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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL
OMB Number: 3235-0069
Expires: April 30, 2004
Estimated average burden hours per response: 1.00

INDUSTRY GUIDES

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SECURITIES ACT INDUSTRY GUIDES

For purposes of the above table, short-term outstandings are trade credits and interbank deposits (and similar items) which, at the time they were extended, had maturities of one year or less. This table should be supplemented with the amounts of (short-term outstandings that are included in the end-of-period aggregate amounts reported for each country.

Disclosure by Electric and Gas Utilities

Guide 1. [Removed and Reserved]

Disclosure of Oil and Gas Operations

Guide 2.

If oil and gas operations are material to the registrant's and its subsidiaries' business operations or financial position, the disclosure specified in this Guide should be included under appropriate captions (in tabular form, if practicable, and with cross references, where applicable, to related information disclosed in financial statements). *Provided however*, That limited partnerships or joint ventures that conduct, operate, manage, or report upon oil and gas drilling or income programs, that acquire properties either for drilling and production, or for production of oil, gas, or geothermal steam or water, need not include such disclosure and, *Provided further*, That any registrant qualifying for the exemption provided in § 210.4-10(k) of Regulation S-X need not provide any such information.

Note: Limited partnerships exempted from the disclosure required in this Guide by the first proviso above remain subject to disclosure requirements of § 210.4-10(k) of Regulation S-X. See discussion in Accounting Series Release No. 257 (Dec. 19, 1978) [43 FR 60404]; and Staff Accounting Bulletin No. 40, Topic 6(d)(3)(c) [17 CFR 211] (Jan. 23, 1981).

[Item 1 deleted. CCH.]

2. RESERVES REPORTED TO OTHER AGENCIES

Any estimates of total, proved net oil or gas reserves filed with or included in reports to any other Federal authority or agency since the beginning of the last fiscal year (or a statement that there were none), together with the name of the authority or agency and an explanation of the reasons for differences, if any, between such estimates and the estimates included in the document. This requirement should not apply if the difference between the total reserve estimate included in the Commission filing and the total reserve estimate filed with the Federal authority or agency does not exceed five percent. However, a statement that the difference does not exceed five percent should be included.

3. PRODUCTION

A. For each of the last three fiscal years by the same geographic areas for which production data are required by Statement of Financial Accounting Standards (SFAS) No. 69.

i) the average sales price (including transfers) per unit of oil produced and of gas produced;

ii) the average production cost (lifting cost) per unit of production.

B. *Instructions.* Generally, net production should include only production that is owned by the registrant and produced to its interest. less royalties and production due others. However, in special situations (e.g., foreign production) net production before royalties may be provided, if more appropriate. If "net before royalty" production figures are furnished, the change from the usage of "net production" should be noted.

Any part of natural gas liquids production obtained through or from processing plant ownership rather than through leasehold ownership should be reported separately, if material.

Production of natural gas should include only marketable production of gas on an "as sold" basis. Production will include dry, residue, and wet gas, depending on whether liquids have been extracted before the registrant passed title. Flared gas, injected gas and gas consumed in operations should be omitted. Recovered gas-lift gas and reproduced gas should not be included until sold.

The transfer price of oil and gas produced should be determined in accordance with SFAS No. 69.

The average production cost per unit of production should be computed using production costs disclosed pursuant to SFAS No. 69. Units of production should be expressed in common units of production with oil or gas converted to a common unit of measure on the basis used in computing amortization (relative energy content or gross revenue method). See § 210.4-10(e)(3) or § 210.4-10(i)(3)(iii) of Regulation S-X, whichever is appropriate.

4. PRODUCTIVE WELLS AND ACREAGE.

A. As of a reasonably current date or as of the end of the most recent-fiscal year, the total gross and net productive wells, expressed separately for oil and gas, and the total gross and net developed acres (i.e., acres spaced or assignable to productive wells) by the geographic areas for which production data are required pursuant to paragraph 3 of this Guide.

B.

Instructions. For purposes of this paragraph, one or more completions in the same bore hole should be counted as one well. A footnote should disclose the number of wells with multiple completions. If one of the multiple completions in a given well is an oil completion, the well should be classified as an oil well.

A gross well or acre is a well or acre in which a working interest is owned. The number of gross wells is the total number of wells in which a working interest is owned.

A net well or acre is deemed to exist when the sum of fractional ownership working interests in gross wells or acres equals one. The number of net well or acres is the sum of the fractional working interests owned in gross wells or acres expressed as hole numbers and fractions thereof.

For those unusual situations in which gross and net data cannot be supplied, alternative disclosure should be furnished that adequately describes the registrant's productive wells and developed acreage.

Productive wells are producing wells and wells capable of production.

5. UNDEVELOPED ACREAGE

As of a reasonably current date or as of the end of the most recent fiscal year, the amounts of undeveloped acreage, both leases and concessions, if any, expressed in both gross and net acres by appropriate geographic area, together with an indication of acreage concentrations, and, if material, the minimum remaining terms of leases and concessions. Undeveloped acreage is considered to be those lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether or not such acreage contains proved reserves. Undeveloped acreage should not be confused with undrilled acreage Held by Production under the terms of a lease.

6. DRILLING ACTIVITY

A. For each of the last three fiscal years by appropriate geographic areas:

(i) the number of net productive and dry exploratory wells drilled; and

(ii) the number of net productive and dry development wells drilled.

B. *Instructions.* A dry well (hole) is an exploratory or a development well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

A Productive well is an exploratory or a development well that is not a dry well.

The number of wells drilled refers to the number of wells (holes) completed at any time during the fiscal years, regardless when drilling was initiated.

The term "completion" refers to the installation of permanent equipment for the production of oil or gas, or, in the case of a dry hole, to the reporting of abandonment to the appropriate agency.

7. PRESENT ACTIVITIES

Present activities, such as the number of wells in process of drilling (including wells temporarily suspended), waterfloods in process of installation, pressure maintenance operations, and any other related operations of material importance by appropriate geographic areas. This description of present activities should be provided for an "as of" date as close to the date of filing the document as reasonably possible or as of the end of the most recent fiscal year. The disclosure of wells in the process of being drilled should include only those wells actually being drilled at the "as of" date and should be expressed in terms of both gross and net wells. The disclosure should not include wells planned but not commenced unless there are factors which make such information material.

8. DELIVERY COMMITMENTS

If the registrant is obligated to provide a fixed and determinable quantity of oil or gas in the near future under existing contracts or agreements, material information concerning the estimated availability of oil and gas from any principal sources.

A. Such information should be furnished as to current and future reserves and supplies, and should:

(i) identify the principal sources of oil and gas to be relied upon and the total available amounts expected to be received from each principal source and from all sources combined;

(ii) disclose the total quantities of oil and gas which are subject to delivery commitments; and

(iii) indicate steps taken to insure available reserves and supplies are sufficient to meet such commitments. Such future information should be provided for an appropriate period of one to three years.

B. The term "availability" is used herein to mean an estimate of that quantity of oil and gas which can be produced from current proved developed reserves using presently installed equipment under existing economic and operating conditions and an estimate of amounts that can be delivered to the registrant under long-term contracts or agreements on a per-day, per-month or per-year basis.

C. The registrant should develop disclosure based upon the facts and circumstances of its particular situation, including disclosure by appropriate geographic areas. Such disclosure should be in a form understandable to investors and should include but not be limited to, a description of the following factors:

(i) significant supplies dedicated or contracted to the registrant;

(ii) any significant amounts of reserves or supplies subject to priorities or curtailments which may affect quantities delivered to certain classes of customers, such as customers receiving services under low priority and interruptible contracts;

(iii) any priority allocations or price limitations imposed by Federal or State regulatory agencies, as well as other factors beyond the control of the registrant which may affect the ability of the registrant to meet its contractual obligations (detailed discussions of price regulation need not be furnished);

(iv) any other factors beyond the control of the registrant, such as other parties having control over the drilling of new wells, competition for the acquisition of reserves and supplies, and the availability of foreign reserves and supplies, which may affect the ability of the registrant to acquire additional reserves and supplies or to maintain or increase the availability of reserves and supplies; and

(v) any impact on the registrant's earnings and financing needs resulting from its inability to meet short- or long-term contractual obligations. See Item 303 of Regulation S-K.

D. If within the last three years the registrant has been unable to meet any significant delivery commitments, describe the circumstances concerning such events and the impact on the registrant.

Statistical Disclosure by Bank Holding Companies

General Instructions

Guide 3.

1. This Guide applies to the description of business portions of those bank holding company registration statements for which financial statements are required.
2. Information furnished in accordance with this Guide should generally be presented in tabular form in the order appearing below. However, an alternative presentation, such as inclusion of the information in Management's Discussion and Analysis, may be used if in management's opinion such presentation would be more meaningful to investors.
3. When the term "reported period" is used in the Guide, it refers to each of the periods described below:
   (a) each of the last three fiscal years of the registrant, except as is provided in paragraphs (b) and (c) below;
   (b) each of the last five fiscal years of the registrant with respect to Items III and IV, except as is provided in paragraph (c) below;
   (c) each of the last two fiscal years with respect to all items, if the registrant had assets of less than $200,000,000 or net worth of $10,000,000 or less as of the end of its latest fiscal year; and
   (d) any additional interim period necessary to keep the information from being misleading.

   The reported period shall not include an additional interim period under paragraph (d) above merely because an income statement is presented for such additional interim period, but the report period shall include such an additional period if a material change in the information presented or the trend evidenced thereby has occurred.
4. Unless otherwise indicated, averages called for by the Guide are daily averages. Where the collection of data on a daily average basis would involve unwarranted or undue burden or expense, weekly or month-end averages may be used, provided such averages are representative of the operations of the registrant. The basis used for presenting averages need be stated only if not presented on a daily average basis.
5. Some of the information called for by the Guide which is prospective in nature may not be available on a historical basis. The staff should be advised of such situations prior to filing and if the requested information is unavailable and cannot be compiled without unwarranted or undue burden or expense, the requirement that such information be furnished may be waived. If possible, reasonably comparable data should be furnished instead. If certain requested information will not be available with respect to periods to be covered in future filings subject to the Guide, this should also be brought to the staff's attention.
6. The disclosure requirements of the Guide are also applicable to foreign registrants to the extent the requested information is available. If the information is unavailable and cannot be compiled without unwarranted or undue burden or expense, this should be brought to the staff's attention.

   [NOTE: In evaluating the reasonableness of assertions by registrants that the compilation of requested information, such as historical data or daily averages, would involve an unwarranted or undue burden or expense, the staff takes into consideration, among other factors, the size of the registrant, the estimated costs of compiling the data, the electronic data processing capacity of the registrant, and efforts in process to obtain the information in future periods.]

7. In various places throughout this Guide, disclosure is called for regarding certain "foreign" data. For purposes of this Guide, this information need not be presented unless the registrant is required to make separate disclosures concerning its foreign activities in its consolidated financial statements pursuant to the test set forth in § 210.9-05 of Regulation S-X.

I. Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential

A. For each reported period, present average balance sheets. The format of the average balance sheets may be condensed from the detail required by the financial statements provided that the condensed average balance sheets indicate the significant categories of assets and liabilities, including all major categories of interest-earning assets and interest-bearing liabilities. Major categories of interest-earning assets should include loans, taxable investment securities, non-taxable investment securities, interest bearing deposits in other banks. Federal funds sold and securities purchased with agreements to resell, other short-term investments, and other (specify if significant). Major categories of interest-bearing liabilities should include savings deposits, other time deposits, short-term debt, long-term debt and other (specify if significant).

B. For each reported period, present an analysis of net interest earnings as follows:

1. For each major category of interest-earning asset and each major category of interest-bearing liability, the average amount outstanding during the period and the interest earned or paid on such amount.
2. The average yield for each major category of interest-bearing asset.
3. The average rate paid for each major, category of interest-bearing liability.
4. The average yield on all interest-earning assets and the average effective rate paid on all interest-bearing liabilities.
5. The net yield on interest-earning assets (net interest-earnings divided by total interest-earning assets, with net interest earning equaling the difference between total interest earned and total interest paid).
6. This analysis may, at the option of the registrant, be presented in connection with the average balance sheet required by paragraph A.

C. For the latest two fiscal years, present (1) the dollar amount of change in interest income and (2) the dollar amount of change in interest expense. The changes should be segregated for each major category of interest-earning asset and interest-bearing liability into amounts attributable to (a) changes in volume (change in volume times old rate), (b) changes in rates (change in rate times old volume), and (c) changes in rate/volume (change in rate times the change in volume). The rate/volume variances should be allocated on a consistent basis between rate and volume variances and the basis of allocation disclosed in a note to the table.

Instructions.

(1) Explain how non-accruing loans have been treated for purposes of the analyses required by paragraph B.

(2) In the calculation of the changes in the interest income and interest expense, any out-of-period items and adjustments should be excluded and the types and amounts of items excluded disclosed in a note to the table.

(3) If loan fees are included in the interest income computation, the amount of such fees should be disclosed, if material.

(4) Tax exempt income may be calculated on a tax equivalent basis. A brief note should describe the extent of recognition exemption from Federal, state and local taxation and the combined marginal or incremental rate used.

(5) If disclosure regarding foreign activities is required pursuant to General Instruction 7 of this Guide, the information required by paragraphs A, B and C of Item I should be further segregated between domestic and foreign activities for each significant category of assets and liabilities disclosed pursuant to paragraph A. In addition, for each reported period, present separately, on the basis of averages, the percentage of total assets and total liabilities attributable to foreign activities.

II. Investment Portfolio

A. As of the end of each reported period, present the book value of investments in obligations of (1) the U.S. Treasury and other U.S. Government agencies and corporations; (2) States of the U.S. and political subdivisions; and (3) other securities including bonds, notes, debentures and stock of business corporations, foreign governments and political subdivisions, inter-governmental agencies and the Federal Reserve bank.

B. As of the end of the latest reported period, present the amount of each investment category listed above which is due (1) in one year or less, (2) after one year through five years, (3) after five years through ten years, and (4) after ten years. In addition, state the weighted average yield for each range of maturities.

Instruction. State whether yields on tax exempt obligations have been computed on a tax equivalent basis. (See Instruction (4) to Item I.) Any major changes in the tax-exempt portfolio should be discussed hereunder.

C. As of the end of the latest reported period, state the name of any issuer, and the aggregate book value and aggregate market value of the securities of such issuer, when the aggregate book value of such securities exceeds ten percent of stockholders' equity.

Instruction. The term "issuer" has the meaning given in Section 2(4) of the Securities Act of 1933, except that debt securities issued by a state of the United States and its political subdivisions and agencies which are payable from and secured by the same source of revenue or taxing authority shall be considered to be securities of a single issuer. This information does not have to be provided for securities of the U.S. Government and U.S. Government agencies and corporations. Consideration should be given to disclosure of risk characteristics of the securities of an issuer and of differences in risk characteristics of different issues of securities of an issuer as may be appropriate.

III. Loan Portfolio

A. Types of Loans

As of the end of each reported period, present separately the amount of loan in each category listed below. Also show the total amount of all loans for each reported period which amounts should be the same as those shown on the balance sheets.

Domestic:

1. Commercial, financial and agricultural;
2. Real estate–construction;
3. Real estate–mortgage;
4. Installment loans to individuals;
5. Lease financing

Foreign:

6. Governments and official institutions;
7. Banks and other financial institutions;
8. Commercial and industrial;
9. Other loans.

Instruction. A series of categories other than those specified above may be used to present details of loans if considered a more appropriate presentation.

B. *Maturities and Sensitivities of Loans to Changes in Interest Rates*

As of the end of the latest fiscal year reported on, present separately the amount of loans in each category listed in paragraph A (except that this information need not be presented for categories 3, 4 and 5, and categories 6 through 9 may be aggregated) which are: (1) due in one year or less, (2) due after one year through five years and (3) due after five years. In addition, present separately the total amount of all such loans due after one year which (a) have predetermined interest rates and (b) have floating or adjustable interest rates.

Instructions.

(1) Scheduled repayments should be reported in the maturity category in which the payment is due.

(2) Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts should be reported as due in one year or less.

(3) Determinations of maturities should be based upon contract terms. However, such terms may vary due to the registrant's "rollover policy" in which case the maturity should be revised as appropriate and the rollover policy should be briefly discussed.

C. *Risk Elements*

1. Nonaccrual, Past Due and Restructured Loans. As of the end of each reported period, state separately the aggregate of loans in each of the following categories:

(a) Loans accounted for on a nonaccrual basis;

(b) Accruing loans which are contractually past due 90 days or more as to principal or interest payments; and

(c) Loans not included above which are "troubled debt restructurings" as defined in Statement of Financial Accounting Standards No. 15 ("FAS 15"), Accounting by Debtors and Creditors for Troubled Debt Restructurings."

Instructions.

(1) The information required by this Item should be provided separately for domestic and for foreign loans for each reported period.

(2) As of the most recent reported period, state separately as to foreign and domestic loans included in (a) and (c) above the following information: (i) the gross interest income that would have been recorded in the period that ended if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the period, and (ii) the amount of interest income on those loans that was included in net income for the period.

(3) A discussion of the registrant's policy for placing loans on nonaccrual status should be provided.

(4) No loans shall be excluded from the amounts presented, except that loans to foreign borrowers which are restructured for reasons other than concerns as to ultimate collectibility and which are included in amounts disclosed pursuant to Instruction (6)(d) to Item III.C.3. need not be included in amounts reported pursuant to Item III.C.1.(c). Supplemental disclosures may be made to facilitate understanding of the aggregate amounts reported. These disclosures may include, for example, information as to the nature of the loans, any guarantees, the extent of collateral, or amounts in process of collection.

2. *Potential Problem Loans.* As of the end of the most recent reported period, describe the nature and extent of any loans which are not now disclosed pursuant to Item III.C.1. above, but where known information about possible credit problems of borrowers (which are not related to transfer risk inherent in cross-border lending activities) causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans pursuant to Item III.C.1.

3. *Foreign Outstandings.* As of the end of the last three reported periods, state the name of the country and aggregate amount of cross-border outstandings to borrowers in each foreign country where such outstandings exceed 1% of total assets.

Instructions.

(1) Cross-border outstandings are defined as loans (including accrued interest), acceptances, interest-bearing deposits with other banks, other interest-bearing investments and any other monetary assets which are denominated in dollars or other non-local currency. To the extent that material local currency outstandings are not hedged or are not funded by local borrowings, such amounts should be included in cross-border outstandings. Commitments such as irrevocable letters of credit should not be included in outstandings; however, where such items are material, the amounts should be separately disclosed.

(2) Disclose separately the amounts of cross-border outstandings by type of foreign borrower as set forth in Item III.A. above.

(3) If a material amount of the outstandings to any foreign country disclosed herein is included in the amounts disclosed pursuant to Item III.C.1. or 2. identify each such country and the related amounts disclosed pursuant to those Items.

(4) Amounts of any legally enforceable, written guarantees of principal or interest by domestic or other non-local third parties may be netted against cross-border outstandings of a country. If such a guarantee is made by a foreign guarantor, he guarantee amount shall be reflected as an outstanding of such guarantor. The value of any tangible, liquid collateral may also be netted against cross-border outstandings of a country if it is held and realizable by the lender outside of the borrower's country.

(5) For purposes of determining the amount of outstandings to be reported, loans made to, or deposits placed with, a branch of a foreign bank located outside the foreign bank's home country should be considered as loans to, or deposits with, the foreign bank.

(6) Where current conditions in a foreign country give rise to liquidity problems which are expected to have a material impact on the timely payment of principal or interest on the country's private or public sector debt, furnish:

(a) a description of the nature and impact of such developments.

(b) an analysis of the changes in aggregate outstandings to borrowers in each such country (except that a country need not be included if aggregate outstandings to all borrowers in the country at the end of the most recent reported period do not exceed 1% of total assets), for the most recent reported period, in the following format:

		Country A	*Country B*
Aggregate outstandings at (beginning of period)		x	x
Net change in short-term outstandings:		x	x
Changes in other outstandings:			
Additional outstandings		x	x
Interest income accrued		x	x
Collections of:	Principal	x	x
	Accrued interest	x	x
Other changes		x	x
Aggregate outstandings at (end of period)		$ x	x

(c) the total amounts recognized as interest income and the total amounts of interest collected during the most recent reported period on all outstandings to each country disclosed pursuant to subpart (b) of this Instruction, if such totals are significantly different from the amounts disclosed pursuant to subpart (b) on the lines entitled "Interest income accrued" and "Collections of accrued interest," respectively. (The amounts might be different if, for example, all or a portion of the outstandings were on a nonaccrual basis.)

(d) the following information, if a material portion of the outstandings to any country that is identified pursuant to subpart (b) of this Instruction is restructured during or subsequent to the most recent reported period, or if a material portion may be subject to restructuring pursuant to an agreement in principal (or its equivalent) which has been reached between the debtor and the registrant (or a committee organized by creditor banks to negotiate such an agreement in principal or its equivalent):

(i) information describing the pre- and post-restructuring repayment terms of the affected outstandings, including at a minimum the following (in tabular format such as the following):

	Country A	*Country B*
Amount restructured (or subject to restructuring)	$x	x
Weighted average year of maturity (including any grace periods):		
Pre-restructuring	19XX	19XX
Post-restructuring	19YY	19YY
Weighted average interest rate:		
Pre-restructuring	X%	X%
Post-restructuring	Y%	Y%

Alternative tabular formats are not precluded, provided that the minimum data presented above (or their equivalent) is presented. Supplementing weighted average maturities and interest rates with ranges of maturities and interest rates is not precluded; however, ranges should not be presented without also presenting weight averages (unless the ranges are very narrow). Alternatively, individual years of maturities could be disclosed with respect to discernable portions of restructured outstandings, along with the interest rates on those portions. if interest rates are variable, the applicable index and the weighted average spread from the index should be disclosed in lieu of the actual rates as of any particular date.

(ii) a description of commitments (e.g., new money provisions; agreements to relend, or to maintain on deposit, repayment of principal or interest within the country) arising or expected to arise in connection with the restructuring(s).

(iii) the amount of outstandings, separately as to each country, that has been removed or is expected to be removed from nonaccrual status as a result of the restructuring(s).

Disclosures pursuant to subpart (d) should be in reasonable proximity to disclosures pursuant to other subparts of this instruction and should be described as subject to change, if applicable.

(7) For countries whose outstandings are between .75% and 1% of total assets, disclose the names of the countries and the aggregate amount of outstandings attributable to all such countries.

(8) The disclosure threshold set forth in this Item is for disclosure guidance and is not intended as an indicator of a prudent level of lending to any one country by an individual bank.

4. *Loan Concentrations.* As of the end of the most recent reported period, describe any concentration of loans exceeding 10% of the total loans which are not otherwise disclosed as a category of loans pursuant to Item III.A. of this Guide. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions.

Instructions.

(1) If a material amount of the loan concentrations disclosed herein or pursuant to Item III.3.A. is included the amounts disclosed pursuant to Item III.C.1. or 2., that fact should be discussed.

(2) The disclosure threshold in this Item is for disclosure guidance and is not intended as an indicator of a prudent level of lending.

D. Other Interest Bearing Assets. As of the end of the most recent reported period, disclose the nature and amounts of any other interest bearing assets that would be required to be disclosed under Item III.C.1. or 2. if such assets were loans.

IV. Summary of Loan Loss Experience

A. An analysis of loss experience shall be furnished in the following format for each reported period.

Analysis of the Allowance for Loan Losses

	Reported Period
Balance at the beginning of period	$ X
Charge-offs:	
Domestic:	
Commercial, financial and agricultural	x
Real estate—construction	x
Real estate—mortgage	x
Installment loans to individuals	x
Lease financing	x
Foreign	x
	x
Recoveries:	
Domestic:	
Commercial, financial and agricultural	x
Real estate—construction	x

Real estate—mortgage	x
Installment loans to individuals	x
Lease financing	x
Foreign	x
	x
	x
Net charge-offs	x
Additions charge to operations	x
Balance at end of period	x
Ratio of net charge-offs during the period to average loans outstanding during the period	x

Instructions.

(1) The above table is not intended to mandate a specific format for disclosure of this information. Registrants are encouraged to experiment with various disclosure formats in the interest of effective communication of this data, however, all the required information must be given.

(2) For each period presented, describe briefly the factors which influenced management's judgment in determining the amount of the additions to the allowance charged to operating expense. A statement that the amount is based on management judgment will not be sufficient.

(3) If, in accordance with the instructions to paragraph III-A, information concerning loans has been presented in categories other than those specified in that paragraph, those other categories should be used to present the disclosures called for under this paragraph.

(4) If the registrant is required to present separate data as to its foreign activities pursuant to General Instruction 7 to this Guide, disclosure must be provided as to the changes in the allowance for loan losses applicable to loans related to foreign activities, including the balances at the beginning and end of the periods, charge-offs, recoveries, and additions charged to operations.

B. At the end of each reported period, furnish a breakdown of the allowance for loan losses in the following format:

Allocation of the Allowance for Loan Losses

	Reported Period	
Balance at End of Period Applicable to:	*Amount*	*Percent of loans in each category to total loans*
Domestic	$X	X%
Commercial, financial and agricultural	X	X%
Real estate—construction	X	X%
Real estate—mortgage	X	X%
Installment loans to individuals	X	X%
Lease financing	X	X%

Foreign	X	X%
Unallocated	X	N/A
		100%

Instructions.

(1) See instructions (1) and (3) to paragraph A above.

(2) In lieu of the breakdown of the allowance for loan losses by loan category called for above, the registrant may furnish a narrative discussion of the risk elements in the loan portfolio and the factors considered in determining the amount of the allowance for loan losses. The discussion may be extended to risk elements associated with particular loan categories or subcategories. Information should also be furnished as to the approximate anticipated amount of charge-offs by category during the next full year of operation.

V. Deposits

A. For each reported period, present separately the average amount of and the average rate paid on each of the following deposit categories which are in excess of 10 percent of average total deposits:

Deposits in domestic bank offices;

(1) Noninterest bearing demand deposits.

(2) Interest bearing demand deposits.

(3) Savings deposits.

(4) Time Deposits.

Deposits in foreign banking offices:

(5) Banks located in foreign countries (including foreign branches of other U.S. banks).

(6) Foreign governments and official institutions.

(7) Other foreign demand deposits.

(8) Other foreign time and savings deposits.

B. Categories other than those specified for deposits in domestic bank offices above may be used to present the types of domestic deposits if they more appropriately describe the nature of the deposits.

C. If material, the registrant should disclose separately the aggregate amount of deposits by foreign depositors in domestic offices. Identification of the nationality of the depositors is not required.

D. As of the end of the latest reported period, state the amount outstanding of 1) time certificates of deposit in amounts of $100,000 or more and 2) other time deposits of $100,000 or more issued by domestic offices by time remaining until maturity of 3 months or less; over 3 through 6 months; over 6 through 12 months; and over 12 months.

E. As of the end of the latest reported period, state the amount outstanding of time certificates of deposits and other time deposits in amounts of $100,000 or more issued by foreign offices. If the aggregate of such certificates of deposit and time deposits in amounts exceeding $100,000 represents a majority of total foreign

DETAILS OF CREDIT LOSS EXPERIENCE

In millions of dollars	2002	2001	2000	1999	1998
Allowance for credit losses at beginning of year	**$10,088**	$ 8,961	$8,853	$8,596	$8,087
Provision for credit losses					
Consumer	**7,154**	5,328	4,345	4,169	3,753
Corporate	**2,841**	1,472	994	591	508
	9,995	6,800	5,339	4,760	4,261
Gross credit losses					
Consumer [1]					
In U.S. offices	**5,098**	4,185	3,413	3,063	3,057
In offices outside the U.S.	**2,813**	2,060	1,939	1,799	1,235
Corporate					
Mortgage and real estate					
In U.S. offices	**5**	13	10	59	40
In offices outside the U.S.	**23**	3	22	11	58
Governments and official institutions outside the U.S.	**—**	—	—	—	3
Loans to financial institutions					
In U.S. offices	**—**	10	—	—	—
In offices outside the U.S.	**4**	—	—	11	97
Commercial and industrial					
In U.S. offices	**1,552**	1,378	563	186	125
In offices outside the U.S.	**1,070**	639	311	479	348
	10,565	8,288	6,258	5,608	4,963
Credit recoveries					
Consumer [1]					
In U.S. offices	**610**	435	526	413	427
In offices outside the U.S.	**505**	418	403	356	287
Corporate [2]					
Mortgage and real estate					
In U.S. offices	**1**	1	9	36	89
In offices outside the U.S.	**—**	1	1	2	10
Governments and official institutions outside the U.S.	**2**	—	1	—	10
Loans to financial institutions in offices outside the U.S.	**6**	9	9	5	16
Commercial and industrial					
In U.S. offices	**266**	262	45	19	36
In offices outside the U.S.	**173**	134	70	94	30
	1,563	1,260	1,064	925	905
Net credit losses					
In U.S. offices	**5,778**	4,888	3,406	2,840	2,670
In offices outside the U.S.	**3,224**	2,140	1,788	1,843	1,388
	9,002	7,028	5,194	4,683	4,058
Other—net [3]	**420**	1,355	(37)	180	306
Allowance for credit losses at end of year	**$11,501**	$10,088	$8,961	$8,853	$8,596
Allowance for credit losses on letters of credit [4]	**167**	50	50	50	—
Total allowance for loans, leases, lending commitments and letters of credit	**$11,668**	$10,138	$9,011	$8,903	$8,596
Net consumer credit losses	**$ 6,796**	$ 5,392	$4,423	$4,093	$3,578
As a percentage of average consumer loans	**2.58%**	2.31%	2.11%	2.24%	2.23%
Net corporate credit losses	**$ 2,206**	$ 1,636	$ 771	$ 590	$ 480
As a percentage of average corporate loans	**1.62%**	1.14%	0.60%	0.51%	0.45%

(1) Consumer credit losses and recoveries primarily relate to revolving credit and installment loans.
(2) Includes amounts recorded under credit default swaps purchased from third parties.
(3) 2002 primarily includes the addition of $452 million of credit loss reserves related to the acquisition of GSB. 2001 primarily includes the addition of allowance for credit losses related to the acquisitions of Banamex and EAB. 2000 and 1999 include the addition of allowance for credit losses related to other acquisitions. 1998 reflects the addition of $320 million of credit loss reserves related to the acquisition of the Universal Card portfolio. All periods also include the impact of foreign currency translation.
(4) Primarily represents additional reserves recorded as other liabilities on the balance sheet.

CASH-BASIS, RENEGOTIATED, AND PAST DUE LOANS

In millions of dollars at year-end	2002	2001[1]	2000[1]	1999[1]	1998[1]
Corporate cash-basis loans					
Collateral dependent (at lower of cost or collateral value)[2]	$ 616	$ 699	$ 390	$ 473	$ 555
Other[3]	4,286	2,834	1,580	1,162	1,201
Total	$4,902	$3,533	$1,970	$1,635	$1,756
Corporate cash-basis loans[3]					
In U.S. offices	$1,724	$1,315	$ 700	$ 476	$ 614
In offices outside the U.S.	3,178	2,218	1,270	1,159	1,142
Total	$4,902	$3,533	$1,970	$1,635	$1,756
Corporate renegotiated loans					
In U.S. offices	$ 115	$ 263	$ 305	$ 256	$ 255
In offices outside the U.S.	55	74	94	56	59
Total	$ 170	$ 337	$ 399	$ 312	$ 314
Consumer loans on which accrual of interest had been suspended[3]					
In U.S. offices	$2,300	$2,501	$1,797	$1,696	$1,751
In offices outside the U.S.	2,723	2,241	1,607	1,821	1,664
Total	$5,023	$4,742	$3,404	$3,517	$3,415
Accruing loans 90 or more days delinquent[3][4]					
In U.S. offices	$2,884	$1,822	$1,247	$ 874	$ 833
In offices outside the U.S.	447	776	385	452	532
Total	$3,331	$2,598	$1,632	$1,326	$1,365
Corporate cash-basis loans as a % of total corporate loans	3.57%	2.46%	1.43%	1.36%	1.56%

(1) Reclassified to conform to the 2002 presentation.
(2) A cash-basis loan is defined as collateral dependent when repayment is expected to be provided solely by the liquidation of the underlying collateral and there are no other available and reliable sources of repayment, in which case the loans are written down to the lower of cost or collateral value.
(3) The December 31, 2002 balance includes GSB data. The December 31, 2001 balance includes Banamex loan data.
(4) Substantially all consumer loans of which $1,764 million, $920 million, $503 million, $379 million, and $267 million are government-guaranteed student loans and Federal Housing Authority mortgages at December 31, 2002, 2001, 2000, 1999, and 1998, respectively.

FOREGONE INTEREST REVENUE ON LOANS[1]

In millions of dollars	In U.S. offices	In Non-U.S. offices	2002 total
Interest revenue that would have been accrued at original contractual rates[2]	$314	$588	$902
Amount recognized as interest revenue[2]	41	177	218
Foregone interest revenue	$273	$411	$684

(1) Relates to commercial cash-basis and renegotiated loans and consumer loans on which accrual of interest had been suspended.
(2) Interest revenue in offices outside the U.S. may reflect prevailing local interest rates, including the effects of inflation and monetary correction in certain countries.

CONSUMER CREDIT RISK

Within Global Consumer, business-specific credit risk policies and procedures are derived from the following risk management framework:

- Each business must develop a plan, including risk/return tradeoffs, as well as risk acceptance criteria and policies appropriate to their activities;
- Senior Business Managers are responsible for managing risk/return tradeoffs in their business;
- Senior Business Managers, in conjunction with Senior Credit Officers, implement business-specific risk management policies and practices;
- Approval policies for a product or business are tailored to internal audit ratings, profitability and credit risk management performance;
- Independent credit risk management is responsible for establishing the Global Consumer Policy, approving business-specific policies and procedures, monitoring business risk management performance, providing ongoing assessment of portfolio credit risks, and approving new products and new risks.

CONSUMER PORTFOLIO REVIEW

Citigroup's consumer loan portfolio is well diversified by both customer and product. Consumer loans comprise 69% of the total loan portfolio. These loans represent thousands of borrowers with relatively small individual balances. The loans are diversified with respect to the location of the borrower, with 71% originated in the U.S. and 29% originated from offices outside the U.S. Mortgage and real estate loans constitute 47% of the total consumer loan portfolio and installment; revolving credit and other consumer loans constitute 53% of the portfolio.

In the consumer portfolio, credit loss experience is expressed in terms of annualized net credit losses as a percentage of average loans. Pricing and credit policies reflect the loss experience of each particular product and country. Consumer loans are generally written-off no later than a predetermined number of days past due on a contractual basis, or earlier in the event of bankruptcy. The number of days is set at an appropriate level according to loan product and country. The following table summarizes delinquency and net credit loss experience in both the managed and on-balance sheet loan portfolios in terms of loans 90 days or more past due, net credit losses, and as a percentage of related loans.

Activity in Nonperforming Assets

Year ended December 31 (In millions)	2002	2001
Balance at beginning of year	$ 222	$ 193
Additions	931	595
Charge-offs	(450)	(327)
Paydowns/Sales	(250)	(202)
Other	(13)	(37)
Balance at end of period	$ 440	$ 222

The Company expects a $56 million loan to a retailer to become nonperforming in the first quarter of 2003, which will be largely offset by paydowns on and the sales of nonperforming loans. The level of nonperforming loans in 2003 will depend on the pace of the economic recovery.

The following table shows the distribution of nonperforming assets at the end of each of the last five years:

(Dollars in millions)	2002	2001	2000	1999	1998
Category of Loans:					
Domestic:					
Other Commercial	$ 321	$ 138	$ 113	$ 53	$ 65
Regional Commercial	34	18	28	30	35
Commercial Real Estate	—	—	—	—	26
Foreign	84	64	48	63	53
Total Nonperforming Loans	439	220	189	146	179
Other Real Estate	1	2	4	12	14
Total Nonperforming Assets	$ 440	$ 222	$ 193	$ 158	$ 193
Nonperforming Asset Ratio	1.4%	0.6%	0.5%	0.4%	0.5%
Allowance/Nonperforming Loans	189.1	280.0	325.6	407.7	355.5
Allowance/Nonperforming Assets	188.7	277.6	319.6	376.9	328.9

Significant nonperforming assets at December 31, 2002 include $121 million of exposure to the operating subsidiaries of a major cable company, $70 million of emerging markets exposure (primarily trade credits), $51 million to an insurance company, $48 million to retailers, and $17 million of available-for-sale loans.

Past Due 90 Days or More and Still Accruing Interest

(Dollars in millions)	2002	2001	2000	1999	1998
Domestic:					
Other Consumer	$ 3	$ 3	$ 3	$ 3	$ 3
Commercial	18	11	23	13	26
	21	14	26	16	29
Foreign:					
Banks	5	—	—	3	—
	$26	$ 14	$ 26	$19	$ 29

Activity in Allowance for Credit Losses

The following table details changes in the Company's allowance for credit losses for the last five years.

(Dollars in millions)	2002	2001	2000	1999	1998
Loans Outstanding, December 31,	$31,339	$35,744	$36,261	$37,547	$38,386
Average Loans Outstanding	34,305	38,770	39,262	38,881	38,340
Allowance for Credit Losses					
Balance, January 1					
Domestic	$ 508	$ 491	$ 485	$ 498	$ 441
Foreign	43	67	71	69	44
Unallocated	65	58	39	69	156
Total, January 1	616	616	595	636	641
Allocations and Acquisitions(1)	—	—	—	(39)	4
Charge-Offs					
Domestic					
Commercial	(442)	(356)	(88)	(104)	(34)
Real Estate	—	—	—	(5)	—
Consumer	(19)	(15)	(9)	(8)	(10)
Foreign	(23)	(17)	(3)	(37)	(7)
Total	(484)	(388)	(100)	(154)	(51)
Recoveries					
Domestic					
Commercial	8	5	11	10	7
Real Estate	2	—	1	2	7
Consumer	2	3	3	4	5
Foreign	2	5	1	1	3
Total	14	13	16	17	22
Net Charge-Offs	(470)	(375)	(84)	(137)	(29)
Provision	685	375	105	135	20
Balance, December 31,					
Domestic	653	508	491	485	498
Foreign	79	43	67	71	69
Unallocated	99	65	58	39	69
Total, December 31,	$ 831	$ 616	$ 616	$ 595	$ 636
Ratios					
Net Charge-Offs to Average Loans Outstandings	1.37%	0.97%	0.21%	0.35%	0.08%
Net Charge-Offs to Total Allowance	56.56%	60.88%	13.64%	23.03%	4.56%
Total Allowance to Year-End Loans Outstanding	2.65%	1.72%	1.70%	1.58%	1.66%

(1) In 1999, $39 million was allocated to BNYFC loans sold.

Net charge-offs were $470 million in 2002, $375 million in 2001, and $84 million in 2000. Net charge-offs increased in 2002 primarily due to aircraft leasing exposure to United Airlines, as well as to an internet services provider and to a large retailer. In 2001, net charge-offs increased due to emerging telecommunications companies loans and an energy trading company loan. In 2000, net charge-offs were primarily related to commercial loans.

The provision for credit losses was $685 million in 2002, compared with $375 million in 2001 and $105 million in 2000. The increase in the provision primarily reflects losses on aircraft leases to United Airlines, as well as to other domestic carriers and exposures to telecom and cable credits. The increase in the provision in 2001 primarily reflects the accelerated disposition program related to emerging telecommunications companies credits, the loss on the energy trading credit, and the general deterioration in credit quality in 2001.

The total allowance for credit losses was $831 million and $616 million at year-end 2002 and 2001. The ratio of the total allowance for credit losses to year-end loans was 2.65% and 1.72% at December 31, 2002 and 2001. Loans at December 31, 2002 were $31.3 billion compared with $35.7 billion at the prior year-end. Average loans decreased to $34.3 billion in 2002 from $38.8 billion in 2001. The increase in the allowance in 2002 primarily reflects the deterioration in the U.S. airline industry, the emerging telecommunications industry, retailing, and an internet backbone company. At December 31, 2002, the Company's allowance included an allocated transfer risk reserve related to Argentina of $29 million.

The Company's allowance at year-end equated to approximately 2.6 times the average charge-offs for the last three years and 2.7 times the average net charge-offs for the same three-year period. Because historical charge-offs are not necessarily indicative of future charge-off levels, the Company also gives consideration to other risk indicators when determining the appropriate allowance level.

The allowance for credit losses consists of four elements: (1) an allowance for impaired credits (nonaccrual commercial credits over $1 million), (2) an allowance for higher risk rated credits, (3) an allowance for pass rated credits, and (4) an unallocated allowance based on general economic conditions and risk factors in the Company's individual markets.

The first element—impaired credits—is based on individual analysis of all nonperforming commercial credits over $1 million. The allowance is measured by the difference between the recorded value of impaired loans and their fair value. Fair value is either the present value of the expected future cash flows from borrowers, the market value of the loan, or the fair value of the collateral.

The second element—higher risk rated credits—is based on the assignment of loss factors for each specific risk category of higher risk credits. The Company rates each credit in its portfolio that exceeds $1 million and assigns the credits to specific risk pools. A potential loss factor is assigned to each pool, and an amount is included in the allowance equal to the product of the amount of the loan in the pool and the risk factor. Reviews of higher risk rated loans are conducted quarterly and the loan's rating is updated as necessary. The Company prepares a loss migration analysis and compares its actual loss experience to the loss factors on an annual basis to attempt to ensure the accuracy of the loss factors assigned to each pool. Pools of past due consumer loans are included in specific risk categories based on their length of time past due.

The third element—pass rated credits—is based on the Company's expected loss model. Borrowers are assigned to pools based on their credit ratings. The expected loss for each loan in a pool incorporates the borrower's credit rating, loss given default rating and maturity. The credit rating is dependent upon the borrower's probability of default. The loss given default incorporates a recovery expectation. Borrower and loss given default ratings are reviewed semi-annually at minimum and are periodically mapped to third party, including rating agency, default and recovery data bases to ensure ongoing consistency and validity. Commercial loans over $1 million are individually analyzed before being assigned a credit rating. All current consumer loans are included in the pass rated consumer pools.

The fourth element—the unallocated allowance—is based on management's judgment regarding the following factors:

- Economic conditions including duration of the current cycle
- Past experience including recent loss experience

- Credit quality trends
- Collateral values
- Volume, composition, and growth of the loan portfolio
- Specific credits and industry conditions
- Results of bank regulatory and internal credit exams
- Actions by the Federal Reserve Board
- Delay in receipt of information to evaluate loans or confirm existing credit deterioration
- Geopolitical issues and their impact on the economy

During 2001, the Company significantly revised both its credit rating system and the loss factors assigned to specific risk pools. The prior credit rating system had 10 grades while the new system has 18 grades more closely aligning it with the rating systems used by the credit rating agencies. The impact of the new loss factor was to increase the allowance associated with lower rated pass credits while decreasing the allowance associated with higher rated pass credits and commitments. The new loss factors were based on publicly available data adjusted for management's judgment. The framework for the application of management's judgement was consistent across both systems. Senior management receives input from weekly loan review meetings, results of portfolio reviews and analysis of external ratings. Management judgement is required in assessing the appropriateness of the factors involved in the modeling process, the validity of the models themselves, and the reasonableness of unallocated reserves.

On an overall basis, the Company's provisioning was not significantly affected at the time it implemented the new credit rating system. If the old system had been applied to the portfolio at December 31, 2001, the allowance for credit losses would have been approximately $631 million, a difference of 2.4% compared with $616 million.

Based on an evaluation of these four elements, including individual credits, historical credit losses, and global economic factors, the Company has allocated its allowance for credit losses as follows:

	2002	2001	2000	1999	1998
Domestic					
Real Estate	3%	6%	3%	4%	3%
Commercial	75	75	76	78	74
Consumer	1	1	1	—	1
Foreign	9	7	11	12	11
Unallocated	12	11	9	6	11
	100%	100%	100%	100%	100%

In 2002, the allowance for impaired credits, the allowance for higher risk credits, and the unallocated allowance increased. This was offset by a decline in the allowance for pass rated credits. The increase in the allowance for impaired and higher risk credits reflects the increase in the amount of loans in these categories. The increase in the unallocated allowance is attributable to the deterioration in the economy and negative credit quality trends. The decrease in the allowance for pass rated credits reflects the decline in the loan portfolio as well as a shift in the loan portfolio towards the financial sector and away from non-investment grade corporate lending.

Such an allocation is inherently judgmental, and the entire allowance for credit losses is available to absorb credit losses regardless of the nature of the loss.

pass credits. Examiners are expected to assign ratings in accordance with the guidance in this booklet, regardless of the system the bank employs.

Regulatory Definitions[3]

> **Special mention (SM) — "A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification."**

Special mention assets have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the institution's position at some future date. These assets pose elevated risk, but their weakness does not yet justify a substandard classification. Borrowers may be experiencing adverse operating trends (declining revenues or margins) or an ill-proportioned balance sheet (e.g., increasing inventory without an increase in sales, high leverage, tight liquidity). Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a special mention rating. Nonfinancial reasons for rating a credit exposure special mention include management problems, pending litigation, an ineffective loan agreement or other material structural weakness, and any other significant deviation from prudent lending practices.

The special mention rating is designed to identify a specific level of risk and concern about asset quality. Although an SM asset has a higher probability of default than a pass asset, its default is not imminent. Special mention is **not** a compromise between pass and substandard and should not be used to avoid exercising such judgment.

[3] Banking Circular 127 (Rev), issued in April 1991, contains the regulatory definitions for classified assets. Banking Bulletin 93-35, issued June 1993, contains the interagency supervisory definition of special mention assets.

Classified assets are exposures rated substandard, doubtful, or loss. Classified assets do not include pass and special mention exposures.

> **Substandard** *C* **"A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected."**

Substandard assets have a high probability of payment default, or they have other well-defined weaknesses. They require more intensive supervision by bank management. Substandard assets are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants. For some substandard assets, the likelihood of full collection of interest and principal may be in doubt; such assets should be placed on nonaccrual. Although substandard assets in the aggregate will have a distinct potential for loss, an individual asset's loss potential does not have to be distinct for the asset to be rated substandard.

> **Doubtful** *C* **"An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable."**

A doubtful asset has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Pending events can include mergers, acquisitions, liquidations, capital injections, the perfection of liens on additional collateral, the valuation of collateral, and refinancing. Generally, pending events should be resolved within a relatively short period and the ratings will be adjusted based on the new information. **Because of high probability of loss, nonaccrual accounting treatment is required for doubtful assets.**

Loss C "Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future."

With loss assets, the underlying borrowers are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. Once an asset is classified loss, there is little prospect of collecting either its principal or interest. When access to collateral, rather than the value of the collateral, is a problem, a less severe classification may be appropriate. However, banks should not maintain an asset on the balance sheet if realizing its value would require long-term litigation or other lengthy recovery efforts. Losses are to be recorded in the period an obligation becomes uncollectible.

Split Ratings

At times, more than one rating is needed to describe the risk in a credit exposure. One part of an exposure may require a more severe rating, hence the "split rating." Split ratings are usually assigned when collateral or other structural protection supports only part of the credit.

Three common split ratings are substandard/doubtful/loss, pass/adverse rating, and partial charge-off:

- Substandard/doubtful/loss C Assigned to collateral-dependent loans when the collateral's value is uncertain and falls within a range of values. The portion of the loan supported by the lower, more conservative value is rated substandard; the portion supported by higher, less certain value is classified doubtful; and any portion outside the range of values is loss.

- Pass/adverse rating C Assigned when a portion of a credit has an unquestionable repayment source and the remainder exhibits potential or

Accounting Issues

Accounting issues are intertwined with credit risk ratings, particularly at the classified level where the credit risk rating often dictates the accounting treatment. A brief discussion of accounting issues follows. For more detailed discussion of these topics refer to the OCC's "Bank Accounting Advisory Series" publications, Consolidated Reports of Condition and Income (call report) instructions, and Financial Accounting Standards Board (FASB) statements.

Rebooking Charged-off Credit

In 1997, the instructions to the call report were brought into compliance with generally accepted accounting principles (GAAP) and the practice of rebooking charged-off loans was disallowed. Under GAAP, when a bank charges off a loan or lease in part or full, the bank establishes a new cost basis. Once the loan's cost basis has been decreased, it cannot be increased later. For additional guidance concerning rebooking charged-off assets, refer to FASB 114, "Accounting by Creditors for Impairment of a Loan," and call report instructions.

Nonaccrual

A loan that is on nonaccrual or about to be placed on nonaccrual has severe problems such that the full collection of interest and principal is highly questionable. Nonaccrual loans will almost always be classified.

A bank places a loan on nonaccrual according to criteria in the call report instructions. The general rule is that an asset should be placed on nonaccrual when principal or interest is 90 days or more past due, unless the asset is well-secured and in the process of collection. A "well-secured" asset is secured by a lien or pledge of collateral that has a realizable value sufficient to discharge the debt fully (including accrued interest), or it is secured 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 through legal action (including the enforcement of a judgment), or through efforts not involving legal action that are reasonably expected to result in the loan's repayment or in its restoration to a current status in the near future. A 30-day collection period has generally been applied to determining when a loan is "in the process of collection." Customarily, an asset can remain in that status more than 30 days only when it can be demonstrated that the timing and amount of repayment is reasonably certain.

There is no requirement that a loan must be delinquent for 90 days before it is placed on nonaccrual. Once reasonable doubt exists about a loan's collectibility, the loan should be placed on nonaccrual. When payment performance depends on the borrower drawing on lines of credit, the bank advancing additional loan funds, or the bank extending excessively lenient repayment terms, the loan should be considered for nonaccrual status. Loans propped up in this way are often referred to as "performing – nonperforming" loans. (For additional information, see "Capitalization of Interest" on page 33.) A borrower's financial statement can be adequate evidence of a high probability of default and exposure to loss; when it is, the loan should be placed on nonaccrual. While an asset is in nonaccrual status, some or all of the cash interest payments received may be treated as interest income on a cash basis as long as the remaining book balance of the asset is deemed to be fully collectible.

Consumer loans and loans secured by one- to four-family residential properties are not required to be placed on nonaccrual when the loan becomes 90 days delinquent. Each bank should formulate its own policies on these assets to ensure that net income is not being materially overstated. Examiners should evaluate the bank's accrual policy for these loans. In doing so, they should consider the portfolio size, 90-day roll rate to loss, and whether the nonaccrual criteria apply.

The call report instructions govern the reversal of previously accrued but uncollected interest and the treatment of subsequent payments on nonaccrual assets. When a loan is placed on nonaccrual, all previously accrued but uncollected interest should be reversed, unless the loan is secured by a U.S. government guarantee. For interest accrued in the current accounting period, the bank makes an adjusting entry directly against the interest income account. For prior accounting periods, the bank charges the ALLL if provisions for possible interest loss were made. If accrued interest provisions have not been made, the entire amount is charged against interest income.

An asset may be restored to accrual status when all principal and interest is current and the bank expects full repayment of the remaining contractual principal and interest, or when the asset otherwise becomes well-secured and is in the process of collection. The following assets do not have to meet these requirements to be restored to accrual status:

- Formally restructured loans qualifying for accrual status.

- Assets acquired at a discount from an unaffiliated third party.

- Loans that remain past due, but for which the borrower has resumed full payment of interest and principal according to contractual specifications.

Such loans qualify only if (1) all contractual amounts due can reasonably be expected to be repaid within a prudent period and (2) repayment has been in accordance with the contract for a sustained period (usually at least six months). For additional guidance see "Revised Interagency Guidance on Returning Certain Nonaccrual Loans to Accrual Status," appendix C in the "Commercial Real Estate and Construction Lending" booklet of the *Comptroller's Handbook*.

Capitalization of Interest

Interest may be capitalized (that is, accrued interest may be added to the principal balance of a credit exposure) for reporting purposes only when the borrower is creditworthy and has the ability to repay the debt in the normal course of business. Capitalization of interest is inappropriate for most classified loans. It should not be permitted if a loan is classified (by an examiner or the bank's internal risk rating process) (1) loss, (2) doubtful, (3) value-impaired,[4] or (4) nonaccrual. If interest has been inappropriately capitalized, the amount should be reversed or charged off in accordance with the methods permitted in the call report instructions. For additional guidance refer to Examining Circular 229, "Guidelines for Capitalization of Interest on Loans," dated May 1, 1985.

[4] A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Formally Restructured Loans

Restructured debt should be identified by the bank's internal credit review system and closely monitored by management. When analyzing a formally restructured loan, the examiner should focus on the borrower's ability to repay the credit in accordance with its modified terms.

The assignment of special mention status to a formally restructured credit would be appropriate if potential weaknesses remain after the restructuring. It would be appropriate to classify a formally restructured extension of credit adversely when well-defined weaknesses exist that jeopardize the orderly repayment of the credit under its modified terms. Restructured loans require a period of sustained performance, generally six months, under the restructured terms before being upgraded to a pass rating.

For a further discussion of troubled debt restructuring, see the glossary section of the call report instructions.

Loans Purchased at Discount

A bank purchasing a credit at a discount from its face amount must book the loan at the purchase price. Ordinarily, the discount is recognized as an adjustment of yield over the remaining contractual life of the loan. However, if the loan is acquired at a discount because full payment is not expected, the discount should be accounted for in accordance with the guidance in AICPA Bulletin 6, "Amortization of Discounts on Certain Acquired Loans," August 1989 (www.aicpa.org).