INSTRUCTIONS FOR FOREIGN BANK REPORT OF INCOME

A1 The amounts of ordinary and recurring income for either 6 months (June) or 1 year (December)

Nonaccrual of Interest.  
No interest or discount should be accrued on (a) any asset maintained on a cash basis, or (b) any asset upon which a default of principal or interest has existed for 90 days or more, unless it is both well secured and in process of collection. When accrual of interest or discount has been discontinued on any asset, all previously accrued and uncollected interest must be reversed against the appropriate income and asset accounts. When interest is received during the nonaccrual status period, it should be applied against the principal balance of the loan. A nonaccrual asset may be restored to an accrual status when none of its principal and interest is due and unpaid or it otherwise becomes well secured and in process of collection, and when prospects for future contractual payments are no longer in doubt.

A1a Interest and fees on loans and leases
Interest and accrued discount, both current and past due, and fees and similar charges levied against all assets classified as loans and leases in the Report of Condition, including interest on:

Acceptances of other banks and commercial paper purchased in the open market

Acceptances executed by or for the account of the reporting bank and subsequently acquired by it through purchase or discount

Drafts and bills of exchange that have been accepted by the reporting bank or by other banks for its account and that are owned or held by the reporting bank

Customer's liability to the reporting bank on drafts paid under letters of credit for which the bank has not been reimbursed

Commodity or bill-of-lading drafts payable upon arrival of goods against which drawn, for which the reporting bank has given deposit credit to customers

Paper rediscounted with the Federal Reserve or other banks

Paper pledged as collateral to secure bills payable, as marginal collateral to secure bills rediscounted, or for any other purpose

Purchases, under resale agreements of commercial paper, mortgages, or acceptances

Profits (or losses) from the sale of acceptances and commercial paper at discount rates other than those at which such paper was purchased

Discounts received or points charged on real estate mortgage loan transactions
Investigation and service charges on loans

Renewal and past-due charges on loans

Net income received from the leasing of personal property acquired for that purpose

Commitment fees (regardless of whether the loan has been made)

Fees charged for the execution of mortgages or agreements securing the bank's loans

Bank-owned credit card income (any yield-related fee income when items are included in Schedule A)

- *Deduct* interest rebated to customers on loans paid before maturity.

- *Deduct* amortization of premiums on real estate mortgages or other loans.

A1b  **Income on Federal funds sold**

Report on this line Federal funds transactions involving the lending of immediately available funds for one business day or under a continuing contract, regardless of the nature of the contract or of the collateral, if any. Income on term Federal funds should be reported in item A1a.

A1c  **Interest on interbank placements and CDs purchased**

Gross interest income received or accrued on balances with banks in the United States and in foreign countries.

Exclude interest income from H/O, branches & wholly-owned subsidiaries which should be reported in item A1h.

A1d  **Income on securities purchased under resale agreement**

A1e  **Interest and dividends on investments** (excluding trading account income)

Income on all assets reported in the Report of Condition at items 1b and 1c exclusive of income from securities held in dealer trading accounts

Interest and dividends on securities which the bank has:

- Loaned
- Sold under repurchase agreements
- Pledged as security for deposits, bills payable, or otherwise
Interest received at sale of securities, if such interest has not been accrued on the bank's books.

- Amortization of premium on securities purchased above par or face value is required of all banks. Premiums should be amortized to maturity or the first call date with the current period amortization deducted from the appropriate category.

- Do not include income from trading account securities which should be reported in item A1i.

**Interest on U.S. Treasury securities**
Income from securities issued by the United States Treasury Department: bills, bonds, certificates of indebtedness, and notes

Discount received or accumulated on U.S. Treasury bills

**Interest on obligations of other U.S. Government agencies and corporations**
Income from bonds, notes, and debentures of United States Government agencies and corporations including:

- Banks for Cooperatives
- D.C. Stadium and Armory
- Department of Housing and Urban Development
- Department of Transportation
- Export-Import Bank
- Federal Home Loan Banks
- Federal Home Loan Mortgage Corporation
- Federal Housing Administration
- Federal Housing Authority
- Federal Intermediate Credit Banks
- Federal Land Banks
- Federal National Mortgage Association
- General Services Administration
- Government National Mortgage Association
- Merchant Marine
- Small Business Administration
- Tennessee Valley Authority
- United States Postal Service

Income from participation certificates issued by:

- Commodity Credit Corporation
- Export-Import Bank
- Federal Home Loan Mortgage Association
- Federal National Mortgage Association
- Government National Mortgage Association
Income from securities purchased under the Government National Mortgage Association's mortgage-backed securities program

Income from Government National Mortgage Association guaranteed securities secured by pooled mortgages

Income from Farmers Home Administration insured notes

Income from Farmers Home Administration loans should be included in item A1a.

**Interest on obligations of States and political subdivisions in the U.S.**
Income from all obligations, including loans, warrants, and tax anticipation notes, issued by:

- Municipalities
- School, irrigation, drainage, and reclamation districts
- Local housing authorities including those backed by a U.S. Government agency

Income from obligations issued by other instrumentalities of one or more States and by territorial or insular possessions of the United States

Income from Farmers Home Administration guaranteed loans that are made for rural community water supply systems, waste disposal systems, and outdoor recreation centers

**Interest on other bonds, notes, and debentures**
Income from all bonds, notes, and debentures not reported in items A1d and A1f including but not limited to:

- Asian Development Bank
- Foreign governmental units
- Inter-American Development Bank
- International Bank for Reconstruction and Development (World Bank) Savings and loan associations
- Credit unions

**Dividends on stock**
Dividends from all domestic and foreign corporate stocks

**A1f Service charges, commissions & fees**
Amounts charged depositors for maintaining accounts with the bank or for failing to maintain specified minimum deposit balances

Charges based on the number of checks drawn on and deposits made in deposit accounts

Charges for checks drawn on so-called "no minimum balance" deposit accounts
Include income not applicable to items A1a through A1e:

- Commissions on the sale of insurance policies and the collection of premiums
- Charges for the collection of checks, notes, and bills of exchange
- Collection of bills for public utilities and other firms
- Sale of bank drafts
- Acceptance of bills of exchange
- Purchase and sale of securities, acceptances, and commercial paper for banks and other customers
- Negotiation of loans for customers or correspondents
- Underwriting and sale of securities permitted by statute
- Lending of securities owned by the bank
- Percentage charges to merchants for handling credit card or charge sales when the bank does not carry the related loan accounts on its books (Expenses associated with credit card or charge sales that are clearly identifiable should be netted against income)
- Equipment leasing and rental fees
- Data processing services
- Reimbursements, received for services in redeeming United States savings bonds
- Service charges on deposit accounts in foreign offices
- Escrow fees
- A single monthly charge for multiple services should, whenever possible, be shown in this line item. When that is impractical, the amount should be placed in item A1i

**A1g Net profit/loss on foreign exchange trading**

Report the net gain or loss from trading in foreign exchange recognized during the calendar year-to-date. Include unrealized gains or losses related to open forward contracts held for trading. Include incidental fee income and expense related to such transactions.

Exclude gains and losses on swap transactions (report as adjustments to the income or expense of the related asset or liability).
If the amount to be reported in this item is a loss, enclose it in parentheses.

### A1h  Income from H/O, branches & wholly-owned subsidiaries

### A1i  Other operating income: From Section C, item 4

Report all operating income and recurring operating credits of the bank not required to be reported separately in Section A.

<table>
<thead>
<tr>
<th>SECTION C - OTHER OPERATING INCOME</th>
<th>Mil.</th>
<th>Thou.</th>
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</thead>
<tbody>
<tr>
<td>1. Trading account, net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. All other (Itemize amount over 25% of item 3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. TOTAL (must equal Section A, item 1i)</td>
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</tbody>
</table>

### C1  Trading account income, Net

- Interest, profits and losses on trading account securities
- Revaluation adjustments
- Incidental income and expenses related to the purchase and sale of such securities

*Net profit/loss on foreign exchange trading should be reported in item A1g*

### C2  All Other

All other operating income not reported elsewhere including:

- Gross rentals from other real estate and safe deposit boxes
- Net tellers' or cash overages
- Forgery recoveries
- Recoveries on payment of checks over stop payment orders
Recoveries on securities previously charged-off

Gain on sale of other real estate
Gross revenue from available balances sold and securities purchased under agreements to resell in foreign offices

• Itemize:

Any amounts that represent 25 percent or more of the total of this section

• Show totals of itemizations in box

C3 Total: (Sum of Items C1 and C2)

• Must equal Section A, item 1i

Section A - Continued

A2 Operating Expenses
The amounts of ordinary and recurring expenses of operating during the period.

A2a Salaries and employee benefits
Report salaries and benefits of all officers and employees including guards and contracted guards, temporary office help, dining room and cafeteria employees, and building department officers and employees (including maintenance personnel).

Include as salaries and employee benefits:

• Gross salaries, wages, overtime, bonuses, incentive compensation, and extra compensation.

• Social security taxes and state and federal unemployment taxes paid by the bank.

• Contributions to the bank's retirement plan, pension fund, profit-sharing plan, employee stock ownership plan, employee stock purchase plan, and employee savings plan.

A2b Interest on time CDs of $100,000 and over
Interest paid or accrued during the current period on time certificates of deposit issued by domestic offices in denominations of $100,000 or more

A2c Interest on all other deposits or credit balances
Interest paid or accrued on all deposits classified as time and savings deposits in Schedule E of the Report of Condition except those included in A2b above.
**A2d  Interest expense - Federal funds purchased**
Show gross expenses in connection with Federal funds purchased. Interest on term Federal funds should be reported in A2f or A2g.

**A2e  Interest expense - securities sold under repurchase agreements**
Show gross expenses in connection with Securities sold under agreements to repurchase

**A2f  Interest on borrowings (other than H/O, branches, & wholly-owned subsidiaries)**
Interest and discount on:
- Promissory notes Term Federal funds
- Notes and bills rediscounted
- Participation sales in pools of loans
- Other instrument given for the purpose of borrowing money

**A2g  Interest on borrowings from H/O, branches, & wholly-owned subsidiaries**
Interest and discount on:
- Promissory notes Term Federal funds
- Notes and bills rediscounted
- Participation sales in pools of loans
- Other instruments given for the purpose of borrowing money

**A2h  Other operating expenses:** From Section D, item 3.

<table>
<thead>
<tr>
<th>SECTION D - OTHER OPERATING EXPENSES</th>
<th>Mil.</th>
<th>Thou.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Other expenses paid to H/O, branches &amp; wholly owned subsidiaries.</td>
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<td></td>
</tr>
<tr>
<td>2. All Other (itemize amounts over 25% of item 3)</td>
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</tr>
<tr>
<td>3. TOTAL (must equal Section A, item 2h)</td>
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</table>
SECTION D - OTHER OPERATING EXPENSES
In Section D report all operating expenses and recurring debits of the bank that are not required to be reported separately in Section A.

D1 Other expenses paid to H/O, branches & wholly owned subsidiaries

Other expenses paid to head offices, branches and wholly owned subsidiaries not reported in Section A, items 2a through 2g.

D2 Other

Net occupancy expense of bank premises

Furniture and equipment expense

Normal and recurring depreciation charges applicable to the current period (whether representing direct reductions in the carrying value of the assets or additions to depreciation reserves)

Rental costs of office machines and data processing equipment

Ordinary repairs including servicing costs to furniture and office machines

Taxes on furniture and equipment

Premiums on fidelity insurance

Operating expenses (except salaries) connected with holdings of real estate owned other than bank premises

Interest paid on liens and normal or recurring depreciation charges on real estate owned other than bank premises

Office supplies

Telephone and telegraph

Cost of examinations by supervisory authorities

Retainer fees

Expenses related to the use of automobiles for bank business

Costs of data processing performed by others
Losses from counterfeit money, forged checks, net cash shortages, payment of checks over stop-payment orders, and similar recurring losses

Sales taxes and other taxes not reported against other items

Net deposit insurance assessment expense  (All assessment credits during the period should be applied against the assessment expense.)

Premiums on mortgages written off in a lump sum rather than amortized over the life of the mortgage

Losses on securities charged off prior to sale or redemption

Gross expenses related to available balances purchased and securities sold under agreements to repurchase of foreign offices

Itemize any amounts that represent 25 percent or more of the total of this section.

D3 TOTAL (Must equal Section A, item 2h)

Section A - Continued

A2i Provision for loan losses (Must equal Section B, item 5)

Section B - Allowance for Possible Loan Losses

<table>
<thead>
<tr>
<th>SECTION B - ALLOWANCE FOR POSSIBLE LOAN LOSSES (Year-to-Date)</th>
<th>Mil.</th>
<th>Thou.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Balance end of previous year</td>
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<td></td>
</tr>
<tr>
<td>2. Losses charged to allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Recoveries credited to allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Net loan and lease losses (recoveries)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Provision for possible loan losses (Must equal Section A, item 2i)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Other increases (decreases)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Balance at end of current period</td>
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</tr>
</tbody>
</table>

Section B is to reflect transactions in the valuation portion of allowance set up for possible loan losses. This section must be completed by every bank, whether on an actual or accrual basis for provision for possible loan losses.
This section has been provided as a reconcilement of entries affecting only the valuation portion. Losses and recoveries when debited and credited to allowance for possible loan losses should be reported in this section.

- *Do not include* in this section reserves carried in equity capital accounts, such as reserves for contingencies.

**B1 Balance end of previous year**
The amount representing the valuation portion of allowance for possible loan losses at the prior year-end.

- This amount must be the same as the balance reported at the prior year-end in the Report of Income.

**B2 Losses charged to allowance**
Actual gross charge-offs on loans during the period

- Banks not on a reserve basis must enter gross charge-offs on loans during the current report period.

**B3 Recoveries credited to allowance**
*Banks on an allowance basis* should enter recoveries of amounts previously charged off against allowances for possible loan losses.

Banks not on an allowance basis for financial reporting must enter gross recoveries of loans previously charged-off.

**B4 Net loan and lease losses (recoveries)**
Deduct line B3 from line B2.

**B5 Provision for possible loan losses**
*Banks not on an allowance basis* must report gross recoveries at item B3, gross charge-offs at item B2, actual net loan losses at item B2, and in Section A, item 2i. With a zero balance at the beginning of the period, these entries must result in a zero balance at the end of the period.

- If actual net loan losses are used and the recoveries exceed charge-offs the appropriate entry here and in Section A, item 2i will be negative and should be so indicated by enclosure within parentheses.

- Must equal the amount reported in Section a, item 2i.

*Banks on a loan loss allowance basis* must report an amount sufficient to bring the balance of the allowance for possible loan losses to an adequate level based on management's appraisal of the condition of the current loan portfolio.
Management's judgment as to the adequacy of the loan loss provision and allowance balance will be subject to review by bank examiners during the course of their examinations. Management is, therefore, required to maintain a reviewable record of the basis for its determination of the loan loss provision. Management's best judgment of the adequacy for loan losses necessary for the year-to-date should be entered in this item and in Section A, item 2i.

B6 Other increases (decreases), net
Include valuation portion of reserves carried over from the books of a bank or other business that has been merged, consolidated, purchased, or absorbed by the bank during the calendar year-to-date (only such allowance as were carried on the books of the absorbed bank or business at the time the accounts were consolidated with the accounts of the continuing bank)

B7 Balance end of period:
Sum of item B1 plus or minus B2 through B5

• A negative balance may not be reported in this item. The amount expensed in "provision for possible loan losses" must be increased to make item B6 zero.

• Banks not on a reserve basis will report zero at both item b1 and item b6 since items B2, B4, and B5 will be offsetting.

Allocated Reserves

In some foreign banking corporations, loan classifications are being reduced by what is described as "specific" reserves. While the reduction of a classification is appropriate for a true "allocated" reserve, classified loans should not be reduced by any portion of the Allowance for Loan and Lease Losses (ALLL). While this may seem obvious, we are finding that there is confusion over what is considered to be an "allocated" reserve, especially since management of the foreign branch or agency may use the terms "allocated" reserve and "specific" reserves interchangeably. The proper treatment of these reserves has been further obfuscated by the fact that "FFIEC Instructions for Preparation of the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks" call for reporting branches and agencies to report the aggregate book value of all loans and leases to nonrelated institutions net of any "specific" reserves. However, because there is no definition of what constitutes a "specific" reserve, some foreign branches and agencies are reflecting loans net of these "specific" reserves. Because the treatment of these reserves has a significant impact on classification totals in reports of examination, it is important that there be an understanding of what constitutes a true "allocated" reserve.

As we are all aware, an ALLL should be maintained in an amount which is adequate to absorb estimated credit losses associated with the loan and lease portfolio. Estimated credit losses are provided to the ALLL by periodic assessments of the loan portfolio by bank management. Although the bank may provide an estimation of loss based upon a variety of factors such as historical charge-off rates, the estimate may also include amounts based upon an analysis of
"specific" loans, which generally include significant classified loans. In such cases, there is no intention for management to charge-off any portion of these significant loans. Moreover, the ALLL is available to absorb all credit losses that arise from the loan and lease portfolio and is not segregated for, or allocated to, any particular loan or group of loans. That portion of the ALLL relating to an analysis of a "specific" loan is not to be used to reduce the balance of the loan in a report of examination. In contrast to the ALLL, an "allocated" reserve is established as the general equivalent of a charge-off.

In lieu of charging off a loan, a bank may set up an "allocated" reserve for a particular loan. This may be done for a variety of reasons, including while awaiting approval from head office, or from the home country regulator (e.g. Ministry of Finance in Japan) to charge off the loan. In any event, since foreign branches and agencies licensed in California are subject to reporting requirements as dictated by GAAP, the proper treatment of an "allocated" reserve is to follow the accepted method of accounting for credit losses as prescribed by GAAP, which entails a charge to the ALLL for the amount of the "allocated" reserve. By establishing the reserve in this manner, the foreign branch or agency is, in effect, charging off the loan.

As noted previously, the FFIEC instructions require that foreign branches and agencies report loans and leases net of "specific" reserves. While the FFIEC instructions do not provide a definition of what constitutes a "specific" reserve, we have determined from discussions with the Federal Reserve Bank of San Francisco that a "specific" reserve, as utilized in the instructions, is intended to be the equivalent of an "allocated" reserve as described above, rather just being a portion of the ALLL attributable to an analysis of a specific loan. The Federal Reserve Bank of San Francisco is in concurrence with the fact that establishing a "specific" reserve is the equivalent of a charge-off.

The appropriate accounting entries for setting up a true "allocated" reserve include:

1. Debit - Provision for Loan Losses  
   Credit - Allowance for Loan and Lease Losses

2. Debit - Allowance For Loan and Lease Losses*  
   Credit - Allocated Reserve

* The amount charged against the ALLL in establishing the allocated reserve in the current calendar year should be shown in Section B, item 2.

During the course of an examination of a foreign branch or agency, one may find what is referred to as an "allocated" or "specific" reserve. In many cases, such reserves are established merely by making a Loan Loss Provision, with no intent by management to charge-off the loan. Examiners are instructed to review any "allocated" or "specific" reserves and make a determination as to whether a true "allocated" reserve exists and if has been properly established. It is necessary to ascertain the intent of the agency or branch with respect to:

1. Whether the specific loan, or portion thereof, is determined to be a "loss" and if a true charge-off is intended. If so, then the accounting entries described for an "allocated" reserve above must be followed
2. Whether branch or agency management is merely making a decision as to the risk in a particular loan and attributing a portion of the ALLL to the loss estimation of that individual loan. If this is the case, the reserve should be treated as a portion of the ALLL and reported (according to FFIEC instructions) as part of the "due to head office" accounts.

The net P&L effect of the charged-off amount associated with the "allocated" reserve does not differ from a branch or agency merely making a Loan Loss Provision. However, by passing the second part of the above accounting entries, there is now an audit trail whereby a loan loss reserve transcript accurately reflects the branch’s loan loss history, namely that the loan has been charged-off. Income should also be reduced by the amount of accrued interest associated with the charged-off amount.

For reporting purposes, a true "allocated" reserve is to be netted against the loan balance, thereby effectively treating the allocation as a charge-off on the report. As a result, such amount would be eliminated from any calculation of "classified assets." If, on the other hand, there is no intent by the bank to charge-off the loan and/or proper entries are not made as described above, the "specific" reserve should not be netted against the loan balance and no reserve would be deducted in the loan classification.

SECTION E - MEMORANDA

E1  **Provision for income taxes for period**
This item is intended to cumulate all income taxes applicable to operating income, securities transactions, and extraordinary items.

- If the appropriate figure results in a tax credit, enclose it in parentheses.

E1a  **Provision for U.S. Federal income taxes**
An estimate of the Federal income tax represented in Section A, item 6.

E1b  **Provision for U.S. State and local income taxes**
An estimate of the State and local income tax represented in Section A, item 6.

E1c  **Total:** Sum of items E1a, and E1b.

E2  **Number of employees on payroll at end of period**
The number of officers and employees employed as of the reporting date whose salaries and benefits were reported at item A2a which convert the number of part-time employees to full-time equivalents. For example, the bank would report 32 full-time equivalent employees if it had 32 full- time equivalent employees if it had 30 full-time employees and 4 part-time employees working half the full-time hours.

- Report exact number: do not round to thousands.

E3  **Fees on loans**