and Other (formerly FASB Statement No. 142, *Goodwill and Other Intangible Asset*,) and the instructions for Schedule IRI, item 11, "General operating and other expenses."

In contrast, if the total acquisition-date amount of the identifiable net assets acquired exceeds the consideration transferred plus the fair value of any noncontrolling interest in the acquiree (i.e., a bargain purchase), the acquirer shall reassess whether it has correctly identified all of the assets acquired and all the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. If that excess remains after the review, the acquirer shall recognize that excess in earnings as a gain attributable to the acquirer on the acquisition date and report the amount in Schedule IRI, item 5, "Other income."

Under the acquisition method, the historical equity capital balances of the acquired business are not to be carried forward to the balance sheet of the combined Reporter. The operating results of the acquired business are to be included in the income and expenses of the Reporter only from the acquisition date.

Pooling-of-interests method – Under the pooling-of-interests method, the assets, liabilities, and capital of the Reporter and the business being acquired are added together on a line-by-line basis without any adjustments for fair value. The historical cost-based amount (cost adjusted for amortization of premiums and discounts or depreciation) of each asset, liability, and capital account of the acquiring Reporter is added to the corresponding account of the business being acquired to arrive at the balance sheet for the combined Reporter. However, the capital stock outstanding of the combined Reporter must be equal to the number of shares issued and outstanding (including the shares issued in connection with the acquisition) multiplied by par or stated value.

If the sum of the capital stock accounts of the entities being combined does not equal this amount (and it rarely, if ever, will), adjustment is required. If the sum of the capital stock accounts is less than the number of shares outstanding of the combined Reporter multiplied by par or stated value, "Surplus," Schedule IRC, item 36, must be debited for the amount of the difference and "Common stock," Schedule IRC, item 35, is credited. If the surplus account is insufficient to absorb such an adjustment, the remainder must be debited to "Retained earnings," Schedule IRC, item 37(a). If the sum of the capital stock accounts is more than the amount of the outstanding stock of the combined Reporter, "Surplus" must be credited and "Common stock" debited.

Any adjustments necessary to conform the accounting methods of the acquired entity to those of the Reporter must be made, net of related tax effects, to "Retained earnings."

For the year in which a pooling of interests occurs, income and expenses must be reported in Schedule IRI, Income Statement, as though the companies had combined at the beginning of the year. The portion of the adjustment necessary to conform the accounting methods applicable to the current period must also be allocated to income and expenses for the period.

Reorganization – A combination of two or more entities or businesses involving related parties, i.e., entities under common control, is considered a reorganization and not a business combination. For example, two subsidiary banks of a Reporter may combine into one institution, which is a change in legal organization but not a change in the

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entity. The assets and liabilities transferred in the combination are accounted for at historical cost in a manner similar to that described above under “pooling-of-interest method.” For the year in which a reorganization occurs, income and expenses must be reported in Schedule IRI, Income Statement, as though the entities had combined at the beginning of the year.

A Reporter’s investment in a bank or other business that was acquired in a business combination accounted for under the acquisition method may differ from the book value of the net assets in that bank’s or business’s financial statements because push down accounting was not applied. This situation will generally exist with respect to acquisitions that occurred prior to September 30, 1989.

For further information on the accounting for business combinations, see ASC Topic 805.

Capital Contributions of Cash and Notes Receivable: A Reporter may receive cash or a note receivable as a contribution to its equity capital. The transaction may be a sale of capital stock or a contribution to paid-in capital (surplus), both of which are referred to hereafter as capital contributions. The accounting for capital contributions in the form of notes receivable is set forth in ASC Subtopic 505-10, Equity - Overall (formerly EITF Issue No. 85-1, “Classifying Notes Received for Capital Stock”) and SEC Staff Accounting Bulletin No. 107 (Topic 4.E., Receivables from Sale of Stock, in the Codification of Staff Accounting Bulletins). This Glossary entry does not address other forms of capital contributions, for example, nonmonetary contributions to equity capital such as a building.

A capital contribution of cash should be recorded in a Reporter’s financial statements when received. Therefore, a capital contribution of cash prior to a quarter-end report date should be reported as an increase in equity capital in the Reporter’s reports for that quarter (in Schedule IRI-A, item 5 or 11, as appropriate). A contribution of cash after quarter-end should not be reflected as an increase in the equity capital of an earlier reporting period.

When a Reporter receives a note receivable rather than cash as a capital contribution, ASC Subtopic 505-10 states that it is generally not appropriate to report the note as an asset. As a consequence, the predominant practice is to offset the note and the capital contribution in the equity capital section of the balance sheet, i.e., the note receivable is reported as a reduction of equity capital. In this situation, the capital stock issued or the contribution to paid-in capital should be reported in Schedule IRC, item 34, 35, or 36, as appropriate, and the note receivable should be reported as a deduction from equity capital in Schedule IRC, item 37(c), “Other equity capital components.” No net increase in equity capital should be reported in Schedule IRI-A, Changes in Reporter Equity Capital. In addition, when a note receivable is offset in the equity capital section of the balance sheet, accrued interest receivable on the note also should be offset in equity (and reported as a deduction from equity capital in Schedule IRC, item 37.c), consistent with the guidance in ASC Subtopic 505-10. Because a nonreciprocal transfer from an owner or another party to an Reporter does not typically result in the recognition of income or expense, the accrual of interest on a note receivable that has been reported as a deduction from equity capital should be reported as additional paid-in capital rather than interest income.

However, ASC Subtopic 505-10 provides that a Reporter may record a note received as a capital contribution as an asset, rather than a reduction of equity capital, only if the note is collected in cash “before the financial statements are issued.” The note receivable must also satisfy the existence criteria described below. When these conditions are met, the note receivable should be reported separately from a Reporter’s other loans and receivables in Schedule IRC, item 19, “Other assets.”

For purposes of this report, the financial statements are considered issued at the earliest of the following dates:

- (1) The submission deadline for the FR 2085 report;
- (2) Any other public financial statement filing deadline to which the Reporter is subject; or

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- (3) The note must be executed and enforceable before quarter-end.

To be reported as an asset, rather than a reduction of equity capital, as of a quarter-end report date, a note received as a capital contribution (that is collected in cash as described above) must meet the definition of an asset under generally accepted accounting principles by satisfying all of the following existence criteria:

- (1) There must be written documentation providing evidence that the note was contributed to the Reporter prior to the quarter-end report date by those with authority to make such a capital contribution on behalf of the issuer of the note (e.g., if the contribution is by the Reporter's parent those in authority would be the Reporter's board of directors or its chief executive officer or chief financial officer);
- (2) The note must be a legally binding obligation of the issuer to fund a fixed and determinable amount by a specified date; and
- (3) The note must be executed and enforceable before quarter-end.

Although a Reporter may have a general intent to, or may have entered into a capital maintenance agreement with the Reporter that calls for it to, maintain the Reporter's capital at a specified level, this general intent or agreement alone would not constitute evidence that a note receivable existed at quarter-end. Furthermore, if a note receivable for a capital contribution obligates the note issuer to pay a variable amount, the Reporter must offset the note and equity capital. Similarly, an obligor's issuance of several notes having fixed face amounts, taken together, would be considered a single note receivable having a variable payment amount, which would require all the notes to be offset in equity capital as of the quarter-end report date.

Commercial Paper: Commercial paper consists of short-term negotiable promissory notes. Commercial paper matures in 270 days or less. Commercial paper may be backed by a standby letter of credit from a bank, as in the case of documented discounted notes. Holdings of commercial paper are to be reported as "securities" in Schedule IRC-B, unless held for trading and therefore reportable in Schedule IRC, item 3, "Trading assets."

Coupon Stripping, Treasury Receipts, and STRIPS: Coupon stripping occurs when a security holder physically detaches unmetered coupons from the principal portion of a security and sells either the detached coupons or the ex-coupon security separately. (Such transactions are generally considered by the Federal Reserve to represent "improper investment practices" for Reporters.) In accounting for such transactions, the carrying amount of the security must be allocated between the ex-coupon security and the detached coupons based on their relative fair values at the date of the sale in accordance with ASC Topic 860. Transfers and Servicing (formerly FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended). (See the Glossary entry for "transfers of financial assets.")

Detached U.S. government security coupons and ex-coupon U.S. government securities that are held for purposes other than trading, whether resulting from the coupon stripping activities of the Reporter or from its purchase of stripped securities, shall be reported as "Other domestic debt securities" in Schedule IRC-B. The amount of any discount or premium relating to the detached coupons or ex-coupon securities must be amortized. (See the Glossary entry for "premiums and discounts.")

A variation of coupon stripping has been developed by several securities firms which have marketed instruments with such names as CATS (Certificates of Accrual on Treasury Securities), TIGR (Treasury Investment Growth Receipts), COUGAR (Certificates on Government Receipts), LION (Lehman Investment Opportunity Notes), and ETR (East Treasury Receipts). A securities dealer purchases U.S. Treasury securities, delivers them to a trustee, and sells receipts representing the rights to future interest and/or principal payments on the U.S. Treasury securities held by the trustee. Such Treasury receipts are not an obligation of the U.S.

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government and, when held for purposes other than trading shall be reported as other (domestic) securities in Schedule IRC-B, Part A, item 9(a). The discount on these Treasury receipts must be accreted.

Under a program called Separate Trading of Registered Interest and Principal of Securities (STRIPS), the U.S. Treasury has issued certain long-term note and bond issues that are maintained in the book-entry system operated by the Federal Reserve Banks in a manner that permits separate trading and ownership of the interest and principal payments on these issues. Even after the interest or principal portions of U.S. Treasury STRIPS have been separately traded, they remain obligations of the U.S. government. STRIPS held for purposes other than trading shall be reported as U.S. Treasury securities in Schedule IRC-B, Part A, item 1. The discount on separately traded portions of STRIPS must be accreted.

Detached coupons, ex-coupon securities, Treasury receipts, and U.S. Treasury STRIPS held for trading purposes shall be reported in Schedule IRC, item 3, at fair value.

Derivative Contracts: Reporters commonly use derivative instruments for managing (positioning or hedging) their exposure to market risk (including interest rate risk and foreign exchange risk), cash flow risk, and other risks in their operations and for trading. The accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities are set forth in ASC Topic 815, Derivatives and Hedging (formerly FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended), which Reporters must follow for purposes of these reports. ASC Topic 815 requires all derivatives to be recognized on the balance sheet as either assets or liabilities at their fair value. A summary of the principal provisions of ASC Topic 815 follows.

For further information, see ASC Topic 815 which includes the implementation guidance issued by the FASB's Derivatives Implementation Group.

Definition of Derivative

ASC Topic 815 defines a "derivative instrument" as a financial instrument or other contract with all three of the following characteristics:

- (1) It has one or more underlyings (i.e., specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable) and one or more notional amounts (i.e., number of currency units, shares, bushels, pounds, or other units specified in the contract) or payment provisions or both. These terms determine the amount of the settlement or settlements, and in some cases, whether or not a settlement is required.
- (2) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have similar response to changes in market factors.
- (3) Its terms require or permit net settlement, it can be readily settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Certain contracts that may meet the definition of a derivative are specifically excluded from the scope of ASC Topic 815, including:

- "regular-way" securities trades, which are trades that are completed within the time period generally established by regulations and conventions in the marketplace or by the exchange on which the trade is executed;
- normal purchases and sales of an item other than a financial instrument or derivative instrument (e.g., a commodity) that will be delivered in quantities expected to be used or sold by the reporting entity over a reasonable period in the normal course of business;

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- traditional life insurance and property and casualty contracts; and
- certain financial guarantee contracts.

ASC Topic 815 has special criteria for determining whether commitments to originate loans meet the definition of a derivative. Commitments to originate mortgage loans that will be held for sale are accounted for as derivatives. Commitments to originate mortgage loans that will be held for investment are not accounted for as derivatives. Also, all commitments to originate loans other than mortgage loans are not accounted for as derivatives. Commitments to purchase loans must be evaluated to determine whether the commitment meets the definition of a derivative under ASC Topic 815.

Types of Derivatives

The most common types of freestanding derivatives are forwards, futures, swaps, options, caps, floors, and collars.

Forward contracts are agreements that obligate two parties to purchase (long) and sell (short) a specific financial instrument, foreign currency, or commodity at a specified price with delivery and settlement at a specified future date.

Futures contracts are standardized forward contracts that are traded on organized exchanges. Exchanges in that are registered with and regulated by the Commodity Futures Trading Commission. The deliverable financial instruments underlying interest-rate future contracts are specified investment-grade financial instruments, such as U.S. Treasury securities or mortgage-backed securities. *Foreign currency futures contracts* involve specified deliverable amounts of a particular foreign currency. The deliverable products under commodity futures contracts are specified amounts and grades of commodities such as gold bullion. Equity futures contracts are derivatives that have a portion of their return linked to the price of a particular equity or to an index of equity prices, such as the Standard and Poor's 500.

Other forward contracts are traded over the counter and their terms are not standardized. Such contracts can only be terminated, other than by receipt of the underlying asset, by agreement of both buyer and seller. A forward rate agreement is a forward contract that specifies a reference interest rate and an agreed on interest rate (one to be paid and one to be received), an assumed principal amount (the notional amount), and a specific maturity and settlement date.

Swap contracts are forward-based contracts in which two parties agree to swap streams of payments over a specified period. The payments are based on an agreed upon notional principal amount. An *interest rate swap* generally involves no exchange of principal at inception or maturity. Rather, the notional amount is used to calculate the payment streams to be exchanged. However, *foreign exchange swaps* often involve the exchange of principal.

Option contracts (standby contracts) are traded on exchanges and over the counter. Option contracts grant the right, but do not obligate, the purchaser (holder) to buy (call) or sell (put) a specific or standard commodity, financial, or equity instrument at a specified price during a specified period or at a specified date. A purchased option is a contract in which the buyer has paid compensation (such as a fee or premium) to acquire the right to sell or purchase an instrument at a stated price on a specified future date. A written option obligates the option seller to purchase or sell the instrument at the option of the buyer of the contract. Option contracts may relate to purchases or sales of securities, money market instruments, futures contracts, other financial instruments, or commodities.

Interest rate caps are option contracts in which the cap seller, in return for a premium, agrees to limit the cap holder's risk associated with an increase in interest rates. If rates go above a specified interest-rate level (the strike price or cap rate), the cap holder is entitled to receive cash payments equal to the excess of the market rate

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over the strike price multiplied by the notional principal amount. For example, an issuer of floating-rate debt may purchase a cap to protect against rising interest rates, while retaining the ability to benefit from a decline in rates.

Interest rate floors are option contracts in which the floor seller, in return for a premium, agrees to limit the risk associated with a decline in interest rates based on a notional amount. If rates fall below an agreed rate, the floor holder will receive cash payments from the floor writer equal to the difference between the market rate and an agreed rate, multiplied by the notional principal amount.

Interest rate collars are option contracts that combine a cap and a floor (one held and one written). Interest rate collars enable a user with a floating rate contract to lock into a predetermined interest-rate range often at a lower cost than a cap or a floor.

Embedded Derivatives

Contracts that do not in their entirety meet the definition of a derivative instrument, such as bonds, insurance policies, and leases, may contain “embedded” derivative instruments. Embedded derivatives are implicit or explicit terms within a contract that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument. The effect of embedding a derivative instrument in another type of contract (“the host contract”) is that some or all of the cash flows or other exchanges that otherwise would be required by the host contract, whether unconditional or contingent upon the occurrence of a specified event, will be modified based on one or more of the underlyings.

An embedded derivative instrument shall be separated from the host contract and accounted for as a derivative instrument, i.e., bifurcated, if and only if all three of the following conditions are met:

- (1) The economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract,
- (2) The contract (“the hybrid instrument”) that embodies the embedded derivative and the host contract is not remeasured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur, and
- (3) A separate instrument with the same terms as the embedded derivative instrument would be considered a derivative.

An embedded derivative instrument in which the underlying is an interest rate or interest rate index that alters net interest payments that otherwise would be paid or received on an interest-bearing host contract is considered to be clearly and closely related to the host contract unless either of the following conditions exist:

- (1) The hybrid instrument can contractually be settled in such a way that the investor (holder) would not recover substantially all of its initial recorded investment, or
- (2) The embedded derivative could at least double the investor’s initial rate of return on the host contract and could also result in a rate of return that is at least twice what otherwise would be the market return for a contract that has the same terms as the host contract and that involves a debtor with a similar credit quality.

Examples of hybrid instruments (not held for trading purposes) with embedded derivatives which meet the three conditions listed above and must be accounted for separately include debt instruments (including deposit liabilities) whose return or yield is indexed to: changes in an equity securities index (e.g., the Standard & Poor’s 500); changes in the price of a specific equity security; or changes in the price of gold, crude oil, or some other

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commodity. For purposes of these reports, when an embedded derivative must be accounted for separately from the host contract under ASC Topic 815, the carrying value of the host contract and the fair value of the embedded derivative may be combined and presented together on the balance sheet in the asset or liability category appropriate to the host contract.

Under ASC Subtopic 815-15, Derivatives and Hedging – Embedded Derivatives (formerly FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*), a Reporter with a hybrid instrument for which bifurcation would otherwise be required is permitted to irrevocably elect to initially and subsequently measure the hybrid instrument in its entirety at fair value with changes in fair value recognized in earnings. In addition, ASC Subtopic 815-15 subjects all but the simplest forms of interest-only and principal-only strips and all forms of beneficial interests in securitized financial assets to the requirements of ASC Topic 815. Thus, a Reporter must evaluate such instruments to identify those that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. However, a beneficial interest that contains a concentration of credit risk in the form of subordination to another financial instrument and certain securitized interests in prepayable financial assets are not considered to contain embedded derivatives that must be accounted for separately from the host contract. For further information, see ASC Subtopic 815-15, Derivatives and Hedging – Embedded Derivatives (formerly Derivatives Implementation Group Issue No. B40, “*Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets*”).

Except in limited circumstances, interest-only and principal-only strips and beneficial interests in securitized assets that were recognized prior to the effective date (or early adoption date) of ASC Subtopic 815-15 are not subject to evaluation for embedded derivatives under ASC Topic 815.

Recognition of Derivatives and Measurement of Derivatives and Hedged Items

A Reporter should recognize all of its derivative instruments on its balance sheet as either assets or liabilities at fair value. As defined in ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, *Fair Value Measurements*), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For further information, see the Glossary entry for “fair value.” The accounting for changes in the fair value (that is, gains and losses) of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. Either all or a proportion of a derivative may be designated as a hedging instrument. The proportion must be expressed as a percentage of the entire derivative. Gains and losses on derivative instruments are accounted for as follows:

- (4) *No hedging designation*—The gain or loss on a derivative instrument not designated as a hedging instrument, including all derivatives held for trading purposes, is recognized currently in earnings.
- (5) *Fair value hedge*—For a derivative designated as hedging the exposure to changes in the fair value of a recognized asset or liability or a firm commitment, which is referred to as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the risk being hedged should be recognized currently in earnings.
- (6) *Cash flow hedge*—For a derivative designated as hedging the exposure to variable cash flows of an existing recognized asset or liability or a forecasted transaction, which is referred to as a cash flow hedge, the effective portion of the gain or loss on the derivative should initially be reported outside of earnings as a component of other comprehensive income and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, (i.e., the ineffective portion of the gain or loss and any component of the gain or loss excluded from the assessment of hedge effectiveness) should be recognized currently in earnings.
- (7) *Foreign currency hedge*—For a derivative designated as hedging the foreign currency exposure of a net investment in a foreign operation, the gain or loss is reported outside of earnings in other comprehensive

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income as part of the cumulative translation adjustment. For a derivative designated as a hedge of the foreign currency exposure of an unrecognized firm commitment or an available-for-sale security, the accounting for a fair value hedge should be applied. Similarly, for a derivative designated as a hedge of the foreign currency exposure of a foreign-currency denominated forecasted transaction, the accounting for a cash flow hedge should be applied.

To qualify for hedge accounting, the risk being hedged must represent an exposure to a Reporter's earnings. In general, if the hedged item is a financial asset or liability, the designated risk being hedged can be (1) all risks, i.e., the risk of changes in the overall fair value of the hedged item or the risk of overall changes in the hedged cash flows; (2) the risk of changes in the fair value or cash flows of the hedged item attributable to changes in the benchmark interest rate;⁷ (3) the risk of changes in the fair value or cash flows of the hedged item attributable to changes in foreign exchange rates; or (4) the risk of changes in the fair value or cash flows of the hedged item attributable to changes in the obligor's creditworthiness. For held-to-maturity securities, only credit risk, foreign exchange risk, or both may be hedged.

Designated hedging instruments and hedged items qualify for fair value or cash flow hedge accounting if all of the criteria specified in ASC Topic 815 are met. These criteria include:

- (1) At inception of the hedge, there is formal documentation of the hedging relationship and the Reporter's risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the hedging instrument's effectiveness will be assessed. There must be a reasonable basis for how the Reporter plans to assess the hedging instrument's effectiveness.
- (2) Both at inception of the hedge and on an ongoing basis, the hedging relationship is expected to be highly effective in achieving offsetting changes in fair value or offsetting cash flows attributable to the hedged risk during the period that the hedge is designated or the term of the hedge. An assessment of effectiveness is required whenever financial statements or earnings are reported, and at least every three months. All assessments of effectiveness shall be consistent with the risk management strategy documented for that particular hedging relationship.

In a fair value hedge, an asset or a liability is eligible for designation as a hedged item if the hedged item is specifically identified as either all or a specific portion of a recognized asset or liability or of an unrecognized firm commitment, the hedged item is a single asset or liability (or a specific portion thereof) or is a portfolio of similar assets or a portfolio of similar liabilities (or a specific portion thereof), and certain other criteria specified in ASC Topic 815 are met. If similar assets or similar liabilities are aggregated and hedged as a portfolio, the individual assets or individual liabilities must share the risk exposure for which they are designated as being hedged. The change in fair value attributable to the hedged risk for each individual item in a hedged portfolio must be expected to respond in a generally proportionate manner to the overall change in fair value of the aggregate portfolio attributable to the hedged risk.

In a cash flow hedge, the individual cash flows related to a recognized asset or liability and the cash flows related to a forecasted transaction are both referred to as a forecasted transaction. Thus, a forecasted transaction is eligible for designation as a hedged transaction if the forecasted transaction is specifically identified as a single transaction or a group of individual transactions, the occurrence of the forecasted transaction is probable, and certain other criteria specified in ASC Topic 815 are met. If the hedged transaction is a group of individual transactions, those individual transactions must share the same risk exposure for which they are designated as being hedged.

⁷ The benchmark interest rate is a widely recognized and quoted rate in an active financial market that is broadly indicative of the overall level of interest rates attributable to high-credit-quality obligors in that market. In theory, this should be a risk-free rate. In the U.S., interest rates on U.S. Treasury securities and the LIBOR swap rate are considered benchmark interest rates.

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A Reporter should discontinue prospectively its use of fair value or cash flow hedge accounting for an existing hedge if any of the qualifying criteria for hedge accounting is no longer met; the derivative expires or is sold, terminated, or exercised; or the Reporter removes the designation of the hedge. When this occurs for a cash flow hedge, the net gain or loss on the derivative should remain in “Accumulated other comprehensive income” and be reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings. However, if it is probable that the forecasted transaction will not occur by the end of the originally specified time period (as documented at the inception of the hedging relationship) or within an additional two-month period of time thereafter (except as noted in ASC Topic 815), the derivative gain or loss reported in “Accumulated other comprehensive income” should be reclassified into earnings immediately.

For a fair value hedge, in general, if a periodic assessment of hedge effectiveness indicates noncompliance with the highly effective criterion that must be met in order to qualify for hedge accounting, a Reporter should not recognize adjustment of the carrying amount of the hedged item for the change in the item’s fair value attributable to the hedged risk after the last date on which compliance with the effectiveness criterion was established.

With certain limited exceptions, a nonderivative instrument, such as a U.S. Treasury security, may not be designated as a hedging instrument.

Reporting Derivative Contracts

When a Reporter enters into a derivative contract, it should classify the derivative as either held for trading or held for purposes other than trading (end-user derivatives) based on the reasons for entering into the contract. All derivatives must be reported at fair value on the balance sheet (Schedule IRC).

Trading derivatives with positive fair values should be reported as trading assets in Schedule IRC, item 3. Trading derivatives with negative fair values should be reported as trading liabilities in Schedule IRC, item 28. Changes in the fair value (that is, gains and losses) of trading derivatives should be recognized currently in earnings and included in Schedule IRI, item 4, “Net investment gains/(losses).”

Freestanding derivatives held for purposes other than trading (and embedded derivatives that are accounted for separately under ASC Topic 815, which the Reporter has chosen to present separately from the host contract on the balance sheet) that have positive fair values should be included in Schedule IRC, item 19, “Other assets”. Freestanding derivatives held for purposes other than trading (and embedded derivatives that are accounted for separately under ASC Topic 815, which the Reporter has chosen to present separately from the host contract on the balance sheet) that have negative fair values should be included in Schedule IRC, item 31, “Other liabilities.” Net gains (losses) on derivatives held for purposes other than trading that are not designated as hedging instruments should be recognized currently in earnings and reported consistently as “General operating and other expenses” in Schedule IRI, item 11.

Netting of derivative assets and liabilities is prohibited on the balance sheet except as permitted under ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*). See the Glossary entry for “offsetting.”

Reporters must report the notional amounts of their derivative contracts (both freestanding derivatives and embedded derivatives that are accounted for separately from their host contract under ASC Topic 815) by risk exposure in Schedule IRC-L, first by type of contract in Schedule IRC-L, item 1, and then by purpose of contract (i.e., trading, other than trading) in Schedule IRC-L, items 2 and 3. Reporters must then report the gross fair values of their derivatives, both positive and negative, by risk exposure and purpose of contract in Schedule IRC-L, item 4. However, these items exclude credit derivatives, the notional amounts and gross fair values of which must be reported in Schedule IRC-L, item 7.

Dividends: *Cash dividends* are payments of cash to stockholders in proportion to the number of shares they

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own. Cash dividends on preferred and common stock are to be reported on the date they are declared by the Reporter's board of directors (the declaration date) by debiting "retained earnings" and crediting "dividends declared not yet payable," which is to be reported in other liabilities. Upon payment of the dividend, "dividends declared not yet payable" is debited for the amount of the cash dividend with an offsetting credit, normally in an equal amount, to "dividend checks outstanding" which is reportable in the "official checks" category of the consolidated Reporter's deposit liabilities.

A liability for dividends payable may not be accrued in advance of the formal declaration of a dividend by the board of directors. However, the Reporter may segregate a portion of retained earnings in the form of a capital reserve in anticipation of the declaration of a dividend.

Stock dividends are distributions of additional shares to stockholders in proportion to the number of shares they own. Stock dividends are to be reported by transferring an amount equal to the fair value of the additional shares issued from retained earnings to a category of permanent capitalization (common stock and surplus). However, the amount of any mandatory and discretionary transfers must be reduced by the amount of any mandatory and discretionary transfers previously made (such as those from retained earnings to surplus for increasing the Reporter's legal lending limit) provided such transfers have not already been used to record a stock dividend. In any event, the amount transferred from retained earnings may not be less than the par or stated value of the additional shares being issued.

Property dividends, also known as dividends in kind, are distributions to stockholders of assets other than cash. The transfer of securities of other companies, real property, or any other asset owned by the Reporter to a stockholder or related party is to be recorded at the fair value of the asset on the declaration date of the dividend. A gain or loss on the transferred asset must be recognized in the same manner as if the property had been disposed of in an outright sale at or near the declaration date.

Domicile: Domicile is used to determine the foreign (non-U.S. addressee) or domestic (U.S. addressee) location of a customer of the Reporter for the purposes of these reports. Domicile is determined by the principal residence address of an individual or the principal business address of a corporation, partnership, or sole proprietorship. If other addresses are used for correspondence or other purposes, only the principal address, insofar as it is known to the Reporter, should be used in determining whether a customer should be regarded as a U.S. or non-U.S. addressee.

For purposes of defining customers of the Reporter, U.S. addressees include residents of the 50 states of the U.S., the District of Columbia, Puerto Rico, and U.S. territories and possessions. The term U.S. addressee generally includes U.S.-based subsidiaries of foreign banks and U.S. branches and agencies of foreign banks. Non-U.S. addressees include residents of any foreign country. The term non-U.S. addressee generally includes foreign-based subsidiaries of other U.S. banks and Reporters. For customer identification purposes, the IBFs of other U.S. depository institutions are U.S. addressees (This is in contrast to the treatment of the IBFs of a subsidiary bank which are treated as foreign offices of the bank.).

Due Bills: A due bill is an obligation that results when a Reporter or its subsidiaries sell an asset and receives payment, but does not deliver the security or other asset. A due bill can also result from a promise to deliver an asset in exchange for value received. In both cases, the receipt of the payment creates an obligation regardless of whether the due bill is issued in written form. Outstanding due bill obligations shall be reported as borrowings in Schedule IRC, item 29, "Other borrowed money," by the issuing Reporter. Conversely, when the Reporter or its consolidated subsidiaries are the holders of a due bill, the outstanding due bill obligation of the seller shall be reported as a loan to that party.

Equity Method of Accounting: The equity method of accounting shall be used to account for:

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

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significant influence; and

(2) Noncontrolling investments in:

(a) Limited partnerships; and

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

Unless the investment in the limited partnership or limited liability company is so minor that the limited partner or investor may have virtually no influence over the operating and financial policies of the partnership or company. Consistent with guidance in ASC Subtopic 323-30, Investments-Equity Method and Joint Ventures – Partnerships, Joint Ventures, and Limited Liability Entities (formerly EITF Topic D-46, *Accounting for Limited Partnership Interests*), noncontrolling investments of more than 3 to 5 percent are considered to be more than minor.

The entities in which these investments have been made are collectively referred to as “investees.” Under the equity method, the carrying value a Reporter’s investment in an investee is originally recorded at cost but is adjusted periodically to record as income the Reporter’s proportionate share of the investee’s earnings or losses and decreased by the amount of cash dividends or similar distributions received from the investee. For purposes of the FR 2085 report, the date through which the carrying value of the Reporter’s investment in an investee has been adjusted should, to the extent practicable, match the report date of the FR 2085, but in no case differ by more than 93 days from the report.

See also “subsidiaries.”

Fair Value: ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, *Fair Value Measurements*), defines fair value and establishes a framework for measuring fair value. ASC Topic 820 should be applied when other accounting topics require or permit fair value measurements. For further information, refer to ASC Topic 820.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the asset’s or liability’s principal (or most advantageous) market at the measurement date. This value is often referred to as an “exit” price. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced liquidation or distressed sale.

ASC Topic 820 establishes a three level fair value hierarchy that prioritizes inputs used to measure fair value based on observability. The highest priority is given to Level 1 (observable, unadjusted) and the lowest priority to Level 3 (unobservable). The broad principles for the hierarchy follow.

Level 1 fair value measurement inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a Reporter has the ability to access at the measurement date. In addition, a Level 1 fair value measurement of a liability can also include the quoted price for an identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required.

Level 2 fair value measurement inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified

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(contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Depending on the specific factors related to an asset or a liability, certain adjustments to Level 2 inputs may be necessary to determine the fair value of the asset or liability. If those adjustments are significant to the asset or liability's fair value in its entirety, the adjustments may render the fair value measurement to a Level 3 measurement.

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

Refer to ASC Topic 820 for additional fair value measurement guidance, including considerations related to holding large positions (blocks), the existence of multiple active markets, and the use of practical expedients.

Measurement of Fair Values in Stressed Market Conditions—The measurement of various assets and liabilities on the balance sheet – including trading assets and liabilities, available-for-sale securities, loans held for sale, assets and liabilities accounted for under the fair value option, and foreclosed assets – involves the use of fair values. During periods of market stress, the fair values of some financial instruments and nonfinancial assets may be difficult to determine. Reporters are reminded that, under such conditions, fair value measurements should be determined consistent with the objective of fair value set forth in ASC Topic 820.

ASC Topic 820 provides guidance on determining fair value when the volume and level of activity for an asset or liability have significantly decreased when compared with normal market activity for the asset or liability (or similar assets or liabilities). According to ASC Topic 820, if there has been such a significant decrease, transactions or quoted prices may not be determinative of fair value because, for example, there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value in accordance with ASC Topic 820.

Federally-Sponsored Lending Agency: A federally-sponsored lending agency is an agency or corporation that has been chartered, authorized, or organized as a result of federal legislation for the purpose of providing credit services to a designated sector of the economy. These agencies include Banks for Cooperatives, Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, the Federal National Mortgage Association, and the Student Loan Marketing Association.

Foreclosed Assets: The accounting and reporting standards for foreclosed assets are set forth in ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15 *Accounting by Debtors and Creditors for Troubled Debt Restructurings*), and ASC Topic 360, Property, Plant, and Equipment (formerly FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). Subsequent to the issuance of FASB Statement No. 144, AICPA Statement of Position (SOP) No. 92-3, *Accounting for Foreclosed Assets* was rescinded. Certain provisions of SOP 92-3 are not present in FASB Statement No. 144, but the application of these provisions represents prevalent practice in the banking industry and is consistent with safe and sound banking practices. These provisions of SOP 92-3 have been incorporated into this Glossary entry, which Reporters must follow for purposes of preparing their FR 2085 reports.

A Reporter that receives from a borrower in full satisfaction of a loan either receivables from a third party, an equity interest in the borrower, or another type of asset (except a long-lived asset that will be sold) shall initially measure the asset received at its fair value at the time of the restructuring. When a Reporter receives a long-lived asset, such as real estate, from a borrower in full satisfaction of a loan, the long-lived asset is rebuttably presumed to be held for sale and the Reporter shall initially measure this asset at its fair value less cost to sell.

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The fair value (less cost to sell, if applicable) of the asset received in full satisfaction of the loan⁸ becomes the “cost” of the asset. The amount, if any, by which the recorded amount of the loan exceeds the fair value (less cost to sell, if applicable) of the asset is a loss which must be charged to the allowance for loan and lease losses at the time of restructuring, foreclosure, or repossession. In those cases where property is received in full satisfaction of an asset other than a loan (e.g., a debt security), the loss should be reported on the income statement in a manner consistent with the balance sheet classification of the asset satisfied.

If an asset is sold shortly after it is received in a restructuring, foreclosure, or repossession, it would generally be appropriate to substitute the value received in the sale (net of the cost to sell for a long-lived asset, such as real estate, that has been sold) for the fair value (less cost to sell for a long-lived asset, such as real estate, that will be sold) that had been estimated at the time of restructuring, foreclosure, or repossession. Any adjustments should be made to the loss charged against the allowance.

An asset received in partial satisfaction of a loan should be initially measured as described above and the recorded amount of the loan should be reduced by the fair value (less cost to sell, if applicable) of the asset at the time of restructuring, foreclosure, or repossession.

The measurement and accounting subsequent to acquisition for real estate received in full or partial satisfaction of a loan, including through foreclosure or repossession, is discussed below in this Glossary entry. For other types of assets that a Reporter receives in full or partial satisfaction of a loan, the Reporter generally should subsequently measure and account for such assets in accordance with other applicable generally accepted accounting principles and regulatory reporting instructions for such assets.

For purposes of this report, foreclosed assets (other than real estate property collateralizing a consumer mortgage loan) include loans where the Reporter, as creditor, has received physical possession of a borrower’s assets, regardless of whether formal foreclosure proceedings take place. A Reporter, as creditor, is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan only upon the occurrence of either of the following:

- (a) The Reporter obtains legal title to the residential real estate property upon completion of a foreclosure even if the borrower has redemption rights whereby they have a legal right for a period of time after a foreclosure to reclaim the real estate property by paying certain amounts specified by law.
- (b) The borrower conveys all interest in the residential real estate property to the Reporter to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed-upon terms and conditions have been satisfied by both the borrower and the creditor.

In such situations, the secured loan should be recategorized on the balance sheet in the asset category appropriate to the underlying collateral (e.g., as other real estate owned for real estate collateral) and accounted for as described above.

The amount of any senior debt (principal and accrued interest) to which foreclosed real estate is subject at the time of foreclosure must be reported as a liability in Schedule IRC, items 29, “Other borrowed money.” After foreclosure, each foreclosed real estate asset (including any real estate for which the Reporter receives physical possession,) must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the cost of the asset (as defined in the preceding paragraphs). This determination must be made on an asset-by-asset basis. If the fair value of a foreclosed real estate asset minus the estimated costs to sell the asset is less than the asset’s cost, the deficiency must be recognized as a valuation allowance against the asset which is created through a charge to expense. The valuation allowance should thereafter be increased

⁸ The recorded amount of the loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.

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or decreased (but not below zero) through charges or credits to expense for changes in the asset's fair value or estimated selling costs.

If a foreclosed real estate asset is held for more than a short period of time, any declines in value after foreclosure and any gain or loss from the sale or disposition of the asset shall *not* be reported as a loan or lease loss or recovery and shall *not* be debited or credited to the allowance for loan and lease losses. Such additional declines in value and the gain or loss from the sale or disposition shall be reported net on the income statement (Schedule IRI) as "Other income" or "General operating and other expenses."

Dispositions of Foreclosed Real Estate—The primary accounting guidance for sales of foreclosed real estate is ASC Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales (formerly FASB Statement No. 66, *Accounting for Sales of Real Estate*). This standard, which applies to all transactions in which the seller provides financing to the buyer of the real estate, establishes the following methods to account for dispositions of real estate. If a profit is involved in the sale of real estate, each method sets forth the manner in which the profit is to be recognized. Regardless of which method is used, however, any losses on the disposition of real estate should be recognized immediately.

Full Accrual Method—Under the full accrual method, the disposition is recorded as a sale. Any profit resulting from the sale is recognized in full and the asset resulting from the seller's financing of the transaction is reported as a loan. This method may be used when the following conditions have been met:

- (1) A sale has been consummated;
- (2) The buyer's initial investment (down payment) and continuing investment (periodic payments) are adequate to demonstrate a commitment to pay for the property;
- (3) The receivable is not subject to future subordination; and
- (4) The usual risks and rewards of ownership have been transferred.

Guidelines for the minimum down payment that must be made in order for a transaction to qualify for the full accrual method are set forth in the Appendix A to ASC Subtopic 360-20. These vary from five percent to 25 percent of the property's sales value. These guideline percentages vary by type of property and are primarily based on the inherent risk assumed for the types and characteristics of the property. To meet the continuing investment criteria, the contractual loan payments must be sufficient to repay the loans over the customary loan term for the type of property involved. Such periods may range up to 30 years for loans on single family residential property.

Installment Method—Dispositions of foreclosed real estate that do not qualify for the full accrual method may qualify for the installment method. This method recognizes a sale and the corresponding loan. Any profits on the sale are only recognized as the Reporter receives payments from the purchaser/borrower. Interest income is recognized on an accrual basis, when appropriate.

The installment method is used when the buyer's down payment is not adequate to allow use of the full accrual method but recovery of the cost of the property is reasonably assured if the buyer defaults. Assurance of recovery requires careful judgment on a case-by-case basis. Factors which should be considered include: the size of the down payment, loan-to-value ratios, projected cash flows from the property, recourse provisions, and guarantees.

Since default on the loan usually results in the seller's reacquisition of the real estate, reasonable assurance of cost recovery may often be achieved with a relatively small down payment. This is especially true in situations involving loans with recourse to borrowers who have verifiable net worth, liquid assets, and income levels. Reasonable assurance of cost recovery may also be achieved when the purchaser/borrower pledges additional collateral.

Cost Recovery Method—Dispositions of foreclosed real estate that do not qualify for either the full accrual or installment methods are sometimes accounted for using the cost recovery method. This method recognizes a sale and

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the corresponding loans but all income recognition is deferred. Principal payments are applied as a reduction of the loan balance and interest increases the unrecognized gross profit. No profit or interest income is recognized until either the aggregate payments by the borrower exceed the recorded amount of the loan or a change to another accounting method is appropriate (e.g., installment method). Consequently, the loan is maintained in nonaccrual status while this method is being used.

Reduced-Profit Method—This method is used in certain situations where the Reporter receives an adequate down payment, but the loan amortization schedule does not meet the requirements for use of the full accrual method. The method recognizes a sale and the corresponding loan. However, like the installment method, any profit is apportioned over the life of the loan as payments are received. The method of apportionment differs from the installment method in that profit recognition is based on the present value of the lowest level of periodic payments required under the loan agreement.

Since sales with adequate down payments are generally not structured with inadequate loan amortization requirements, this method is seldom used in practice.

Deposit Method—The deposit method is used in situations where a sale of the foreclosed real estate has not been consummated. It may also be used for dispositions that could be accounted for under the cost recovery method. Under this method a sale is not recorded and the asset continues to be reported as foreclosed real estate. Further, no profit or interest income is recognized. Payments received from the borrower are reported as a liability until sufficient payments or other events have occurred which allow the use of one of the other methods.

The preceding discussion represents a brief summary of the methods included in ASC Subtopic 360-20 for accounting for sales of real estate. Refer to ASC Subtopic 360-20 for a more complete description of the accounting principles that apply to sales of real estate, including the determination of the down payment percentage.

Foreign Currency Transactions and Translation: *Foreign currency transactions* are transactions occurring in the ordinary course of business (e.g., purchases, sales, borrowings, lendings, and forward exchange contracts) denominated in currencies other than the Reporter's functional currency (as described below).

Foreign currency translation, on the other hand, is the process of translating financial statements from the foreign subsidiary's functional currency into the reporting currency. Such translation normally is performed only at reporting dates.

A *functional currency* is the currency of the primary economic environment in which a subsidiary operates. For most consolidated Reporters, the functional currency will be the U.S. dollar. However, if a consolidated Reporter has foreign subsidiaries, one or more foreign subsidiaries may have a functional currency other than the U.S. dollar.

Accounting for foreign currency transactions—A change in exchange rates between the functional currency and the currency in which a transaction is denominated will increase or decrease the amount of the functional currency expected to be received or paid. These increases or decreases in the expected functional currency cash flow are to be reported as foreign currency transaction gains and losses and are to be included in the determination of the income of the period in which the transaction takes place, or if the transaction has not yet settled, the period in which the rate change takes place.

Except for foreign currency derivatives and transactions described in the following section, Reporters should consistently report net gains (losses) from foreign currency transactions other than trading transactions in Schedule IRI, item 5, "Other income," or item 11, "General operating and other expenses." Net gains (losses) from foreign currency trading transactions should be reported in Schedule IRI, item 4, "Net investment gains/losses."

Foreign currency transaction gains or losses to be excluded from the determination of net income—Gains

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and losses on the following foreign currency transactions shall not be included in “Noninterest income” or “Non-interest expense,” but shall be reported in the same manner as translation adjustments (as described below):

- (1) Foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign subsidiary.
- (2) Intercompany foreign currency transactions that are of a long-term investment nature (i.e., settlement is not planned or anticipated in the foreseeable future), when the parties to the transaction are consolidated, combined, or accounted for by the equity method in the Reporter’s FR 2085.

In addition, the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities should not be included in “Net investment gains (losses)” (Schedule IRI, item 4), but should be reported in Schedule IRI-A, item 12, “Other comprehensive income.” These fair value changes should be accumulated in the “Net unrealized holding gains (losses) on available-for-sale securities” component of “Accumulated other comprehensive income” in Schedule IRC, item 37(b). However, if a decline in fair value of a foreign-currency-denominated available-for-sale debt security is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (Schedule IRI, item 4).

See the Glossary entry for “derivative contracts” for information on the accounting and reporting for foreign currency derivatives.

Accounting for foreign currency translation (applicable only to Reporters with foreign subsidiaries)—The FR 2085 must be reported in U.S. dollars. Balances of foreign subsidiaries or branches of the Reporter denominated in a functional currency other than U.S. dollars shall be converted to U.S. dollar equivalents and consolidated into the Reporter’s FR 2085. The translation adjustments for each reporting period, determined utilizing the current rate method, may be reported in “Other comprehensive income” in Schedule IRI-A of the Report of Income for Reporters. Amounts accumulated in the “Accumulated other comprehensive income” component of equity capital in Schedule IRC will not be included in the Reporter’s results of operations until such time as the foreign subsidiary is disposed of, when they will be used as an element to determine the gain or loss on disposition.

For further guidance, refer to ASC Topic 830, Foreign Currency Matters (formerly FASB Statement No. 52, *Foreign Currency Translation*).

Foreign Governments and Official Institutions: Foreign governments and official institutions are central, state, provincial, and local governments in foreign countries and their ministries, departments, and agencies. These include treasuries, ministries of finance, central banks, development banks, exchange control offices, stabilization funds, diplomatic establishments, fiscal agents, and nationalized banks 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, or stabilization fund. For purposes of these reports, other government-owned enterprises are not included.

Also included as foreign official institutions are international, regional, and treaty organizations, such as the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank), the Bank for International Settlements, the Inter-American Development Bank, and the United Nations.

Goodwill: According to ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), “Business Combinations”), goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. See “acquisition method” in the Glossary entry for “business combinations” for guidance on the recognition

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and initial measurement of goodwill acquired in a business combination.

Subsequent Measurement of Goodwill – Goodwill should not be amortized, but must be tested for impairment at the reporting unit level at least annually, as described below. Any impairment losses recognized on goodwill during the year-to-date reporting period should be reported in Schedule IRI, item 11, “General operating and other expenses,” except those impairment losses associated with discontinued operations, which should be reported on a net-of-tax basis in Schedule IRI, item 17, “Discontinued operations, net of applicable income taxes.” Goodwill, net of any impairment losses, should be reported on the balance sheet in Schedule IRC, item 19.

Goodwill Impairment Testing – ASC Subtopic 350-20, Intangibles-Goodwill and Other – Goodwill (formerly FASB Statement No. 142, “Goodwill and Other Intangible Assets”) provides guidance for testing and reporting goodwill impairment losses, a summary of which follows. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Because the fair value of goodwill can be measured only as a residual and cannot be measured directly, ASC Subtopic 350-20 includes a methodology for estimating the implied fair value of goodwill for impairment measurement purposes.

The Reporter’s goodwill must be tested for impairment using the Reporter’s reporting units. Goodwill should be assigned to reporting units in accordance with ASC Subtopic 350-20. The Reporter itself may be a reporting unit.

Goodwill of a reporting unit must be tested for impairment annually and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Examples of such events or circumstances include a significant adverse change in the business climate, unanticipated competition, a loss of key personnel, and a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of. In addition, goodwill must be tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

When testing the goodwill of a reporting unit for impairment, a Reporter has the option of first assessing qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test described in ASC Subtopic 350-20. If determined to be necessary, the two-step impairment test shall be used to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). However, a Reporter may choose to bypass the qualitative assessment option for any reporting unit in any period and proceed directly to performing the two-step quantitative goodwill impairment test described below.

Qualitative Assessment – If a Reporter performs a qualitative assessment and, after considering all relevant events and circumstances, determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount (including goodwill), then the Reporter does not need to perform the two-step quantitative goodwill impairment test. In other words, if it is more likely than not that the fair value of a reporting unit is greater than its carrying amount; a Reporter would not have to quantitatively test the unit’s goodwill for impairment. However, if the Reporter instead concludes that the opposite is true (that is, it is more likely than not that the fair value of a reporting unit is less than its carrying amount), then it is required to perform the two-step quantitative goodwill impairment test described below.

ASC Subtopic 350-20 includes examples of events and circumstances that a Reporter should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Because the examples are not all-inclusive, other relevant events and circumstances also must be considered.

Quantitative Impairment Test –

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- Step 1: The first step of the goodwill impairment test compares the fair value of a reporting unit⁹ with its carrying amount, including goodwill. If the carrying amount of a reporting unit is greater than zero¹⁰ and its fair value exceeds its carrying amount, the reporting unit's goodwill is considered not impaired and the second step of the impairment test is unnecessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any.
- Step 2: The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill¹¹ with the carrying amount of that goodwill. If the implied fair value of the reporting unit's goodwill exceeds the carrying amount of that goodwill, the goodwill is considered not impaired. In contrast, if the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in earnings in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

After an impairment loss is recognized on a reporting unit's goodwill, the adjusted carrying amount of that goodwill (i.e., the carrying amount of the goodwill before recognizing the impairment loss less the amount of the impairment loss) shall be its new accounting basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is completed.

Disposal of a Reporting Unit – When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit must be included in the carrying amount of the reporting unit when determining the gain or loss on disposal. When a portion of a reporting unit that constitutes a business is to be disposed of, goodwill associated with that business must be included in the carrying amount of the business in determining the gain or loss on disposal. Otherwise, a Reporter may not remove goodwill from its balance sheet, for example, by "selling" or "dividending" this asset to its parent Reporter or another affiliate.

Income Taxes: All Reporters, regardless of size, are required to report income taxes (federal, state and local, and foreign) in the FR 2085 on an accrual basis. Note that, in almost all cases, applicable income taxes as reported in Schedule IRI on the Consolidated Income Statement for Reporters *will differ* from amounts reported to taxing authorities. The applicable income tax expense or benefit that is reflected in the Consolidated Income Statement for Reporters should include both taxes currently paid or payable (or receivable) and deferred income taxes. The following discussion of income taxes is based on ASC Topic 740, Income Taxes (formerly FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*).

Applicable income taxes in the year-end Consolidated Income Statement for Reporters shall be the sum of the following:

- (1) Taxes currently paid or payable (or receivable) for the year determined from the Reporter's federal, state, and local income tax returns for that year. Since the Reporter's tax returns will not normally be prepared until after the year-end FR 2085 has been completed, the Reporter must estimate the amount of the current income tax liability (or receivable) that will ultimately be reported on its tax returns. Estimation of this liability (or receivable) may involve consultation with the Reporter's tax advisers, a review of the previous year's tax returns, the identification of significant expected differences between items of income and expense reflected on the Consolidated Income Statement for Reporters and on the tax returns, and the identification of expected tax credits.)

⁹ The fair value of a reporting unit is the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date.

¹⁰ An institution should refer ASC Subtopic 350-20 for guidance on applying the quantitative impairment test if the carrying amount of a reporting unit is zero or negative.

¹¹ The implied fair value of goodwill should be determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, an institution must assign the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination.

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and

- (2) Deferred income tax expense or benefit measured as the change in the net deferred tax assets or liabilities for the period reported. Deferred tax liabilities and assets represent the amount by which taxes payable (or receivable) are expected to increase or decrease in the future as a result of “temporary differences” and net operating loss or tax credit carryforwards that exist at the reporting date.

The actual tax liability (or receivable) calculated on the Reporter’s tax returns may differ from the estimate reported as currently payable or receivable on the year-end Consolidated Income Statement for Reporters. An amendment to the Reporter’s year-end and subsequent FR 2085s may be appropriate if the difference is significant. Minor differences should be handled as accrual adjustments to applicable income taxes in Reports of Income during the year the differences are detected. The reporting of applicable income taxes in the Consolidated Income Statement for Reporters for report dates other than year-end is discussed below under “interim period applicable income taxes.”

When determining the current and deferred income tax assets and liabilities to be reported in any period, a Reporter’s income tax calculation contains an inherent degree of uncertainty surrounding the realizability of the tax positions included in the calculation. The term “tax position” refers to a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. For each tax position taken or expected to be taken in a tax return, a Reporter must evaluate whether the tax position is more likely than not, i.e., more than a 50 percent probability, to be sustained upon examination by the appropriate taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, a Reporter should presume that the taxing authority examining the position will have full knowledge of all relevant information. A Reporter’s assessment of the technical merits of a tax position should reflect consideration of all relevant authoritative sources, e.g., tax legislation and statutes, legislative intent, regulations, rulings, and case law, and reflect the Reporter’s determination of the applicability of these sources to the facts and circumstances of the tax position. A Reporter must evaluate each tax position without consideration of the possibility of an offset or aggregation with other positions. No tax benefit can be recorded for a tax position that fails to meet the more-likely-than-not recognition threshold.

Each tax position that meets the more-likely-than-not recognition threshold should be measured to determine the amount of benefit to recognize in the FR 2085. The tax position is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. When measuring the tax benefit, a Reporter must consider the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date. A Reporter may not use the valuation allowance associated with any deferred tax asset as a substitute for measuring this tax benefit or as an offset to this amount.

If a Reporter’s assessment of the merits of a tax position subsequently changes, the Reporter should adjust the amount of tax benefit it has recognized and accrue interest and penalties for any underpayment of taxes in accordance with the tax laws of each applicable jurisdiction. In this regard, a tax position that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent quarterly reporting period in which the threshold is met. A previously recognized tax position that no longer meets the more-likely-than-not recognition threshold should be derecognized in the first subsequent quarterly reporting period in which the threshold is no longer met.

Temporary differences result when events are recognized in one period on the Reporter’s books but are recognized in another period on the Reporter’s tax return. These differences result in amounts of income or

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expense being reported in the Consolidated Income Statement for Reporters in one period but in another period in the tax returns. There are two types of temporary differences. Deductible temporary differences reduce taxable income in future periods. Taxable temporary differences result in additional taxable income in future periods.

For example, a Reporter's provision for loan and lease losses is expensed for financial reporting purposes in one period. However, for some Reporters, this amount may not be deducted for tax purposes until the loans are actually charged off in a subsequent period. This deductible temporary difference "originates" when the provision for loan and lease losses is recorded in the financial statements and "turns around" or "reverses" when the loans are subsequently charged off, creating tax deductions. Other deductible temporary differences include writedowns of other real estate owned, the recognition of loan origination fees, and other postemployment benefits expense.

Depreciation can result in a taxable temporary difference if a Reporter uses the straight-line method to determine the amount of depreciation expense to be reported in the Consolidated Income Statement for Reporters but uses an accelerated method for tax purposes. In the early years, tax depreciation under the accelerated method will typically be larger than book depreciation under the straight-line method. During this period, a taxable temporary difference originates. Tax depreciation will be less than book depreciation in the later years when the temporary difference reverses. Therefore, in any given year, the depreciation reported in the Consolidated Income Statement for Reporters will differ from that reported in the Reporter's tax returns. However, total depreciation taken over the useful life of the asset will be the same under either method. Other taxable temporary differences include the undistributed earnings of unconsolidated subsidiaries and associated companies and amounts funded to pension plans that exceed the recorded expense.

Some events do not have tax consequences and therefore do not give rise to temporary differences. Certain revenues are exempt from taxation and certain expenses are not deductible. These events were previously known as "permanent differences." Examples of such events (for federal income tax purposes) are interest received on certain obligations of states and political subdivisions in the U.S., premiums paid on officers' life insurance policies where the Reporter is the beneficiary, and 70 percent of cash dividends received on the corporate stock of domestic U.S. corporations owned less than 20 percent.

Deferred tax assets shall be calculated at the report date by applying the "applicable tax rate" (defined below) to the Reporter's total deductible temporary differences and operating loss carryforwards. A deferred tax asset shall also be recorded for the amount of tax credit carryforwards available to the Reporter. Based on the estimated realizability of the deferred tax asset, a valuation allowance should be established to reduce the recorded deferred tax asset to the amount that is considered "more likely than not" (i.e., greater than 50 percent chance) to be realized.

Deferred tax liabilities should be calculated by applying the "applicable tax rate" to total taxable temporary differences at the report date.

Operating loss carrybacks and carryforwards and tax credit carryforwards—When a Reporter's deductions exceed its income for federal income tax purposes, it has sustained an operating loss. An operating loss that occurs in a year following periods when the Reporter had taxable income may be carried back to recover income taxes previously paid. The tax effects of any loss carrybacks that are realizable through a refund of taxes previously paid is recognized in the year the loss occurs. In this situation, the applicable income taxes on the Consolidated Income Statement will reflect a credit rather than an expense. Reporters may carry back operating losses for two years.

Generally, an operating loss that occurs when loss carrybacks are not available (e.g., occurs in a year following periods of losses) becomes an operating loss carryforward. Reporters may carry operating losses forward 20 years.

Tax credit carryforwards are tax credits which cannot be used for tax purposes in the current year, but which can

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be carried forward to reduce taxes payable in a future period.

Deferred tax assets are recognized for operating loss any tax credit carryforwards just as they are for deductible temporary differences. As a result, a Reporter can recognize the benefit of a net operating loss for tax purposes or a tax credit carryforward to the extent the Reporter determines that a valuation allowance is not considered necessary (i.e., if the realization of the benefit is more likely than not).

Applicable tax rate—The income tax rate to be used in determining deferred tax assets and liabilities is the rate under current tax law that is expected to apply to taxable income in the periods in which the deferred tax assets or liabilities are expected to be realized or paid. If the Reporter’s income level is such that graduated tax rates are a significant factor, then the Reporter shall use the average graduated tax rate applicable to the amount of estimated taxable income in the period in which the deferred tax asset or liability is expected to be realized or settled. When the tax law changes, Reporters shall determine the effect of the change, adjust the deferred tax asset or liability and include the effect of the change in Schedule IRI, item 15, “Applicable income taxes (foreign and domestic).”

Valuation allowance—A valuation allowance must be recorded, if needed, to reduce the amount of deferred tax assets to an amount that is more likely than not to be realized. Changes in the valuation allowance generally shall be reported in Schedule IRI, item 15, “Applicable income taxes (foreign and domestic).” The following discussion of the valuation allowance relates to the allowance, if any, included in the amount of net deferred tax assets or liabilities to be reported on the balance sheet (Schedule IRC).

Reporters must consider all available evidence, both positive and negative, in assessing the need for a valuation allowance. The future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period. Four sources of taxable income may be available to realize the deferred tax assets:

- (1) Taxable income in carryback years (which can be offset to recover taxes previously paid),
- (2) Reversing taxable temporary differences,
- (3) Future taxable income (exclusive of reversing temporary differences and carryforwards).
- (4) Tax-planning strategies.

In general, positive evidence refers to the existence of one or more of the four sources of taxable income. To the extent evidence about one or more sources of income is sufficient to support a conclusion that a valuation allowance is not necessary (i.e., the Reporter can conclude that the deferred tax asset is more likely than not to be realized), other sources need not be considered. However, if a valuation allowance is needed, each source of income must be evaluated to determine the appropriate amount of the allowance needed.

Evidence used in determining the valuation allowance should be subject to objective verification. The weight given to evidence when both positive and negative evidence exist should be consistent with the extent to which it can be verified. Sources (1) and (2) listed above are more susceptible to objective verification and, therefore, may provide sufficient evidence regardless of future events.

The consideration of future taxable income (exclusive of reversing temporary differences and carryforwards) as a source for the realization of deferred tax assets will require subjective estimates and judgments about future events which may be less objectively verifiable. Examples of *negative evidence* include:

- (1) Cumulative losses in recent years.

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- (2) A history of operating loss or tax credit carryforwards expiring unused.
- (3) Losses expected in early future years by a presently profitable Reporter.
- (4) Unsettled circumstances that, if unfavorably resolved, would adversely affect future profit levels.
- (5) A brief carryback or carryforward that would limit the ability to realize the deferred tax asset.

Examples of *positive evidence* include:

- (1) A strong earnings history exclusive of the loss that created the future deductible amount (tax loss carryforward or deductible temporary difference) coupled with evidence indicating that the loss is an aberration rather than a continuing condition.
- (2) Existing contracts that will generate significant income.
- (3) An excess of appreciated asset value over the tax basis of an entity's net assets in an amount sufficient to realize the deferred tax asset.

When realization of a Reporter's deferred tax assets is dependent upon future taxable income, the reliability of a Reporter's projections is very important. The Reporter's record in achieving projected results under an actual operating plan will be a strong measure of this reliability. Other factors a Reporter should consider in evaluating evidence about its future profitability include but are not limited to current and expected economic conditions, concentrations of credit risk within specific industries and geographical areas, historical levels and trends in past due and nonaccrual assets, historical levels and trends in loan loss reserves, and the Reporter's interest rate sensitivity.

When strong negative evidence, such as the existence of cumulative losses, exists, it is extremely difficult for a Reporter to determine that no valuation allowance is needed. Positive evidence of significant quality and quantity would be required to counteract such negative evidence.

For purposes of determining the valuation allowance, a *tax-planning strategy* is a prudent and feasible action that would result in realization of deferred tax assets and that management ordinarily might not take, but would do so to prevent an operating loss or tax credit carryforward from expiring unused. For example, a Reporter could accelerate taxable income to utilize carryforwards by selling or securitizing loan portfolios, selling appreciated securities, or restructuring nonperforming assets. Actions that management would take in the normal course of business are *not* considered tax-planning strategies.

Significant expenses to implement the tax-planning strategy and any significant losses that would result from implementing the strategy shall be considered in determining any benefit to be realized from the tax-planning strategy. Also, Reporters should consider all possible consequences of any tax-planning strategies. For example, loans pledged as collateral would not be available for sale.

The determination of whether a valuation allowance is needed for deferred tax assets should be made for total deferred tax assets, not for deferred tax assets net of deferred tax liabilities. In addition, the evaluation should be made on a jurisdiction-by-jurisdiction basis. Separate analyses should be performed for amounts related to each taxing authority (e.g., federal, state, and local).

Deferred tax assets (net of the valuation allowance) and deferred tax liabilities related to a particular tax jurisdiction (e.g., federal, state, and local) may be offset against each other for reporting purposes. A resulting debit balance shall be included in "Other assets" and reported in Schedule IRC, item 19. A resulting credit balance shall be included in "Other liabilities" and reported in Schedule IRC, item 31. A Reporter may report a

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net deferred tax debit, or asset, for one tax jurisdiction (e.g., federal taxes) and also report a net deferred tax credit, or liability, for another tax jurisdiction (e.g., state taxes).

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

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

Purchase business combinations—In purchase business combinations (as described in the Glossary entry for “business combinations”), Reporters shall recognize as a temporary difference the difference between the tax basis of acquired assets or liabilities and the amount of the purchase price allocated to the acquired assets and liabilities (with certain exceptions specified in ASC Topic 740). As a result, the acquired asset or liability shall be recorded gross and a deferred tax asset or liability shall be recorded for any resulting temporary difference.

In a purchase business combination, a deferred tax asset shall generally be recognized at the date of acquisition for deductible temporary differences and net operating loss and tax credit carryforwards of either company in the transaction, net of an appropriate valuation allowance. The determination of the valuation allowance should consider any provisions in the tax law that may restrict the use of an acquired company’s carryforwards.

Subsequent recognition (i.e., by elimination of the valuation allowance) of the benefit of deductible temporary differences and net operating loss or tax credit carryforwards not recognized at the acquisition date will depend on the source of the benefit. If the valuation allowance relates to deductible temporary differences and carryforwards of the acquiring company established before the acquisition, then subsequent recognition is reported as a reduction of income tax expense. If the benefit is related to the acquired company’s deductible temporary differences and carryforwards, then the benefit is subsequently recognized by first reducing any goodwill related to the acquisition, then by reducing all other noncurrent intangible assets related to the acquisition, and finally, by reducing income tax expense.

Alternative Minimum Tax—Any taxes a Reporter must pay in accordance with the alternative minimum tax (AMT) shall be included in the Reporter’s current tax expense. Amounts of AMT paid can be carried forward in certain instances to reduce the Reporter’s regular tax liability in future years. The Reporter may record a deferred tax asset for the amount of the AMT credit carryforward, which shall then be evaluated in the same manner as other deferred tax assets to determine whether a valuation allowance is needed.

Other tax effects—A Reporter may have transactions or items that are reportable in Schedule IRI-A of the Report of Income as “Cumulative effect of changes in accounting principles and corrections of material accounting errors,” and “Foreign currency translation adjustments” that are included in “Other comprehensive income.” These transactions or other items will enter into the determination of taxable income in some year (not necessarily the current year), but are not included in the pretax income reflected in Schedule IRI of the Report

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of Income. They shall be reported in Schedule IRI-A net of related income tax effects. These effects may increase or decrease the Reporter's total tax liability calculated on its tax returns for the current year or may be deferred to one or more future periods.

For further information, see ASC Topic 740.

International Banking Facility (IBF): *General definition*—An International Banking Facility (IBF) is a set of asset and liability accounts, segregated on the books and records of the establishing entity, which reflect international transactions. An IBF is established in accordance with the terms of Federal Reserve Regulation D and after appropriate notification to the Federal Reserve. The establishing entity may be a U.S. depository Reporter, a U.S. office of an Edge or Agreement corporation, or a U.S. branch or agency of a foreign bank pursuant to Federal Reserve Regulation D. An IBF is permitted to hold only certain assets and liabilities. In general, IBF accounts are limited, as specified in the paragraphs below, to non-U.S. residents of foreign countries, residents of Puerto Rico and U.S. territories and possessions, other IBFs, and U.S. and non-U.S. offices of the establishing entity.

Permissible IBF assets include extensions of credit to the following:

- (1) Non-U.S. residents (including foreign branches of other U.S. banks);
- (2) Other IBFs; and
- (3) U.S. and non-U.S. offices of the establishing entity.

Credit may be extended to non-U.S. nonbank residents only if the funds are used in their operations outside the U.S. IBFs may extend credit in the form of a loan, deposit, placement, advance, security, or other similar asset.

Permissible IBF liabilities include (as specified in Federal Reserve Regulation D) liabilities to non-U.S. nonbank residents only if such liabilities have a minimum maturity or notice period of at least two business days. IBF liabilities also may include overnight liabilities to:

- (1) Non-U.S. offices of other depository institutions and of Edge or Agreement corporations;
- (2) Non-U.S. offices of foreign banks;
- (3) Foreign governments and official institutions;
- (4) Other IBFs; and
- (5) The establishing entity.

IBF liabilities may be issued in the form of deposits, borrowings, placements, and other similar instruments. However, IBFs are prohibited from issuing negotiable certificates of deposit, bankers acceptances, or other negotiable or bearer instruments.

Treatment of the IBFs of bank subsidiaries of the Reporter on the FR 2085—IBFs established by a subsidiary of the Reporter (e.g., by a bank subsidiary or by its Edge or Agreement subsidiaries) are to be consolidated in the FR 2085. In the consolidated balance sheet (Schedule IRC) and income statement (Schedule IRI), transactions between the IBFs of the bank subsidiaries of the Reporter and between these IBFs and other offices of the Reporter are to be eliminated. For purposes of these reports, the IBFs of the Reporters' banking subsidiaries are to be treated as foreign offices where, in the schedules, a distinction is made between foreign and domestic offices of the Reporter.

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Assets of the IBFs of the banking subsidiaries of the Reporter should be reported in the asset categories of the report by type of instrument and customer, as appropriate. For example, IBFs are to report their holdings of securities in Schedule IRC, item 2, and in the appropriate items of Schedule IRC-B; their holdings of loans that the IBF has the intent and ability to hold for the foreseeable future or until maturity or payoff (including loans of immediately available funds that have an original maturity of one business day or roll over under a continuing contract that are not securities resale agreements) in Schedule IRC, item 4, and in the appropriate items of Schedule IRC-C; and securities purchased under agreements to resell in Schedule IRC, item 8.

For purposes of these reports, all liabilities of the IBFs of the banking subsidiaries of the Reporter to outside parties are classified under four headings:

- (1) Securities sold under agreements to repurchase, which are to be reported in Schedule IRC, item 27;
- (2) Borrowings of immediately available funds that have an original maturity of one business day or roll over under a continuing contract that are not securities repurchase agreements, which are to be reported in Schedule IRC-M, item 8;
- (3) Accrued liabilities, which are to be reported in Schedule IRC, item 31; and
- (4) All other liabilities, including deposits, placements, and borrowings, which are to be treated as deposit liabilities in foreign offices and reported in Schedule IRC, item 31.

Treatment of transactions with IBFs of other depository institutions—Transactions between the offices of the Reporter and IBFs outside the scope of the FR 2085 are to be reported as transactions with depository institutions in the U.S., as appropriate. (Note, however, that only foreign offices of the Reporter and IBFs of its banking subsidiaries are permitted to have transactions with other IBFs.)

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

Standards for lease accounting are set forth in ASC Topic 840, Leases (formerly FASB Statement No. 13, *Accounting for Leases*, as amended and interpreted).

Accounting with the Reporter as lessee—Any lease entered into by a lessee Reporter or its consolidated subsidiaries that are on an accrual basis of accounting shall be accounted for as a property acquisition financed with a debt obligation. The property shall be amortized according to the Reporter's normal depreciation policy (except, if appropriate, the amortization period shall be the lease term) unless the lease involves land only. The interest expense portion of each lease payment shall be calculated to result in a constant rate of interest on the balance of the debt obligation. In the FR 2085, the property "asset" is to be reported in Schedule IRC, item 18, and the liability for capitalized leases in Schedule IRC, item 29, "Other borrowed money." In the income statement, the interest expense portion of the capital lease payments is to be reported in Schedule IRI, item 12, "Interest expense," and the amortization expense on the asset is to be reported in Schedule IRI, item 11, "General operating and other expenses." If any one of the following criteria is met, a lease must be accounted for as a capital lease:

- (1) ownership of the property is transferred to the lessee at the end of the lease term, or
- (2) the lease contains a bargain purchase option, or
- (3) the lease term represents at least 75 percent of the estimated economic life of the leased property, or the present value of the minimum lease payments at the beginning of the lease term is 90 percent or more of the fair value of the leased property to the lessor at the inception of the lease less any related investment tax

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credit retained by and expected to be realized by the lessor.

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

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

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

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

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

For further information, see ASC Subtopic 840-40, Leases – Sale-Leaseback Transactions (formerly FASB Statement No. 28, *Accounting for Sales with Lease-backs*).

Accounting with Reporter as lessor—Unless a long-term creditor is also involved in the transaction, a lease entered into by a lessor Reporter or its consolidated subsidiaries on an accrual accounting basis that meets one of the four criteria above for a capital lease plus two additional criteria (as defined below) shall be treated as a direct financing lease. After initial direct costs have been deducted, the unearned income (minimum lease payments plus estimated residual value less the cost of the leased property) shall be amortized to income over the lease term in a manner which produces a constant rate of return on the net investment (minimum lease payments plus estimated residual value less unearned income). Other methods of income recognition may be used if the results are not materially different.

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

- (1) Collectability of the minimum lease payments is reasonably predictable.
- (2) No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.

When a lessor Reporter or its consolidated subsidiaries on an accrual basis of accounting enters into a lease that has all the characteristics of a direct financing lease but where a long-term creditor provides nonrecourse financing to the lessor, the transaction shall be accounted for as a leveraged lease. The lessor’s net investment in a leveraged lease shall be recorded in a manner similar to that for a direct financing lease but net of the principal and interest on the nonrecourse debt. Based on a projected cash flow analysis for the lease term,

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unearned and deferred income shall be amortized to income at a constant rate only in those years of the lease term in which the net investment is positive. In the years in which the net investment is not positive, no income is to be recognized on the leveraged lease.

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

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

As a matter of sound practice, letters of credit should:

- (1) be conspicuously labeled as a letter of credit;
- (2) contain a specified expiration date or be for a definite term;
- (3) be limited in amount;
- (4) call upon the issuing Reporter or its issuing consolidated subsidiaries to pay only upon the presentation of a draft or other documents as specified in the letter of credit and not require the issuing Reporter or consolidated subsidiaries to make determinations of fact or law at issue between the account party and the beneficiary; and
- (5) be issued only subject to an agreement between the account party and the issuing Reporter or its consolidated subsidiaries which establishes the unqualified obligation of the account party to reimburse the issuing Reporter or its consolidated subsidiaries for all payments made under the letter of credit.

There are four basic types of letters of credit:

- (1) commercial letters of credit,
- (2) letters of credit sold for cash,
- (3) travelers’ letters of credit, and
- (4) standby letters of credit, each of which is discussed separately below.

A *commercial letter of credit* is issued specifically to facilitate trade or commerce. Under the terms of a commercial letter of credit, as a general rule, drafts will be drawn when the underlying transaction is consummated as intended.

A *letter of credit sold for cash* is a letter of credit for which the Reporter or a consolidated subsidiary has received funds from the account party at the time of issuance. This type of letter of credit is not to be reported as an outstanding letter of credit but as a demand deposit. These letters are considered to have been sold for cash even though the consolidated Reporter may have advanced funds to the account party for the purchase of such letters of credit on a secured or unsecured basis.

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A *travelers' letter of credit* is issued to facilitate travel.

This letter of credit is addressed by the Reporter or its consolidated subsidiaries to its correspondents authorizing the correspondents to honor drafts drawn by the person named in the letter of credit in accordance with specified terms. These letters are generally sold for cash.

A *standby letter of credit* is a letter of credit or similar arrangement that:

- (1) represents an obligation on the part of the issuing Reporter or a consolidated subsidiary to a designated third party (the beneficiary) contingent upon the failure of the issuing consolidated Reporter's customer (the account party) to perform under the terms of the underlying contract with the beneficiary, or
- (2) obligates the Reporter or a consolidated subsidiary to guarantee or stand as surety for the benefit of a third party to the extent permitted by law or regulation.

The underlying contract may entail either financial or nonfinancial undertakings of the account party with the beneficiary. The underlying contract may involve such things as the customer's payment of commercial paper, delivery of merchandise, completion of a construction contract, release of maritime liens, or repayment of the account party's obligations to the beneficiary. Under the terms of a standby letter, as a general rule, drafts will be drawn only when the underlying event fails to occur as intended.

Life and health: An enterprise that can issue annuity, endowment, and accident and health insurance contracts as well as life insurance contracts.

Loan: For purposes of this report, a loan is generally an extension of credit resulting from direct negotiations between a lender and a borrower. The Reporter or its consolidated subsidiaries may originate a loan by directly negotiating with a borrower or it may purchase a loan or a portion of a loan originated by another lender that directly negotiated with a borrower. The Reporter or its subsidiaries may also sell a loan or a portion of a loan, regardless of the method by which it acquired the loan.

Loans may take the form of promissory notes, acknowledgments of advance, due bills, invoices, overdrafts, acceptances, and similar written or oral obligations.

Among the extensions of credit reportable as loans in Schedule IRC-C, which covers both loans held for sale and loans that the Reporter has the intent and ability to hold for the foreseeable future or until maturity or payoff, are:

- (1) acceptances of banks that are not consolidated subsidiaries for the Reporter's FR 2085;
- (2) acceptances executed by or for the account of a subsidiary bank of the Reporter and subsequently acquired by the consolidated Reporter through purchase or discount;
- (3) customers' liability to a bank subsidiary of the Reporter on drafts paid under letters of credit for which the bank subsidiary of the Reporter has not been reimbursed;
- (4) "advances" and commodity or bill-of-lading drafts payable upon arrival of goods against which drawn, for which a bank subsidiary of the Reporter has given deposit credit to customers;
- (5) paper pledged by the Reporter or by its consolidated subsidiaries whether for collateral to secure bills payable (e.g., margin collateral to secure bills rediscounted) or for any other purpose;
- (6) sales of "term federal funds" (i.e., sales of immediately available funds with a maturity of more than

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one business day), other than those involving security resale agreements;

- (7) factored accounts receivable;
- (8) loans arising out of the purchase of assets (other than securities) under resale agreements with a maturity of more than one business day if the agreement requires the Reporter to resell the identical asset purchased; or
- (9) participations (acquired or held) in a single loan or in a pool of loans or receivables (see discussion in the Glossary entry for “Transfers of Financial Assets”).

Loan acceptances and commercial paper, held in a trading account are to be reported in Schedule IRC, item 3, “Trading assets.”

See also “Loan secured by real estate,” “Overdraft,” and “Sale of assets.”

Loan Fees: The accounting standards for nonrefundable fees and costs associated with lending, committing to lend, and purchasing a loan or group of loans are set forth in ASC Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs (formerly FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*), a summary of which follows. The statement applies to all types of loans as well as to debt securities (but not to loans or debt securities carried at fair value if the changes in fair value are included in earnings) and to all types of lenders. For further information, see ASC Subtopic 310-20.

A Reporter may acquire a loan by originating the loan (lending) or by acquiring a loan from a party other than the borrower (purchasing). Lending, committing to lend, refinancing or restructuring loans, arranging standby letters of credit, syndicating loans, and leasing activities are all considered “lending activities.” Nonrefundable loan fees paid by the borrower to the lender may have many different names, such as origination fees, points, placement fees, commitment fees, application fees, management fees, restructuring fees, and syndication fees, but in this Glossary entry, they are referred to as loan origination fees, commitment fees, or syndication fees. ASC Subtopic 310-20 applies to both a lender and a purchaser, and should be applied to individual loan contracts. Aggregation of similar loans for purposes of recognizing net fees or costs and purchase premiums or discounts is permitted under certain circumstances specified in ASC Subtopic 310-20 or if the result does not differ materially from the amount that would have been recognized on an individual loan-by-loan basis.

In general, the statement specifies that:

- (1) Loan origination fees should be deferred and recognized over the life of the related loan as an adjustment of yield (interest income). Once a Reporter adopts ASC Subtopic 310-20, recognizing a portion of loan fees as revenue to offset all or part of origination costs in the reporting period in which a loan is originated is no longer acceptable.
- (2) Certain direct loan origination costs specified in the Statement should be deferred and recognized over the life of the related loan as a reduction of the loan’s yield. Loan origination fees and related direct loan origination costs for a given loan should be offset and only the net amount deferred and amortized.
- (3) Direct loan origination costs should be offset against related commitment fees and the net amounts deferred except for: (a) commitment fees (net of costs) where the likelihood of exercise of the commitment is remote, which generally should be recognized as service fee income on a straight line basis over the loan commitment period, and (b) retrospectively determined fees, which are recognized as service fee income on the date as of which the amount of the fee is determined. All other commitment fees (net of costs) shall be deferred over the entire commitment period and recognized as an adjustment of yield over the related loan’s life or, if the commitment expires unexercised, recognized in income upon

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expiration of the commitment.

- (4) Loan syndication fees should be recognized by the Reporter managing a loan syndication (the syndicator) when the syndication is complete unless a portion of the syndication loan is retained. If the yield on the portion of the loan retained by the syndicator is less than the average yield to the other syndication participants after considering the fees passed through by the syndicator, the syndicator should defer a portion of the syndication fee to produce a yield on the portion of the loan retained that is not less than the average yield on the loans held by the other syndication participants.
- (5) Loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans shall be recognized as an adjustment of yield generally by the interest method based on the contractual term of the loan. However, if the Reporter holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the Reporter may consider estimates of future principal prepayments in the calculation of the constant effective yield necessary to apply the interest method. Once a Reporter adopts ASC Subtopic 310-20, the practice of recognizing fees over the estimated average life of a group of loans is no longer acceptable.
- (6) A refinanced or restructured loan, other than a troubled debt restructuring, should be accounted for as a new loan if the terms of the new loan are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan. Any unamortized net fees or costs and any prepayment penalties from the original loan should be recognized in interest income when the new loan is granted. If the refinancing or restructuring does not meet these conditions or if only minor modifications are made to the original loan contract, the unamortized net fees or costs from the original loan and any prepayment penalties should be carried forward as a part of the net investment in the new loan. The investment in the new loan should consist of the remaining net investment in the original loan, any additional amounts loaned, any fees received, and direct loan origination costs associated with the transaction. In a troubled debt restructuring involving a modification of terms, fees received should be applied as a reduction of the recorded investment in the loan, and all related costs, including direct loan origination costs, should be charged to expense as incurred. (See the Glossary entry for “troubled debt restructurings” for further guidance.)
- (7) Deferred net fees or costs shall not be amortized during periods in which interest income on a loan is not being recognized because of concerns about realization of loan principal or interest.

Direct loan origination costs of a completed loan are defined to include only (a) incremental direct costs of loan origination incurred in transactions with independent third parties for that particular loan and (b) certain costs directly related to specified activities performed by the lender for that particular loan.¹² Incremental direct costs are costs to originate a loan that (a) result directly from and are essential to the lending transaction and (b) would not have been incurred by the lender had that lending transaction not occurred. The specified activities performed by the lender are evaluating the prospective borrower’s financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating loan terms; preparing and processing loan documents; and closing the transaction. The costs directly related to those activities include only that portion of the employees’ total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that particular loan and other costs related to those activities that would not have been incurred but for that particular loan.

All other lending-related costs, whether or not incremental, should be charged to expense as incurred, including costs related to activities performed by the lender for advertising, identifying potential borrowers, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration. Employees’ compensation and fringe benefits

¹² For purposes of this report, a Reporter which deems its costs for these lending activities not to be material and which need not maintain records on a loan-by-loan basis for other purposes may expense such costs as incurred.

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related to these activities, unsuccessful loan origination efforts, and idle time should be charged to expense as incurred. Administrative costs, rent, depreciation, and all other occupancy and equipment costs are considered indirect costs and should be charged to expense as incurred.

Net unamortized loan fees represent an adjustment of the loan yield, and shall be reported in the same manner as unearned income on loans, i.e., deducted from the related loan balances (to the extent possible) or deducted from total loans in “any unearned income on loans reflected in items 1-6” in Schedule IRC-C. Net unamortized direct loan origination costs shall be added to the related loan balances in Schedule IRC-C. Amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield should be reported under the appropriate subitem of item 5, “Other income,” in Schedule IRI. Other fees, such as (a) commitment fees that are recognized during the commitment period or included in income when the commitment expires (i.e. fees retrospectively determined and fees for commitments where exercise is remote) and (b) syndication fees that are not deferred, should be reported as “Other income” on Schedule IRI.

Loan Secured by Real Estate: For purposes of this report, a loan secured by real estate is a loan that, at origination, is secured wholly or substantially by a lien or liens on real property for which the lien or liens are central to the extension of the credit – that is, the borrower would not have been extended credit in the same amount or on terms as favorable without the lien or liens on real property. To be considered wholly or substantially secured by a lien or liens on real property, the estimated value of the real estate collateral at origination (after deducting any more senior liens) must be greater than 50 percent of the principal amount of the loan at origination.¹³

A loan satisfying the criteria above, except a loan to a state or political subdivision in the U.S., is to be reported as a loan secured by real estate in Schedule IRC-C, Part A, item 1, and related items in the Consolidated Income Statement, (1) regardless of whether the loan is secured by a first or a junior lien; (2) regardless of whether the loan was originated by the Reporter or purchased from others and, if originated by the Reporter, regardless of the department or subsidiary within the Reporter or subsidiary that made the loan; 3) regardless of how the loan is categorized in the Reporter’s records; (4) and regardless of the purpose of the financing. Only in a transaction where a lien or liens on real property (with an estimated collateral value greater than 50 percent of the loan’s principal amount at origination) have been taken as collateral solely through an abundance of caution and where the loan terms as a consequence have not been made more favorable than they would have been in the absence of the lien or liens, would the loan not be considered a loan secured by real estate for purposes of the FR 2085. In addition, when a loan is partially secured by a lien or liens on real property, but the estimated value of the real estate collateral at origination (after deducting any more senior liens held by others) is 50 percent or less of the principal amount of the loan at origination, the loan should not be categorized as a loan secured by real estate. Instead, the loan should be reported in one of the other loan categories used in these reports based on the purpose of the loan.

The following are examples of the application of the preceding guidance:

- (1) A subsidiary loans \$700,000 to construct and equip a building that will be used as a dental office. The loan will be secured by both the real estate and the dental equipment. At origination, the estimated values of the building, upon completion, and the equipment are \$400,000 and \$350,000, respectively. The loan should be reported as a loan secured by real estate in Schedule IRC-C, Part A, item 1(d), “Secured by nonfarm nonresidential properties.” In contrast, if the estimated values of the building and equipment at origination were \$340,000 and \$410,000, respectively, the loan should not be reported as a loan secured by real estate. Instead, the loan should be reported in Schedule IRC-C, Part A, item 4, “Commercial and industrial loans.”
- (2) A subsidiary grants a \$25,000 line of credit and a \$125,000 term loan to a commercial borrower for

¹³ Reporters should apply this revised definition of “loan secured by real estate” prospectively beginning April 1, 2009. Loans reported on or before March 31, 2009, as loans secured by real estate need not be reevaluated and, if appropriate, recategorized into other loan categories on Schedule IRC-C, Loans and Lease Financing Receivables.

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working capital purposes on the same date. The loans will be cross-collateralized by equipment with an estimated value of \$40,000 and a third lien on the borrower's residence, which has an estimated value of \$140,000 and first and second liens with unpaid balances payable to other lenders totaling \$126,000. The two loans should be considered together to determine whether they are secured by real estate. Because the estimated equity in the real estate collateral available to the subsidiary is \$14,000, the two cross-collateralized loans for \$150,000 should not be reported as loans secured by real estate. Instead, the loans should be reported in Schedule IRC-C, Part A, item 4, "Commercial and industrial loans."

- (3) A subsidiary grants a \$50,000 working capital loan and takes a first lien on a vacant commercial building lot as collateral. The estimated value of the lot is \$30,000. The loan should be reported as a loan secured by real estate in Schedule IRC-C, Part A, item 1(d), "Secured by nonfarm nonresidential properties," unless the lien has been taken as collateral solely through an abundance of caution and where the loan terms as a consequence have not been made more favorable than they would have been in the absence of the lien.
- (4) A subsidiary grants a \$10,000 home equity line of credit secured by a junior lien on a 1-4 family residential property. The subsidiary also has a loan to the same borrower that is secured by a first lien on the same 1-4 family residential property and has an unpaid principal balance of \$71,000. There are no intervening liens and the line of credit will be used for household, family, and other personal expenditures. The estimated value of the residential property at the origination of the home equity line of credit is \$75,000. The two loans should be considered together to determine whether the home equity line of credit should be reported as a loan secured by real estate. Because the value of the collateral is greater than 50 percent of the first lien balance plus the amount of the home equity line of credit, loans extended under the line of credit should be reported as loans secured by real estate in Schedule IRC-C, Part A, item 1a(2), "Secured by junior liens." In contrast, if a creditor other than the subsidiary holds the first lien on the borrower's property, the estimated value of the collateral to the subsidiary for the home equity line of credit would have been \$4,000 (\$75,000 less the \$71,000 first lien held by the other creditor), which is 50 percent or less of the amount of the line of credit at origination. In this case, the subsidiary should not report loans extended under the line of credit as loans secured by real estate in Schedule IRC-C, Part A, item 1. Rather, the loans should be reported as "loans to individuals for household, family, and other personal expenditures" in Schedule IRC-C, Part A, item 6, "All other loans and leases."

Loss Contingencies: A loss contingency is an existing condition, situation, or set of circumstances that involves uncertainty as to possible loss that will be resolved when one or more future events occur or fail to occur. An estimated loss (or expense) from a loss contingency (for example, pending or threatened litigation) must be accrued by a charge to income if it is probable that an asset has been impaired or a liability incurred as of the report date and the amount of the loss can be reasonably estimated.

A contingency that might result in a gain, for example, the filing of an insurance claim, shall not be recognized as income prior to realization.

For further information, see ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, *Accounting for Contingencies*).

Nonaccrual Status: *General rule*—Reporters on an accrual basis of reporting shall not accrue interest or discount on (1) any asset which is maintained on a cash basis because of deterioration in the financial position of the borrower, (2) any asset for which payment in full of interest or principal is not expected, or (3) any asset upon which principal or interest has been in default for a period of 90 days or more unless it is *both* well secured and in the process of collection.

An asset is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guaranty of a financially responsible party. An asset is "in the process of collection" if collection of the asset is proceeding in due course either (1) through legal action, including

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judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

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 it should remain in nonaccrual status until it meets the criteria for restoration to accrual status described below.

Exceptions to the general rule—In the following situations, an asset need not be placed in nonaccrual status:

- (1) The criteria for accrual of income under the interest method specified in ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*), are met for a purchased credit-impaired loan, pool of loans, or debt security accounted for in accordance with that Subtopic, regardless of whether the loan, the loans in the pool or debt security had been maintained in nonaccrual status by its seller. (For purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, the determination of nonaccrual or accrual status should be made at the pool level, not at the individual loan level.) For further information, see the Glossary entry for “purchased credit-impaired loans and debt securities.”

The asset upon which principal or interest is due and unpaid for 90 days or more is a consumer loan (as defined for Schedule IRC-C, Part A, item 6, “All other loans and leases”) or a loan secured by a 1-to-4 family residential property (as defined for Schedule IRC-C, Part A, item 1(a)(1), Loans “Secured by 1-4 family residential properties”). Nevertheless, such loans should be subject to other alternative methods of evaluation to assure that the Reporter’s net income is not materially overstated. However, to the extent that the Reporter has elected to carry such a loan in nonaccrual status on its books, the loan must be reported as nonaccrual in Schedule IRC-C, Part B.

Treatment of previously accrued interest—The reversal of previously accrued but uncollected interest applicable to any asset placed in nonaccrual status and the treatment of subsequent payments as either principal or interest should be handled in accordance with generally accepted accounting principles. Acceptable accounting treatment includes a reversal of all previously accrued but uncollected interest applicable to assets placed in a nonaccrual status against appropriate income and balance sheet accounts.

For example, one acceptable method of accounting for such uncollected interest on a loan placed in nonaccrual status is (1) to reverse all of the unpaid interest by crediting the “income earned, not collected on loans” account on the balance sheet, (2) to reverse the uncollected interest that has been accrued during the calendar year-to-date by debiting the appropriate “interest and fee income on loans” account on the income statement, and (3) to reverse any uncollected interest that had been accrued during previous calendar years by debiting the “allowance for loan and lease losses” account on the balance sheet. The use of this method presumes that Reporter management’s additions to the allowance through charges to the “provision for loan and lease losses” on the income statement have been based on an evaluation of the collectability of the loan and lease portfolios *and* the “income earned, not collected on loans” account.

Treatment of cash payments and criteria for the cash basis recognition of income—When doubt exists as to the collectability of the remaining recorded investment in an asset in nonaccrual status, any payments received must be applied to reduce the recorded investment in the asset to the extent necessary to eliminate such doubt. Placing an asset in nonaccrual status does *not*, in and of itself, require a charge-off, in whole or in part, of the asset’s recorded investment. However, any identified losses must be charged off.

While an asset is in nonaccrual status, some or all of the cash interest payments received may be treated as interest

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income on a cash basis as long as the remaining recorded investment in the asset (i.e., after charge-off of identified losses, if any) is deemed to be fully collectible. A Reporter's determination as to the ultimate collectability of the asset's remaining recorded investment must be supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's historical repayment performance and other relevant factors.

When recognition of interest income on a cash basis is appropriate, it should be handled in accordance with generally accepted accounting principles. One acceptable practice involves allocating contractual interest payments among interest income, reduction of the recorded investment in the asset, and recovery of prior charge-offs. If this method is used, the amount of income that is recognized would be equal to that which would have been accrued on the asset's remaining recorded investment at the contractual rate. A Reporter may also choose to account for the contractual interest in its entirety either as income, reduction of the recorded investment in the asset, or recovery of prior charge-offs, depending on the condition of the loan, consistent with its accounting policies for other financial reporting purpose.

Restoration to accrual status—As a general rule, a nonaccrual asset may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and the Reporter expects repayment of the remaining contractual principal and interest, or (2) when it otherwise becomes well secured and in the process of collection. If any interest payments received while the asset was in nonaccrual status were applied to reduce the recorded investment in the asset, as discussed in the preceding section of this entry, the application of these payments to the asset's recorded investment should not be reversed (and interest income should not be credit) when the asset is returned to accrual status.

For purposes of meeting the first test, the Reporter must have received repayment of the past due principal and interest unless, as discussed below, (1) the asset has been formally restructured and qualifies for accrual status, (1) the asset is a purchased impaired loan or debt security accounted for in accordance with ASC Subtopic 310-30 and it meets the criteria for accrual of income under the interest method specified therein or (3) the borrower has resumed paying the full amount of the scheduled contractual interest and principal payments on a loan that is past due and in nonaccrual status, even though the loan has not been brought fully current, and the following two criteria are met. These criteria are, first, that all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period and, second, that there is a sustained period of repayment performance (generally a minimum of six months) by the borrower in accordance with the contractual terms involving payments of cash or cash equivalents. A loan that meets these two criteria may be restored to accrual status but must continue to be disclosed as past due in Schedule IRC-C, Part B until it has been brought fully current or until it later must be placed in nonaccrual status.

A loan or other debt instrument that has been formally restructured so as to be reasonably assured of repayment (of principal and interest) and of performance according to its modified terms need not be maintained in nonaccrual status, provided the restructuring is supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the restructured asset must remain in nonaccrual status. The evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan or other debt instrument is returned to accrual status. (In returning the asset to accrual status, sustained historical payment performance for a reasonable time prior to the restructuring may be taken into account.) Such a restructuring must improve the collectability of the loan or other debt instrument in accordance with a reasonable repayment schedule and does not relieve the Reporter from the responsibility to promptly charge off all identified losses.

A formal restructuring may involve a multiple note structure in which, for example, a troubled loan is restructured into two notes. The first or "A" note represents the portion of the original loan principal amount that is expected to be fully collected along with contractual interest. The second or "B" note represents the portion of the original loan that has been charged off and, because it is not reflected as an asset and is unlikely to be collected, could be viewed as a contingent receivable. The "A" note may be returned to accrual status provided the conditions in the preceding paragraph are met and:

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- (1) There is economic substance to the restructuring and it qualifies as a troubled debt restructuring under generally accepted accounting principles,
- (2) The portion of the original loan represented by the “B” note has been charged off before or at the time of the restructuring, and
- (3) The “A” note is reasonably assured of repayment and of performance in accordance with the modified terms.

Until the restructured asset is restored to accrual status, if ever, cash payments received must be treated in accordance with the criteria stated above in the preceding section of this entry. In addition, after a formal restructuring, if a restructured asset that has been returned to accrual status later meets the criteria for placement in nonaccrual status as a result of past due status based on its modified terms or for other reasons, the asset must be placed in nonaccrual status. For further information on formally restructured assets, see the Glossary entry for “troubled debt restructuring.”

Treatment of multiple extensions of credit to one borrower—As a general principle, nonaccrual status for an asset should be determined based on an assessment of the individual asset’s collectability and payment ability and performance. Thus, when one loan to a borrower is placed in nonaccrual status, a Reporter or its subsidiaries do not automatically have to place all other extensions of credit to that borrower in nonaccrual status. When a Reporter has multiple loans or other extensions of credit outstanding to a single borrower, and one loan meets criteria for nonaccrual status, the Reporter should evaluate its other extensions of credit to that borrower to determine whether one or more of these other assets should also be placed in nonaccrual status.

Offsetting: Offsetting is the reporting of assets and liabilities on a net basis in the balance sheet. Reporters are permitted to offset assets and liabilities recognized in the balance sheet when a “right of setoff” exists. Under ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly 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 party 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 reasonable assurance that the right of setoff would be upheld in bankruptcy (or receivership).

According to ASC Subtopic 210-20, for forward, interest rate swap, currency swap, option, and other conditional and exchange contracts, a master netting arrangement exists if the Reporter 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.

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Offsetting of assets and liabilities is also permitted by other pronouncements identified in ASC Subtopic 210-20. These pronouncements apply to such items as leverage leases, pension plan and other postretirement benefit plan assets and liabilities, and deferred tax assets and liabilities. In addition, ASC Subtopic 210-20, Balance Sheet – Offsetting (formerly 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 ASC Subtopic 210-20 must be applied consistently. According to the AICPA Audit and Accounting Guide for Depository and Lending Institutions, ASC Subtopic 210-20 does not apply to securities borrowing or lending transactions. Therefore, for purposes of filing Reporter reports, Reporters should not offset securities borrowing and lending transactions in the balance sheet unless all the conditions set forth in ASC Subtopic 210-20 are met.

Overdraft: An overdraft can be either planned or unplanned. An unplanned overdraft occurs when a depository institution honors a check or draft drawn against a deposit account when insufficient funds are on deposit and there is no advance contractual agreement to honor the check or draft. When a contractual agreement has been made in advance to allow such credit extensions, overdrafts are referred to as planned or prearranged. Any overdraft, whether planned or unplanned, is an extension of credit and is to be treated and reported as a "loan" rather than being treated as a negative deposit balance.

Planned overdrafts are to be classified in Schedule IRC-C by type of loan according to the nature of the overdrawn depositor. For example, a planned overdraft by a commercial customer is to be classified as a "commercial and industrial loan."

Unplanned overdrafts in depositors' accounts are to be classified in Schedule IRC-C, Part A item 6, "All other loans and leases," unless the depositor is a depository institution or a foreign government or official institution. Such unplanned overdrafts would be reported in Schedule IRC-C, Part A, item 2, "Loans to depository institutions and acceptances of other banks" and item 5, "Loans to foreign governments and official institutions."

For purposes of treatment of overdrafts, separate transaction accounts of a single depositor that are established under a bona fide cash management arrangement are regarded as a single account rather than multiple or separate accounts. In such a situation, an overdraft in one of the accounts of a single customer is netted against the related transaction accounts of the customer and an extension of credit is regarded as arising only if, and to the extent, the combined accounts of the customer are overdrawn.

The consolidated Reporter's overdrafts on deposit accounts it holds with other depository institutions that are not consolidated on the Reporter's FR 2085 (i.e., its "due from" accounts) are to be reported as borrowings in Schedule IRC, item 29, except overdrafts arising in connection with checks or drafts drawn by subsidiary depository institutions of the Reporter 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 or drafts drawn in the normal course of business during the period until the amount of the checks or drafts is remitted to the other depository institution (in which case, report the funds received or held in connection with such checks or drafts as borrowings in Schedule IRC, item 29, "Other borrowed money" until the funds are remitted).

Preferred Stock: Preferred stock is a form of ownership interest in a Reporter or other company which entitles its holders to some preference or priority over the owners of common stock, usually with respect to dividends or asset distributions in a liquidation.

Limited-life preferred stock is preferred stock that has a stated maturity date or that can be redeemed at the option of the holder. It excludes those issues of preferred stock that automatically convert into perpetual

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preferred stock or common stock at a stated date.

Perpetual preferred stock is preferred stock that does not have a stated maturity date or that cannot be redeemed at the option of the holder. It includes those issues of preferred stock that automatically convert into common stock at a stated date.

Premiums and Discounts: A premium arises when a Reporter or its consolidated subsidiaries purchase a security, loan, or other asset at a price in excess of its par or face value, typically because the current level of interest rates for such assets is less than its contract or stated rate of interest. The difference between the purchase price and par or face value represents the premium which all consolidated Reporters are required to amortize.

A discount arises when a consolidated Reporter purchases a security, loan, or other asset at a price below its par or face value, typically because the current level of interest rates for such assets is greater than its contract or stated rate of interest. A discount is also present on instruments that do not have a stated rate of interest such as U.S. Treasury bills and commercial paper. The difference between par or face value and the purchase price represents the discount which all Reporters on the accrual basis of accounting are required to accrete.

Premiums and discounts are accounted for as adjustments to the yield on an asset over the life of the asset. A premium must be amortized and a discount must be accreted from date of purchase or maturity, *not* to the call or put date. The preferable method for amortizing premiums and accreting discounts involves the use of the interest method for accruing income on the asset. The objective of the interest method is to produce a constant yield or rate of return on the carrying value of the asset (par or face value plus unamortized premium or less unaccreted discount) at the beginning of each amortization period over the asset's remaining life. The difference between the periodic interest income that is accrued on the asset and interest at the stated rate is the periodic amortization or accretion. However, a straight-line method of amortization or accretion is acceptable if the results are not materially different from the interest method.

Deferred income taxes applicable to timing differences between the amounts of discount accreted for purposes of these reports and for income tax purposes must be recognized in each year-end reporting period and included in item 15, "Applicable income taxes (foreign and domestic)," in Schedule IRI of the Consolidated Income Statement.

A premium or discount may also arise when the Reporter or its consolidated subsidiaries, acting either as a lender or a borrower, are involved in an exchange of a note for assets other than cash and the interest rate is either below the market rate or not stated, or the face amount of the note is materially different from the fair value of the noncash assets exchanged. The noncash assets and the related note shall be recorded at either the fair value of the noncash assets or the market value of the note, whichever is more clearly determinable. The market value of the note would be its present value as determined by discounting all future payments on the note using an appropriate interest rate, i.e., a rate comparable to that on new loans of similar risk. The difference between the face amount and the recorded value of the note is a premium or discount. This discount or premium shall be accounted for as an adjustment of the interest income or expense over the life of the note using the interest method described above.

For further information, see ASC Subtopic 835-30, Interest – Imputation of Interest (formerly APB Opinion No. 21, *Interest on Receivables and Payables*).

Property and casualty: An enterprise that issues insurance contracts providing protection against (a) damage to, or loss of, property caused by various perils, such as fire and theft, or (b) legal liability resulting from injuries to other persons or damage to their property. Property and liability insurance enterprises also can issue accident and health insurance contracts.

Purchased Credit-Impaired Loans and Debt Securities: Purchased credit-impaired loans and debt securities

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are loans and debt securities that a Reporter has purchased, including those acquired in a purchase business combination, where there is evidence of deterioration of credit quality since the origination of the loan or debt security and it is probable, at the purchase date, that the Reporter will be unable to collect all contractually required payments receivable. Such loans and debt securities acquired in fiscal years beginning after December 15, 2004, must be accounted for in accordance with ASC Subtopic 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality* (formerly AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*). ASC Subtopic 310-30 does not apply to loans that a bank has originated.

Under ASC Subtopic 310-30, a purchased credit-impaired loan or debt security is initially recorded at its purchase price (in a purchase business combination, the present value of amounts to be received). ASC Subtopic 310-30 limits the yield that may be accreted on the loan or debt security (the accretable yield) to the excess of the Reporter's estimate of the undiscounted principal, interest, and other cash flows expected at acquisition to be collected on the asset over the Reporter's initial investment in the asset. The excess of contractually required cash flows over the cash flows expected to be collected on the loan or debt security, which is referred to as the nonaccretable difference, must not be recognized as an adjustment of yield, loss accrual, or valuation allowance. Neither the accretable yield nor the nonaccretable difference may be shown on the balance sheet (Schedule IRC). After acquisition, increases in the cash flows expected to be collected generally should be recognized prospectively as an adjustment of the asset's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as an impairment.

For purposes of applying the guidance in ASC Subtopic 310-30 to loans not accounted for as debt securities, a Reporter may aggregate loans acquired in the same fiscal quarter that have common risk characteristics and thereby use a composite interest rate and expectation of cash flows expected to be collected for the pool. To be eligible for aggregation, each loan first should be determined individually to meet the scope criteria in the first sentence of this Glossary entry. After determining that certain acquired loans individually meet these scope criteria, the Reporter may evaluate whether such loans have common risk characteristics, thus permitting the aggregation of such loans into one or more pools. The aggregation must be based on common risk characteristics that include similar credit risk or risk ratings, and one or more predominant risk characteristics, such as financial asset type, collateral type, size, interest rate, date of origination, term, and geographic location. Upon establishment of a pool of purchased credit-impaired loans, the pool becomes the unit of account.

Once a pool of purchased credit-impaired loans is assembled, the integrity of the pool must be maintained. A Reporter should remove an individual loan from a pool of purchased credit-impaired loans only if the Reporter sells, forecloses, or otherwise receives assets in satisfaction of the loan or if the loan is written off. When an individual loan is removed from a pool of purchased credit-impaired loans under these circumstances, the loan shall be removed at its carrying amount. Carrying amount is defined as the loan's current contractually required payments receivable less its remaining nonaccretable difference, accretable yield, and any post-acquisition loan loss allowance. A Reporter that accounts for a pool of purchased credit-impaired loans with common risk characteristics as one unit of account may or may not document and maintain data on the nonaccretable difference and accretable yield on a loan-by-loan basis. Accordingly, for purposes of determining the carrying amount of an individual loan in the pool, a Reporter may apply a systematic and rational approach to allocating the nonaccretable difference and accretable yield for the pool to an individual loan in the pool. One acceptable approach is a pro rata allocation of the pool's total remaining nonaccretable difference and accretable yield to an individual loan in proportion to the loan's current contractually required payments receivable compared to the pool's total contractually required payments receivable.

A refinancing or restructuring of a loan within a pool of purchased credit-impaired loans should not result in the removal of the loan from the pool. In addition, a modification of the terms of a loan within a pool of purchased credit-impaired loans is not considered a troubled debt restructuring under the scope exceptions in ASC Subtopic 310-40, *Receivables – Troubled Debt Restructurings by Creditors* (formerly FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, as amended). However, a modification of the terms of a purchased credit-impaired loan accounted for individually must be evaluated to

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determine whether the modification represents a troubled debt restructuring that should be accounted for in accordance with ASC 310-40. For further information, see the Glossary entry for “troubled debt restructurings.”

ASC Subtopic 310-30 does not prohibit a Reporter from placing a purchased credit-impaired loan accounted for individually, a pool of purchased credit-impaired loans with common risk characteristics, or a purchased credit-impaired debt security in nonaccrual status. Because a loan (including a loan aggregated with other loans with common risk characteristics) or debt security accounted for in accordance with ASC Subtopic 310-30 has evidence of deterioration of credit quality since origination, a purchasing Reporter must determine upon acquisition whether it is appropriate to recognize the accretible yield as income over the life of the loan, pool of loans or debt security using the interest method. In order to apply the interest method, the Reporter must have sufficient information to reasonably estimate the amount and timing of the cash flows expected to be collected on a purchased credit-impaired loan, pool of loans or debt security. When the amount and timing of the cash flows cannot be reasonably estimated at acquisition, the Reporter should place the purchased credit-impaired loan, pool of loans or debt security in a nonaccrual status and then apply the cost recovery method or cash basis income recognition to the asset. (For purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, the determination of nonaccrual or accrual status should be made at the pool level, not at the individual loan level.) In addition, if a purchased credit-impaired loan or debt security is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate and the loan or debt security should be placed in nonaccrual status. The amount of a purchased credit-impaired loan, pool of loans, or debt security in nonaccrual status should be reported in the appropriate items of Schedule IRC-C, Part B.

When accrual of income on a purchased credit-impaired loan or purchased credit-impaired debt security is appropriate (either at acquisition or at a later date when the amount and timing of the cash flows can be reasonably estimated), the delinquency status of the asset should be determined in accordance with its contractual repayment terms for purposes of reporting the amount of the loan or debt security as past due in the appropriate items of Schedule IRC-C, Part B, column A or B. When accrual of income on a pool of purchased credit-impaired loans with common risk characteristics is appropriate, delinquency status should be determined individually for each loan in the pool in accordance with the individual loan’s contractual repayment terms for purposes of reporting the amount of individual loans within the pool as past due in the appropriate items of Schedule IRC-C, Part B, column A or B.

ASC Subtopic 310-30 prohibits a Reporter from “carrying over” or creating loan loss allowances in the initial accounting for purchased credit-impaired loans. This prohibition applies to the purchase of an individual impaired loan, a pool or group of impaired loans, and impaired loans acquired in a business combination. However, if, upon evaluation of a purchased credit-impaired loan held for investment (and not accounted for as a debt security) subsequent to acquisition, based on current information and events, it is probable that a Reporter is unable to collect all cash flows expected at acquisition (plus additional cash flows expected to be collected arising from changes in estimate after acquisition) on the loan, the purchased credit-impaired loan should be considered impaired for purposes of establishing an allowance pursuant to ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, *Accounting for Contingencies*) or ASC Topic 310, Receivables (formerly FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*), as appropriate. For purchased credit-impaired loans with common risk characteristics that are aggregated and accounted for as a pool, this impairment analysis should be performed subsequent to acquisition at the pool level as a whole and not at the individual loan level. Reporters should include such post acquisition allowances in the Reporter’s allowance for loan and lease losses as reported in Schedule IRI-B, item 7.

In Schedule IRC-C, Loans and Leases, Reporters should report the amount of a purchased credit-impaired loan in the appropriate loan category (items 1 through 6). Neither the accretible yield nor the nonaccretible difference associated with a purchased impaired loan should be reported as unearned income in Schedule IRC-C, item 7.

For further information, refer to ASC Subtopic 310-30.

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Reinsurance recoverable: Reinsurance recoverables represent reimbursements expected by insurance underwriters, under reinsurance contracts governing underwriting coverage ceded to another insurer, for paid and unpaid claims, claim settlement expenses and other policy benefits. Reinsurance recoverables also include premiums recoverable, technical reserves recoverables and other reinsurance recoverables.

Repurchase/Resale Agreements: A repurchase agreement is a transaction involving the “sale” of financial assets by one party to another, subject to an agreement by the “seller” to repurchase the assets at a specified date or in specified circumstances. A resale agreement (also known as a reverse repurchase agreement) is a transaction involving the “purchase” of financial assets by one party from another, subject to an agreement by the “purchaser” to resell the assets at a specified date or in specified circumstances.

As stated in the AICPA’s *Audit and Accounting Guide for Banks and Savings Institutions*, dollar repurchase agreements (also called dollar rolls) are agreements to sell and repurchase similar but not identical securities. The dollar roll market consists primarily of agreements that involve mortgage-backed securities (MBS). Dollar rolls differ from regular repurchase agreements in that the securities sold and repurchased, which are usually of the same issuer, are represented by different certificates, are collateralized by different but similar mortgage pools (for example, single-family residential mortgages) and generally have different principal amounts.

General rule—Consistent with ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended), repurchase and resale agreements involving financial assets (e.g., securities and loans), including dollar repurchase agreements, are either reported as (a) secured borrowings and loans or (b) sales and forward repurchase commitments based on whether the transferring (“selling”) institution maintains control over the transferred assets. (See Glossary entry for “transfers of financial assets” for further discussion of control criteria).

If a repurchase agreement both entitles and obligates the “selling” institution to repurchase or redeem the transferred assets from the transferee (“purchaser”) the “selling” institution should report the transaction as a secured borrowing if and only if the following conditions have been met:

- (1) The assets to be repurchased or redeemed are the same or “substantially the same” as those transferred, as defined by ASC Topic 860.
- (2) The “selling” institution has the ability to repurchase or redeem the transferred assets on substantially the agreed terms, even in the event of default by the transferee (“purchaser”). This ability is presumed to exist if the “selling” institution has obtained cash or other collateral sufficient to fund substantially all of the cost of purchasing replacement assets from others.
- (3) The agreement is to repurchase or redeem the transferred assets before maturity, at a fixed or determinable price.
- (4) The agreement is entered into concurrently with the transfer.

Participations in pools of securities are to be reported in the same manner as security repurchase/resale transactions.

Repurchase agreements reported as secured borrowings.—If a repurchase agreement qualifies as a secured borrowing, the “selling” institution should report the transaction as indicated below based on whether the agreement involves a security or some other financial asset.

- (1) Securities “sold” under agreements to repurchase are reported in Schedule IRC, item 27, “Securities sold

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under agreements to repurchase.’’

In addition, the ‘‘selling’’ institution may need to record further entries depending on the terms of the agreement. If the ‘‘purchaser’’ has the right to sell or repledge noncash assets, the ‘‘selling’’ institution should recategorize the transferred financial assets as ‘‘assets receivable’’ and report them in Schedule IRC, item 19, ‘‘Other assets.’’ Otherwise, the financial assets should continue to be reported in the same asset category as before the transfer (e.g., securities should continue to be reported in Schedule IRC, items 1 or 2, ‘‘Fixed maturity securities’’ and ‘‘Equity securities,’’ or item 3, ‘‘Trading Assets,’’ as appropriate).

Resale agreements reported as secured borrowings. — Similarly, if a resale agreement qualifies as a secured borrowing, the ‘‘purchasing’’ institution should report the transaction as indicated below based on whether the agreement involves a security of some other financial asset.

- (1) Securities ‘‘purchased’’ under agreements to resell reported in Schedule IRC, item 8, ‘‘Securities purchased under agreements to resell.’’
- (2) Financial assets (other than securities) ‘‘purchased’’ under agreements to resell are reported in Schedule IRC, item 4, ‘‘Loans and leases, net of unearned income and allowance.’’

In addition, the ‘‘purchasing’’ institution may need to record further entries depending on the terms of agreement. If the ‘‘purchasing’’ institution has the right to sell the noncash assets it has ‘‘purchased’’ and sells these assets, it should recognize the proceeds from the sale and report its obligation to return the assets in Schedule IRC, item 31, ‘‘Other liabilities.’’ If the ‘‘selling’’ institution defaults under the terms of the repurchase agreement and is no longer entitled to redeem the noncash assets, the ‘‘purchasing’’ institution should recognize these assets on its own balance sheet (e.g., securities should be reported in Schedule IRC, items 1 or 2, ‘‘Fixed maturity securities’’ and ‘‘Equity Securities,’’ or item 3, ‘‘Trading assets,’’ as appropriate) and initially measure them at fair value. However, if the ‘‘purchasing’’ institution has already sold the assets it has ‘‘purchased,’’ it should derecognize its obligation to return the assets. Otherwise, the ‘‘purchasing’’ institution should not recognize the transferred financial assets (i.e., the financial assets ‘‘purchased’’ under the resale agreement) on its balance sheet.

Repurchase/resale agreements reported as sales.—If a repurchase agreement does not qualify as a secured borrowing under ASC Topic 860, the selling institution should account for the transaction as a sale of financial assets and a forward repurchase commitment. The selling institution should remove the transferred assets from its balance sheet, record the proceeds from the sale of transferred assets (including the forward repurchase commitment) and record any gain or loss on the transaction. Similarly, if a resale agreement does not qualify as a borrowing under ASC Topic 860, the purchasing institution should account for the transaction as a purchase of financial assets and a forward resale commitment. The purchasing institution should record the transferred assets on its balance sheet and initially measure them at fair value, record the payment for the purchased assets (including the forward resale commitment).

Separate Accounts: Represent assets and liabilities that are maintained by an insurance enterprise for purposes of funding fixed-benefit or **variable annuity contracts**, pension plans, and similar activities. The contract holder generally assumes the investment risk, and the insurance enterprise receives a fee for investment management, certain administrative expenses, and mortality and expense risks assumed.

Investments in separate accounts shall be reported at market except for separate account contracts with guaranteed investment returns. Separate account assets and liabilities ordinarily shall be reported as summary totals in the financial statements of the insurance enterprise.

Represent assets and liabilities which meet each of the following four criteria:

- (1) Recognized legally as a separate account under applicable law.

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- (2) Assets and liabilities legally insulated from the general account assets and liabilities of the insurer under applicable law and protected from the insurer's general creditors in the event of insurer's insolvency.
- (3) Invest funds within the separate account as directed by the contract holder in designated asset alternatives or in accordance with specific investment objectives or policies.
- (4) All investment performance, net of contract fees and assessments, must pass back to the contract holder, provided that contracts may specify conditions under which there may be a minimum guarantee, but not a ceiling.

Servicing Assets and Liabilities: The accounting and reporting standards for servicing assets and liabilities are set forth in ASC Subtopic 860-50, Transfers and Servicing – Servicing Assets and Liabilities (formerly FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended by FASB Statement No. 156, *Accounting for Servicing of Financial Assets*), and ASC Topic 948, Financial Services-Mortgage Banking (formerly FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*, as amended by Statement No. 140). A summary of the relevant sections of these accounting standards follows. For further information, see ASC Subtopic 860-50, ASC Topic 948, and the Glossary entry for “transfers of financial assets.”

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

Servicing is inherent in all financial assets; it becomes a distinct asset or liability for accounting purposes only in certain circumstances as discussed below. Servicing assets result from contracts to service financial assets under which the benefits of servicing (estimated future revenues from *contractually specified servicing fees*, late charges, and other ancillary sources) are expected to more than adequately compensate the servicer for performing the servicing. Servicing liabilities result from contracts to service financial assets under which the benefits of servicing are not expected to adequately compensate the servicer for performing the servicing. *Contractually specified servicing fees* are all amounts that, per contract, are due to the servicer in exchange for servicing the financial asset and would no longer be received by a servicer if the beneficial owners of the serviced assets or their trustees or agents were to exercise their actual or potential authority under the contract to shift the servicing to another servicer. *Adequate compensation* is the amount of benefits of servicing that would fairly compensate a substitute servicer should one be required, including the profit that would be demanded by a substitute servicer in the marketplace.

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

- (1) The Reporter's transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset that meets the requirements for sale accounting; or
- (2) An acquisition or assumption of a servicing obligation that does not relate to financial assets of the Reporter or its consolidated affiliates.

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

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A Reporter that transfers its financial assets to an unconsolidated entity in a transfer that qualifies as a sale in which the Reporter obtains the resulting securities and classifies them as debt securities held-to-maturity in accordance with ASC Topic 320, Investments—Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), may either separately recognize its servicing assets or servicing liabilities or report those servicing assets or servicing liabilities together with the assets being serviced.

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

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

Under the *amortization method*, all servicing assets or servicing liabilities in the class should be amortized in proportion to, and over the period of, estimated net servicing income for assets (servicing revenues in excess of servicing costs) or net servicing loss for liabilities (servicing costs in excess of servicing revenues). The servicing assets or servicing liabilities should be assessed for impairment or increased obligation based on fair value at each quarter-end report date. The servicing assets within a class should be stratified into groups based on one or more of the predominant risk characteristics of the underlying financial assets. If the carrying amount of a stratum of servicing assets exceeds its fair value, the Reporter should separately recognize impairment for that stratum by reducing the carrying amount to fair value through a valuation allowance for that stratum. The valuation allowance should be adjusted to reflect changes in the measurement of impairment subsequent to the initial measurement of impairment. For the servicing liabilities within a class, if subsequent events have increased the fair value of the liability above the carrying amount of the servicing liabilities, the Reporter should recognize the increased obligation as a loss in current earnings.

Under the *fair value measurement method*, all servicing assets or servicing liabilities in a class should be measured at fair value at each quarter-end report date. Changes in the fair value of these servicing assets and servicing liabilities should be reported in earnings in the period in which the changes occur.

For purposes of the FR 2085, servicing assets resulting from contracts to service loans secured by real estate (as defined for Schedule IRC-C, Part A, item 1, in the Glossary entry for "Loans secured by real estate") should be reported in Schedule IRC-M, item 6(a), "Mortgage servicing assets." When reporting the carrying amount of mortgage servicing assets in Schedule IRC-M, item 6(a), and nonmortgage servicing assets in Schedule IRC-M, item 6(b), Reporters should include all classes of servicing accounted for under the amortization method as well as all classes of servicing accounted for under the fair value measurement method. The fair value of all recognized mortgage servicing assets should be reported in Schedule IRC-M, item 6(a)(1), regardless of the subsequent measurement method applied to these assets. Changes in the fair value of any class of servicing assets and servicing liabilities accounted for under the fair value measurement method should be included in earnings

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in Schedule IRI, item 5, “Other income.”

Short Position: When a Reporter or its consolidated subsidiaries sell an asset that they do not own, they have established a short position. If on the report date a Reporter or its subsidiaries are in a short position, it shall report its liability to purchase the asset in Schedule IRC, item 28, “Trading liabilities.” In this situation, the right to receive payment shall be reported in Schedule IRC, item 19, “Other assets.” Short positions shall be reported gross. Short trading positions shall be revalued consistent with the method used by the Reporter for the valuation of its trading account assets.

STRIPS: See “Coupon Stripping, Treasury Receipts, and STRIPS.”

Subordinated Notes and Debentures: A subordinated note or debenture is a form of debt issued by a Reporter or its subsidiaries. When issued by a subsidiary bank, a subordinated note or debenture is not insured by a federal agency, is subordinated to the claims of depositors, has an original weighted average maturity of five years or more. Such debt shall be issued by a bank with the approval of, or under the rules and regulations of, the appropriate federal bank supervisory agency (i.e., the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, or the Federal Deposit Insurance Corporation).

When issued by a Reporter or its consolidated nonbank subsidiaries, a subordinated note or debenture is a form of unsecured long-term debt that is subordinated to other debt of the consolidated Reporter.

Both notes and debentures subordinated to deposits and other subordinated notes and debentures of the Reporter are to be reported in Schedule IRC, item 30(a), “Subordinated notes and debentures.”

Subsidiaries: The treatment of subsidiaries in the FR 2085 depends upon the degree of ownership held by the Reporter.

The term “*subsidiary*” is defined for purposes of the FR 2085 report as a *subsidiary* is a company in which the parent Reporter directly or indirectly owns more than 50 percent of the outstanding voting stock.

An *associated company* is a corporation in which the Reporter, directly or indirectly, owns 20 to 50 percent of the outstanding voting stock and over which the Reporter exercises significant influence. This 20 to 50 percent ownership is presumed to carry “significant” influence unless the Reporter can demonstrate the contrary to the satisfaction of the Federal Reserve.

A *corporate joint venture* is a corporation owned and operated by a group of companies (“joint venturers”), no one of which has a majority interest, as a separate and specific business or project for the mutual benefit of the joint venturers. Each joint venturer may participate, directly or indirectly, in the management of the joint venture. An entity that is a majority-owned subsidiary of one of the joint venturers is not a corporate joint venture.

Certain subsidiaries (as specified in the General Instructions) must be consolidated on the FR 2085. The equity ownership in subsidiaries that are not consolidated on the FR 2085 and in associated companies is accounted for using the equity method of accounting and is reported in Schedule IRC, item 18, “Investments in unconsolidated subsidiaries and associated companies.”

Ownership in a corporate joint venture is to be treated in the same manner as an associated company (defined above) only to the extent that the equity share represents significant influence over management. Otherwise, equity holdings in a joint venture are treated as holdings of corporate stock and income is recognized only when distributed in the form of dividends.

Trade Date and Settlement Date Accounting: Transactions in securities and trading account assets (including money market instruments) should be reported on the basis of trade date accounting in accordance with

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generally accepted accounting principles. However, if the reported amounts under settlement date accounting would not be materially different from those under trade date accounting, settlement date accounting is acceptable. Whichever method a Reporter elects should be used consistently, unless the Reporter has elected settlement date accounting and subsequently decides to change to the preferred trade date method.

Under trade date accounting, assets purchased shall be recorded in the appropriate asset category on the trade date and the Reporter's (or its consolidated subsidiaries') obligation to pay for those assets shall be reported in "Other liabilities." Conversely, when an asset is sold, it shall be removed on the trade date from the asset category in which it was recorded, and the proceeds receivable resulting from the sale shall be reported in "Other assets." Any gain or loss resulting from such transaction shall also be recognized on the trade date. On the settlement date, disbursement of the payment or receipt of the proceeds will eliminate the respective "Other liability" or "Other asset" entry resulting from the transaction.

Under settlement date accounting, assets purchased are not recorded until settlement date. On the trade date, no entries are made. Upon receipt of the assets on the settlement date, the asset is reported in the proper asset category and payment is disbursed. The selling Reporter (or its consolidated subsidiaries) on the trade date, would make no entries. On settlement date, the selling Reporter would reduce the appropriate asset category and reflect the receipt of the payment. Any gain or loss resulting from such transaction would be recognized on the settlement date.

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

All securities within the scope of ASC Topic 320, Investments-Debt and Equity Securities (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), that a Reporter has elected to report at fair value under a fair value option with changes in fair value reported in current earnings should be classified as trading securities. In addition, for purposes of these reports, Reporters may classify assets (other than securities within the scope of ASC Topic 320 for which a fair value option is elected) and liabilities as trading if the Reporter applies fair value accounting, with changes in fair value reported in current earnings, and manages these assets and liabilities as trading positions, subject to the controls and applicable regulatory guidance related to trading activities. For example, a Reporter would generally not classify a loan to which it has applied the fair value option as a trading asset unless the Reporter holds the loan, which it manages as a trading position, for one of the following purposes: (1) for market making activities, including such activities as accumulating loans for sale or securitization; (2) to benefit from actual or expected price movements; or (3) to lock in arbitrage profits.

All trading assets should be segregated from a Reporter's other assets and reported in Schedule IRC, item 3, "Trading assets." A Reporter's failure to establish a separate account for assets that are used for trading purposes does not prevent such assets from being designated as trading for purposes of this report. For further information, see ASC Topic 320.

All trading account assets should be reported at their fair value with unrealized gains and losses recognized in current income. When a security or other asset is acquired, a Reporter should determine whether it intends to hold the asset for trading or for investment (e.g., for securities, available-for-sale or held-to-maturity). A Reporter should not record a newly acquired asset in a suspense account and later determine whether it was acquired for trading or investment purposes. Regardless of how a Reporter categorizes a newly acquired asset, management should document its decision.

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All trading liabilities should be segregated from other transactions and reported in Schedule IRC, item 28, “Trading liabilities.” The trading liability account includes the fair value of derivative contracts held for trading that are in loss positions and short positions arising from sales of securities and other assets that the Reporter does not own. (See the Glossary entry for “short position.”) Trading account liabilities should be reported at fair value with unrealized gains and losses recognized in current income in a manner similar to trading account assets.

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

Transfers of Financial Assets: The accounting and reporting standards for transfers of financial assets are set forth in ASC Topic 860, Transfers and Servicing (formerly FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as amended by FASB Statement No.156, *Accounting for Servicing of Financial Assets*, FASB Statement No. 166, *Accounting for Transfers of Financial Assets*, and certain other standards). Reporters must follow ASC Topic 860 for purposes of these reports. ASC Topic 860 limits the circumstances in which a financial asset, or a portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset or when the transferor has continuing involvement with the transferred financial asset. ASC Topic 860 also defines a “participating interest” (which is discussed more fully below) and collectively establish the accounting and reporting standards for loan participations, syndications, and other transfers of portions of financial assets. A summary of these accounting and reporting standards follows. For further information, see ASC Topic 860.

A financial asset is cash, evidence of an ownership interest in another entity, or a contract that conveys to the Reporter a contractual right either to receive cash or another financial instrument from another entity or to exchange other financial instruments on potentially favorable terms with another entity. Most of the assets on a Reporter’s balance sheet are financial assets, including balances due from depository institutions, securities, federal funds sold, securities purchased under agreements to resell, loans and lease financing receivables, and interest-only strips receivable.¹⁴ However, servicing assets are not financial assets. Financial assets also include financial futures contracts, forward contracts, interest rate swaps, interest rate caps, interest rate floors, and certain option contracts.

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

In determining whether a Reporter has surrendered control over transferred financial assets, the Reporter must first consider whether the entity to which the financial assets were transferred would be required to be consolidated by the Reporter. If it is determined that consolidation would be required by the Reporter, then the transferred financial assets would not be treated as having been sold in the FR 2085 report even if all of the other provisions listed below are met.¹⁵

Determining Whether a Transfer Should be Accounted for as a Sale or a Secured Borrowing – A transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial

¹⁴ ASC Topic 860 defines an interest-only strip receivable as the contractual right to receive some or all of the interest due on a bond, mortgage loan, collateralized mortgage obligation, or other interest-bearing financial asset.

¹⁵ The requirements in ASC Subtopic 810-10 Consolidation – Overall (formerly FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, as amended by FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R)), should be applied to determine when a variable interest entity should be consolidated. For further information, refer to the Glossary entry for “variable interest entity.”

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asset in which the transferor surrenders control over those financial assets shall be accounted for as a sale if and only if all of the following conditions are met:

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

If a transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset does not meet the conditions for sale treatment, or if a transfer of a portion of an entire financial interest does not meet the definition of a participating interest (discussed below), the transferor and the transferee shall account for the transfer as a secured borrowing with pledge of collateral. The transferor shall continue to report the transferred financial assets in its financial statements with no change in their measurement (i.e., the original basis of accounting for the transferred financial assets is retained).

*Accounting for a Transfer of an Entire Financial Asset or a Group of Entire Financial Assets That Qualifies as a Sale*¹⁶ — Upon the completion of a transfer of an entire financial asset or a group of entire financial assets that satisfies all three of the conditions to be accounted for as a sale, the transferee(s) (i.e., purchaser(s)) must recognize all assets obtained and any liabilities incurred and initially measure them at fair value. The transferor (seller) should:

- (1) Derecognize or remove the transferred financial assets from the balance sheet.
- (2) Recognize and initially measure at fair value servicing assets, servicing liabilities, and any other assets obtained (including a transferor's beneficial interest in the transferred financial assets) and liabilities incurred in the sale.

¹⁶ The guidance in this section of this Glossary entry does not apply to a transfer of a participating interest in an entire financial asset that qualifies as a sale. The accounting for such a transfer is discussed in a separate section later in this Glossary entry.

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- (3) Recognize in earnings any gain or loss on the sale.

If, as a result of a change in circumstances, a Reporter transferor regains control of a transferred financial asset after a transfer that was previously accounted for as a sale because one or more of the conditions for sale accounting in ASC Topic 860 are no longer met or a transferred portion of an entire financial asset no longer meets the definition of a participating interest, such a change generally should be accounted for in the same manner as a purchase of the transferred financial asset from the former transferee (purchaser) in exchange for a liability assumed. The transferor should recognize (rebook) the financial asset on its balance sheet together with a liability to the former transferee, measuring the asset and liability at fair value on the date of the change in circumstances. If the rebooked financial asset is a loan, it must be reported as a loan in Schedule IRC-C, either as a loan held for sale or a loan held for investment, based on facts and circumstances, in accordance with generally accepted accounting principles. The liability to the former transferee should be reported as a secured borrowing in Schedule IRC, item 29, "Other borrowed money." This accounting and reporting treatment applies, for example, to U.S. Government-guaranteed or -insured residential mortgage loans backing Government National Mortgage Association (GNMA) mortgage-backed securities that a Reporter services after it has securitized the loans in a transfer accounted for as a sale. If and when individual loans later meet delinquency criteria specified by GNMA, they are eligible for repurchase (buy-back) and the Reporter is deemed to have regained effective control over these loans. The delinquent loans must be brought back onto the Reporter's books and recorded as loans, regardless of whether the Reporter intends to exercise the buy-back option.

Reporters should refer to ASC Topic 860 for implementation guidance for accounting for transfers of certain lease receivables, securities lending transactions, repurchase agreements including "dollar rolls," "wash sales," loan syndications, loan participations (discussed below), risk participations in bankers acceptances, factoring arrangements, and transfers of receivables with recourse. However, these standards do not provide guidance on the accounting for most assets and liabilities recorded on the balance sheet following a transfer accounted for as a sale. As a result, after their initial measurement or carrying amount allocation, these assets and liabilities should be accounted for in accordance with the existing generally accepted accounting principles applicable to them.

Participating Interests — Before considering whether the conditions to be accounted for as a sale have been met (as discussed above), the transfer of a portion of an entire financial asset must first meet the definition of a participating interest. If the transferred portion of the entire financial asset is a qualifying participating interest (as defined below), then it should be determined whether the transfer of the participating interest meets the sales conditions discussed above. A participating interest in an entire financial asset, as defined by ASC Topic 860, has all of the following characteristics:

- (1) From the date of the transfer, it must represent a proportionate (pro rata) ownership interest in an entire financial asset;
- (2) From the date of the transfer, all cash flows received from the entire financial asset, except any cash flows allocated as compensation for servicing or other services performed (which must not be subordinated and must not significantly exceed an amount that would fairly compensate a substitute service provider should one be required), must be divided proportionately among the participating interest holders in an amount equal to their share of ownership;
- (3) The rights of each participating interest holder (including the lead lender) must have the same priority, no interest is subordinated to another interest, and no participating interest holder has recourse to the lead lender or another participating interest holder other than standard representations and warranties and ongoing contractual servicing and administration obligations; and

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- (4) No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Thus, under ASC Topic 860, so-called “last-in, first-out” (LIFO) participations in which all principal cash flows collected on the loan are paid first to the party acquiring the participation do not meet the definition of a participating interest. Similarly, so-called “first-in, first-out” (FIFO) participations in which all principal cash flows collected on the loan are paid first to the lead lender do not meet the definition of a participating interest. As a result, neither LIFO nor FIFO participations transferred on or after the beginning of a Reporter’s first annual reporting period that begins after November 15, 2009 (i.e., January 1, 2010, for a Reporter with a calendar year fiscal year) will qualify for sale accounting and instead must be reported as secured borrowings.

The participating interest definition also applies to transfers of government-guaranteed portions of loans, such as those guaranteed by the Small Business Administration (SBA). In this regard, for a transfer of the guaranteed portion of an SBA loan at a premium that settled before February 15, 2011, the “seller” was obligated by the SBA to refund the premium to the “purchaser” if the loan was repaid within 90 days of the transfer. This premium refund obligation was a form of recourse, which meant that the transferred guaranteed portion of the loan did not meet the definition of a “participating interest” for the 90-day period that the premium refund obligation existed. As a result, the transfer was required to be accounted for as a secured borrowing during this period. After the 90-day period, assuming the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan then met the definition of a “participating interest,” the transfer of the guaranteed portion could be accounted for as a sale if all of the conditions for sale accounting were met. In contrast, for transfers of guaranteed portions of SBA loans at a premium that settled on or after February 15, 2011, the SBA has eliminated the premium refund requirement. With the elimination of the premium refund obligation from such transfers, the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan should normally meet the definition of a “participating interest” on the transfer date. Assuming the definition of “participating interest” is met and all of the conditions for sale accounting are met, the transfer of the guaranteed portion of an SBA loan at a premium on or after February 15, 2011, would qualify as a sale on the transfer date. The conditions for sale accounting are described above under “Determining Whether a Transfer Should be Accounted for as a Sale or a Secured Borrowing” in this Glossary entry.

In contrast, if the guaranteed portion of the SBA loan is transferred at par in a so-called “par sale” in which the “seller” agrees to pass interest through to the “purchaser” at less than the contractual interest rate and the spread between the contractual rate and the pass-through interest rate significantly exceeds an amount that would fairly compensate a substitute servicer, the excess spread is viewed as an interest-only strip. The existence of this interest-only strip results in a disproportionate sharing of the cash flows on the entire SBA loan, which means that the transferred guaranteed portion and the retained unguaranteed portion of the SBA loan do not meet the definition of a “participating interest,” which precludes sale accounting. Instead, the transfer of the guaranteed portion must be accounted for as a secured borrowing.

Accounting for a Transfer of a Participating Interest That Qualifies as a Sale — Upon the completion of a transfer of a participating interest that satisfies all three of the conditions to be accounted for as a sale, the participating institution(s) (the transferee(s)) shall recognize the participating interest(s) obtained, other assets obtained, and any liabilities incurred and initially measure them at fair value. The originating lender (the transferor) must:

- (1) Allocate the previous carrying amount of the entire financial asset between the participating interest(s) sold and the participating interest that it continues to hold based on their relative fair values at the date of the transfer.
- (2) Derecognize the participating interest(s) sold.
- (3) Recognize and initially measure at fair value servicing assets, servicing liabilities, and any other assets

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obtained and liabilities incurred in the sale.

- (4) Recognize in earnings any gain or loss on the sale.
- (5) Report any participating interest(s) that continue to be held by the originating lender as the difference between the previous carrying amount of the entire financial asset and the amount derecognized.

Additional Considerations Pertaining to Participating Interests — When evaluating whether the transfer of a participating interest in an entire financial asset satisfies the conditions for sale accounting under ASC Topic 860, an originating lender's right of first refusal on a bona fide offer to the participating institution from a third party, a requirement for a participating institution to obtain the originating lender's permission to sell or pledge the participating interest that shall not be unreasonably withheld, or a prohibition on the participating institution's sale of the participating interest to the originating lender's competitor (if other potential willing buyers exist) is a limitation on the participating institution's rights, but is presumed not to constrain a participant from exercising its right to pledge or exchange the participating interest. However, if the participation agreement constrains the participating institution from pledging or exchanging its participating interest, the originating lender presumptively receives more than a trivial benefit, has not relinquished control over the participating interest, and should account for the transfer of the participating interest as a secured borrowing.

A loan participation agreement may give the originating lender the contractual right to repurchase a participating interest at any time. In this situation, the right to repurchase is effectively a call option on a specific participating interest, i.e., a participating interest that is not readily obtainable in the marketplace. Regardless of whether this option is freestanding or attached, it either constrains the participating institution from pledging or exchanging its participating interest or results in the originating lender maintaining effective control over the participating interest. As a consequence, the contractual right to repurchase precludes sale accounting and the transfer of the participating interest should be accounted for as a secured borrowing, not as a sale.

In addition, under a loan participation agreement, the originating lender may give the participating institution the right to resell the participating interest, but reserves the right to call the participating interest at any time from whoever holds it and can enforce that right by discontinuing the flow of interest to the holder of the participating interest at the call date. In this situation, the originating lender has maintained effective control over the participating interest and the transfer of the participating interest should be accounted for as a secured borrowing, not as a sale.

If an originating FDIC-insured lender has transferred a loan participation to a participating institution with recourse prior to January 1, 2002, the existence of the recourse obligation in and of itself does not preclude sale accounting for the transfer. If a loan participation transferred with recourse prior to January 1, 2002, meets the three conditions then in effect for the transferor to have surrendered control over the transferred assets, the transfer should be accounted for as a sale for financial reporting purposes.

If originating FDIC-insured lender transfers loan participation with recourse after December 31, 2001, the participation generally will not be considered isolated from the transferor, i.e., the originating lender, in the event of an FDIC receivership. Section 360.6 of the FDIC's regulations limits the FDIC's ability to reclaim loan participations transferred "without recourse," as defined in the regulations, but does not limit the FDIC's ability to reclaim loan participations transferred with recourse. Under Section 360.6, a participation that is subject to an agreement that requires the originating lender to repurchase the participation or to otherwise compensate the participating institution due to a default on the underlying loan is considered a participation "with recourse." As a result, a loan participation transferred "with recourse" after December 31, 2001, generally should be accounted for as a secured borrowing and not as a sale for financial reporting purposes. This means that the originating lender should not remove the participation from its loan assets on the balance sheet, but should report the secured borrowing in Schedule IRC, item 29, "Other borrowings."

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Reporting Transfers of Loan Participations That Do Not Qualify for Sale Accounting — If a transfer of a portion of an entire financial asset does not meet the definition of a participating interest, or if a transfer of a participating interest does not meet all of the conditions for sale accounting, the transfer must be reported as a secured borrowing with pledge of collateral. In these situations, because the transferred loan participation does not qualify for sale accounting, the originating lender must continue to report the transferred participation (as well as the retained portion of the loan) as a loan on the balance sheet (Schedule IRC), normally in item 4, “Loans and leases, net of unearned income,” and in the appropriate loan category in Schedule IRC-C, Loans and Lease Financing Receivables. The originating lender should report the transferred loan participation as a secured borrowing on the balance sheet in Schedule IRC, item 29, “Other borrowed money,” and in the appropriate sub item or sub items in Schedule IRC-M, item 8, “Other borrowed money.” As a consequence, the transferred loan participation should be included in the originating lender’s loans and leases for purposes of determining the appropriate level for the lender’s allowance for loan and lease losses.

A Reporter that acquires a nonqualifying loan participation (or a qualifying participating interest in a transfer that does not meet all of the conditions for sale accounting) should normally report the loan participation or participating interest in item 4, “Loans and leases, net of unearned income,” on the balance sheet (Schedule IRC) and in the loan category appropriate to the underlying loan, e.g., as a “Commercial and industrial loan” in item 4 or as a “Loan secured by real estate” in item 1, in Schedule IRC-C, Part A, Loans and Lease Financing Receivables.

Financial Assets Subject to Prepayment — Financial assets such as interest-only strips receivable, other beneficial interests, loans, debt securities, and other receivables, but excluding financial instruments that must be accounted for as derivatives, that can contractually be prepaid or otherwise settled in such a way that the holder of the financial asset would not recover substantially all of its recorded investment do not qualify to be accounted for at amortized cost. After their initial recording on the balance sheet, financial assets of this type must be subsequently measured at fair value like available-for-sale securities or trading securities.

Treasury Stock: Treasury stock is stock that the Reporter has issued and subsequently acquired, but that has not been retired or resold. As a general rule, treasury stock is to be carried at cost and is a deduction from a Reporter’s total equity capital.

For purposes of this report, the carrying value of treasury stock should be reported (as a negative number) in Schedule IRC, item 37(c), “Other equity capital components.”

“Gains” and “losses” on the sale, retirement, or other disposal of treasury stock are not to be reported in Schedule IRI, Income Statement, but should be reflected in Schedule IRI-A, items 7 and 8, “Sale of treasury stock,” and “Purchase of treasury stock.” Such gains and losses, as well as the excess of the cost over the par value of treasury stock carried at par, are generally to be treated as adjustments to Schedule IRC, item 36, “Surplus.”

For further information, see ASC Subtopic 505-30, Equity – Treasury Stock (formerly Accounting Research Bulletin No. 43, Chapter 1, Section B, as amended by APB Opinion No. 6, “Status of Accounting Research Bulletins”).

Troubled Debt Restructuring: The accounting standards for troubled debt restructurings are set forth in ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, as amended by FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*). A summary of these accounting standards follows. For further information, see ASC Subtopic 310-40.

A troubled debt restructuring is a restructuring in which a Reporter, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. The

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restructuring of a loan or other debt instrument (hereafter referred to collectively as a “loan”) may include, but is not necessarily limited to: (1) the transfer from the borrower to the institution of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan (see the Glossary entry for “foreclosed assets” for further information), (2) a modification of the loan terms, such as a reduction of the stated interest rate, principal, or accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, or (3) a combination of the above. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not to be reported as a restructured troubled loan.

The recorded amount of a loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.

All loans whose terms have been modified in a troubled debt restructuring, including both commercial and retail loans, must be evaluated for impairment under ASC Topic 310, *Receivables* (formerly FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended). Accordingly, a Reporter should measure any loss on the restructuring in accordance with the guidance concerning impaired loans set forth in the Glossary entry for “loan impairment.” Under ASC Topic 310, when measuring impairment on a restructured troubled loan using the present value of expected future cash flows method, the cash flows should be discounted at the effective interest rate of the original loan, i.e., before the restructuring. For a residential mortgage loan with a “teaser” or starter rate that is less than the loan’s fully indexed rate, the starter rate is not the original effective interest rate. ASC Topic 310 also permits a Reporter to aggregate impaired loans that have risk characteristics in common with other impaired loans, such as modified residential mortgage loans that represent troubled debt restructurings, and use historical statistics along with a composite effective interest rate as a means of measuring the impairment of these loans.

See the Glossary entry for “nonaccrual status” for a discussion of the conditions under which a nonaccrual asset which has undergone a troubled debt restructuring (including those that involve a multiple note structure) may be returned to accrual status.

A troubled debt restructuring in which a Reporter receives physical possession of the borrower’s assets, should be accounted for in accordance with ASC Subtopic 310-40. Thus, in such situations, the loan should be treated as if assets have been received in satisfaction of the loan and reported as described in the Glossary entry for “foreclosed assets.”

Despite the granting of some type of concession by the Reporter to a borrower, a troubled debt restructuring may still result in the recorded amount of the loan bearing a market yield, i.e., an effective interest rate that at the time of the restructuring is greater than or equal to the rate that the Reporter is willing to accept for an extension of credit with comparable risk. This may arise as a result of reductions in the recorded amount of the loan prior to the restructuring (e.g., by charge-offs). All loans that have undergone troubled debt restructurings and that are in compliance with their modified terms must be reported as restructured assets in Schedule IRC-C, Part C, item 1. However, a restructured asset that is in compliance with its modified terms and yields a market rate need not continue to be reported as a troubled debt restructuring in the memorandum item in this schedule in calendar years after the year in which the restructuring took place.

A restructuring may include both a modification of terms and the acceptance of property in partial satisfaction of the loan. The accounting for such a restructuring is a two-step process. First, the recorded amount of the loan is reduced by the fair value less cost to sell of the property received. Second, the Reporter should measure any impairment on the remaining recorded balance of the restructured loan in accordance with the guidance concerning impaired loans set forth in ASC Topic 310.

A restructuring may involve the substitution or addition of a new debtor for the original borrower. The treatment of these situations depends upon their substance. Restructurings in which the substitute or additional debtor controls, is controlled by, or is under common control with the original borrower, or performs the custodial

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function of collecting certain of the original borrower's funds, should be accounted for as modifications of terms. Restructurings in which the substitute or additional debtor does not have a control or custodial relationship with the original borrower should be accounted for as a receipt of a "new" loan in full or partial satisfaction of the original borrower's loan. The "new" loan should be recorded at its fair value.

A credit analysis should be performed for a restructured loan in conjunction with its restructuring to determine its collectability and estimated credit loss. When available information confirms that a specific restructured loan, or a portion thereof, is uncollectible, the uncollectible amount should be charged off against the allowance for loan and lease losses at the time of the restructuring. As is the case for all loans, the credit quality of restructured loans should be regularly reviewed. The Reporter should periodically evaluate the collectability of the restructured loan so as to determine whether any additional amounts should be charged to the allowance for loan and lease losses or, if the restructuring involved an asset other than a loan, to another appropriate account.

Trust Preferred Securities Issued: Trust preferred securities are marketed under a variety of names including MIPS ("Monthly Income Preferred Securities"), QUIPS ("Quarterly Income Preferred Securities") and TOPrS ("Trust Originated Preferred Securities"). These securities are generally issued out of special purpose entities whose voting common stock is wholly owned by the parent Reporter. The proceeds from the issuance of these securities are lent to the Reporter in the form of a very long term, deeply subordinated note. Under GAAP, the special purpose entity may either be a consolidated subsidiary of the Reporter or a deconsolidated entity that qualifies as an unconsolidated subsidiary of the Reporter for regulatory reporting and other regulatory purposes.

Reporters seeking to issue such securities should consult with their Federal Reserve Bank.

For purposes of reporting on the FR 2085, trust preferred securities issued by a *consolidated* subsidiary should be reported in Schedule IRC, item 30(b).

For special purpose entities that issue trust preferred securities and the entity is *not consolidated*, report the amount of subordinated notes payable by the Reporter to the unconsolidated special purpose entity in Schedule IRC, item 30(b).

Variable Interest Entity: A variable interest entity (VIE), as described in ASC Subtopic 810-10, Consolidation – Overall (formerly FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, as amended by FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*), is an entity in which equity investors do not have sufficient equity at risk for that entity to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack one or more of the following three characteristics: (a) the power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity's economic performance, (b) the obligation to absorb the expected losses of the entity, or (c) the right to receive the expected residual returns of the entity.

Variable interests in a VIE are contractual, ownership, or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. For example, equity ownership in a VIE would be a variable interest as long as the equity ownership is considered to be at risk of loss. ASC Subtopic 810-10 provides guidance for determining when a Reporter or other company must consolidate certain special purpose entities, such as VIEs. Under ASC Subtopic 810-10, a Reporter must perform a qualitative assessment to determine whether it has a controlling financial interest in a VIE. This must include an assessment of the characteristics of the Reporter's variable interest or interests and other involvements (including involvement of related parties and de facto agents), if any, in the VIE, as well as the involvement of other variable interest holders. The assessment must also consider the entity's purpose and design, including the risks that the entity was designed to create and pass through to its variable interest holders. In making this assessment, only substantive terms, transactions, and arrangements, whether contractual or noncontractual, are to be considered. Any term, transaction, or arrangement that does not have a substantive effect on an entity's

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status as a VIE, the Reporter's power over a VIE, or the Reporter's obligation to absorb losses or its right to receive benefits of the VIE are to be disregarded when applying the provisions of ASC Subtopic 810-10.

If a Reporter has a controlling financial interest in a VIE, it is deemed to be the primary beneficiary of the VIE and, therefore, must consolidate the VIE. An entity is deemed to have a controlling financial interest in a VIE if it has both of the following characteristics:

- The power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance.
- The obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity.

If a Reporter holds a variable interest in a VIE, it must reassess each reporting period to determine whether it is the primary beneficiary. Based on a Reporter's reassessment it may be required to consolidate or deconsolidate the VIE if a change in the Reporter's status as the primary beneficiary has occurred.

ASC Subtopic 810-10 provide guidance on the initial measurement of a VIE that the primary beneficiary must consolidate. For example, if the primary beneficiary and the VIE are not under common control, the initial consolidation of a VIE that is a business is a business combination and must be accounted for in accordance with ASC Topic 805, Business Combinations (formerly FASB Statement No. 141 (revised 2007), *Business Combinations*). If a Reporter is required to deconsolidate a VIE, it must follow the guidance for deconsolidating subsidiaries in ASC Subtopic 810-10 (formerly FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*).

When a Reporter is required to consolidate a VIE because it is the primary beneficiary, the standard principles of consolidation apply after initial measurement (see "Rules of Consolidation" in the General Instructions). The assets and liabilities of consolidated VIEs should be reported on the balance sheet (Schedule IRC) in the balance sheet category appropriate to the asset or liability. A Reporter that consolidates one or more VIEs must complete Schedule IRC-V, Variable Interest Entities, to report, by balance sheet category, (a) the assets of consolidated VIEs that can be used only to settle obligations of the consolidated VIEs and (b) the liabilities of consolidated VIEs for which creditors do not have recourse to the general credit of the Reporter. Such a Reporter also must report in Schedule IRC-V the total amount of assets and the total amount of liabilities of its consolidated VIEs that do not meet these criteria.