

# Procedures for Inspection Report Page Preparation (Page—Bank Subsidiary (FR 1241))

Section 5020.1

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This report page presents financial statement data (a condensed balance sheet and income data) for one-bank holdings companies and other bank holding companies that may have assets of less than \$150 million. Place the name of the bank at the top on the line provided. For multi-bank companies, the page may be completed for the lead bank or comparable lead banks and

each bank requiring special supervisory attention. The balance sheet and income data should be obtained from the last two calendar year ends and the most recent report of condition, while the examination data should be obtained from the last three examination reports. Refer to 5010.30.

This inspection report page incorporates onto one page a comprehensive list of questions covering many areas of supervisory concern. The questions can be answered with a “yes” or “no,” or a not applicable response (“N/A”). Detail is required on an exception basis. Provided below are some guidelines to consider for several of the listed questions. Many of the questions are self-explanatory. Some questions (e.g. questions addressing audit and insurance activities) duplicate topics covered by other work papers. The purpose of the duplication and format of the report page is to provide a cross-check within the inspection report to make certain that all relevant areas have been included in the report. If relevant comments have been provided on other report pages in the “open” section, the comments need not be duplicated on this report page. Only a reference to the other report page is needed.

#### 5020.2.1 LEVEL OF CONTROL AND SUPERVISION EXERCISED OVER SUBSIDIARIES (QUESTION 1)

Consider:

1. Whether the subsidiaries operate autonomously;
2. The degree of overlap between BHC and bank management;
3. Who sets major policies of the corporation;
4. How the holding company monitors the operation of its subsidiaries;
5. The role of supervision by the parent over the subsidiary banks in formulating the holding company’s budget, tax planning, investment policies, internal controls and audits;
6. The extent of control resulting from directors having dual roles and responsibilities at the parent and subsidiary levels; and
7. Whether problems resulting from unqualified directors carry over from the parent to the subsidiaries.

#### 5020.2.2 DIVIDENDS FROM SUBSIDIARIES (QUESTION 2)

Consider:

1. The policy for paying dividends in relation to the earnings and capital needs of the subsidiary. For banks the examiner should rely on the most recent examination report of the federal supervisor; however an independent conclusion must be made.

2. The reasonableness of the parent company’s policy for assessing dividends from the subsidiary banks and whether it is being complied with.

#### 5020.2.3 REPRESENTATIONS MADE IN APPLICATIONS TO THE BOARD (QUESTION 3)

Consider:

1. Whether the holding company has complied with all representations and agreements made with the Board. If no such agreements or representations have been made, state not applicable (N/A). The examiner should review transmittal letters for commitments associated with approved applications since the last full scope inspection. The supervisory file maintained by management at each bank holding company should also be reviewed for such agreements or representations.

2. Whether correspondence has been initiated with the appropriate Reserve Bank that provides an appropriate explanation as to why those representations and agreements have not been adhered to.

3. Whether the holding company is complying with any Reserve Bank reply to the holding company’s notification.

#### 5020.2.4 COMPENSATING BALANCES (QUESTION 4)

1. If a subsidiary bank is not adequately compensated for maintaining compensating balances at another institution for debt advances to the holding company, provide:

- a. The average collected and book balance or the range of the balance;

- b. Any arrangement whereby the loan or line of credit agreement between the creditor bank and parent contains a requirement to maintain a correspondent account; and

- c. Comments as to whether the subsidiary bank is reimbursed for maintaining the compensating balance.

2. Refer to Manual section 2020.4.

### 5020.2.5 MANAGEMENT AND OTHER SERVICES PERFORMED FOR SUBSIDIARIES (QUESTION 5)

If applicable, describe the holding company's policy on assessing management and services fees for work performed for the subsidiary bank. Provide comments as to whether the policies and fees are reasonable, and if not, why not. When answering this question, refer to Manual section 2020.6.

The examiner's comments should cover the following: (a) terms of the management or other service agreement or contract, if any, including the basis for charging fees, and the dates of adoption and expiration; (b) whether the boards of directors of each company have approved the agreement or contract; (c) description of the service, personnel providing the service, and whether the personnel are on the subsidiary bank's payroll; (d) conclusion on whether the services are actually being performed as stated and reasonableness of fees charged.

For multi-bank holding companies, the examiner should expand his comments to cover the role of supervision by the parent over the subsidiary banks, their lending and investment policies, budgeting and tax planning, and internal controls and audits.

### 5020.2.6 INTERCOMPANY TRANSACTIONS (QUESTION 6)

Review parent and nonbank subsidiary borrowings, including overdrafts from the subsidiary bank(s), for the past year and comment on significant transactions. If any extension of credit to affiliates by a bank or other transaction is deemed to violate section 23A or 23B of the Federal Reserve Act, so state. See Manual section 2020.1.

Describe any arrangement whereby the parent or nonbank subsidiary has purchased/sold significant participations or any other assets from/to a subsidiary bank. Also, discuss material transactions not discussed elsewhere in the report.

### 5020.2.7 INSIDER TRANSACTIONS (QUESTION 7)

Consider:

1. The policy in regard to extensions of credit by a bank holding company or its nonbank

subsidiaries to the BHC officials (executive officers, directors or "more than 10 percent" shareholders) or the BHC officials' interests in the organization;

2. Prohibitions on bank extensions of credit contained in the Financial Institutions Regulatory and Interest Rate Control Act of 1978; and

3. Whether the bank holding company has a conflict of interest statement or business ethics policy that has been distributed to employees.

If there are insider transactions subject to comment, list the parent and nonbank subsidiary extensions of credit to BHC officials. Also, comment on the compensation to the officials. See Manual sections 2050.0, 2110.0, and 5010.36.

### 5020.2.8 TAX ALLOCATION (QUESTION 8)

See Manual sections 2070.0.

### 5020.2.9 USE OF SUBSIDIARY BANK PERSONNEL, OR ASSETS TO SELL CREDIT RELATED LIFE INSURANCE TO THE BANK'S CUSTOMERS (QUESTION 9)

This question refers to the Board's May 1981 policy statement on the disposition of income from the sale of credit life, health and accident, and mortgage life insurance (credit life insurance) related to loans made by state member banks. A reasonable amount of compensation must be paid to the state member bank in recognition of the role played by its personnel, premises, and goodwill in credit life insurance sales. As a general rule "reasonable compensation" means an amount equivalent to at least 20 percent of the affiliate's net income attributable to the financial institution's credit life insurance sales.

At the time of the Board's adoption, the policy was recommended for adoption by the other federal bank regulatory agencies thru the Federal Financial Institutions Examination Council. Therefore, the question is applicable to all banking subsidiaries, not just state member banks. If reasonable compensation is not being received by any or all subsidiary banks. Comment on this subject only when the parent or nonbank subsidiary receives income from the sale of insurance directly related to extensions of credit by a bank subsidiary. Describe any arrangement between the subsidiary bank(s) and the parent or nonbank affiliate concerning the sale of insurance directly related to extensions of credit. Note

whether and/or when such arrangement was formally approved by the subsidiary bank's board of directors. Describe the manner of disposition of such insurance income. In situations where the subsidiary bank provides personnel and/or facilities for the sale of credit related insurance but receives no income, the bank, as a minimum, must be reimbursed for out-of-pocket costs.

#### 5020.2.10 TIE-IN ARRANGEMENTS (QUESTION 10)

See Manual section 3500.0.

#### 5020.2.11 LITIGATION (QUESTION 11)

If the holding company or its subsidiary(ies) is a defendant in any litigation, the results of which could have a significant adverse effect on the overall organization, provide details of the lawsuit, including, if possible, the opinion of the holding company's counsel as to the possible outcome of the suit. As a general guideline, include only suits representing more than 10 percent of the holding company's stockholder's equity capital.

#### 5020.2.12 INSURANCE PROGRAM (QUESTION 12)

See Manual section 2060.5.

#### 5020.2.13 AUDIT PROGRAM (QUESTION 13)

See Manual section 2060.1.

#### 5020.2.14 INTERNAL LOAN REVIEW (QUESTION 14)

See Manual section 2060.6.

#### 5020.2.15 ACCURACY AND TIMELINESS OF REPORTS (QUESTION 15)

If reports filed with the Federal Reserve (e.g. the FR Y-6 Annual Report) are not filed accurately and/or on time, provide comments as to the holding company's plans for correcting the prob-

lem. Any changes in accounting to conform with generally accepted accounting principles, as required by FR Y-6, should be discussed here.

#### 5020.2.16 OUTSTANDING COMMITMENTS TO THE BOARD OF GOVERNORS (QUESTION 17)

If the holding company has outstanding commitments to the Board, summarize the commitments by describing the nature of the commitment, the date the commitment was made, and if applicable, the time frame in which it must be fulfilled. If the time frame has expired, or if an extension is deemed necessary to fulfill the commitment, details must be presented. The examiner may choose to make a reference to the unfulfilled commitment on the "Examiner's Comments" page 1, if considered appropriate.

#### 5020.2.17 OTHER MATTERS HAVING A DETRIMENTAL IMPACT (QUESTION 18)

Discuss here any other matter having a detrimental impact upon the subsidiary bank(s) not discussed elsewhere in this report, and deemed pertinent by the examiner. Examples of some subject areas to be considered might be:

1. Public debt issues and commercial paper liabilities of the parent or nonbank subsidiary.

Comment on the following items where appropriate:

(1) Describe the debt instrument, including amount, interest rate, maturity, purchasers, and use of proceeds; (2) agency ratings; (3) determine whether any subsidiary (particularly a bank) sells the debt issue for its own use or on behalf of the parent and make critical comments whenever the issue does not clearly state that the issue is not an insured obligation of a bank subsidiary; (4) discuss any difficulties experienced in refinancing the debt; and (5) if a line of credit is used to back up a short term issue, indicate the lending bank, credit line, amount in use, expiration date, and required fee or compensating balance maintained by a subsidiary bank, if any, and whether the bank is being remunerated by the parent or nonbank affiliate. (See Manual section 5010.23.)

2. Adequacy of recordkeeping of the holding company, including nonbank subsidiaries. If

included, recommendations concerning the adoption of minimum recordkeeping standards should be presented and justified.

3. Contingent liabilities or violations not addressed elsewhere in the report (such as treasury stock purchased in violation of Regulation Y).

4. Payment of cash dividends in excess of net earnings available for common shareholders

over the past year and the rate of earnings retention is not consistent with the organization's capital needs, asset quality, and overall financial condition.

5. Adverse relationships not elsewhere mentioned, such as inappropriate allocation of income and expenses of a nonbank activity performed by subsidiary bank employees.

<i>Manual</i>			
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1. This page is required to be included in the inspection report for bank holding companies with consolidated assets in excess of \$1 billion or those companies that have substantive fixed charges or debt outstanding, as well as selected others at the option of the Reserve Bank.

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49–50

Capital Structure (lead bank subsidiary)

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Bank Subsidiary

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Other Supervisory Issues

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REPORT OF BANK HOLDING COMPANY INSPECTION  
FR 1225

Corporate title

Street

City

County

State

Zip Code

Mailing Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_ Federal Reserve Bank Examiner in Charge

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Date of Previous Inspection (Financial Statements as of) \_\_\_\_\_



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EXAMINER'S COMMENTS AND MATTERS  
REQUIRING SPECIAL BOARD ATTENTION

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SCOPE OF INSPECTION AND ABBREVIATIONS

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Page 3

ANALYSIS OF FINANCIAL FACTORS  
(In thousands)

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**AUDIT PROGRAM**

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Comment on the adequacy and the effectiveness of the holding company's audit program, including scope and frequency of audits of subsidiaries, and the relationship with the holding company's accounting firm. Identify to whom the auditor is responsible and who receives the audit reports. Describe the nature of any "qualified opinion" submitted by the independent auditors in certifying the most recent year's financial statements and any pertinent comments regarding relations with the directors' audit committee. If the holding company does not have its own audit staff, describe the role of the internal audit staffs of the subsidiaries, and the role of the independent accounting firm of the holding company, and state if such arrangements are adequate.

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**PARENT COMPANY COMPARATIVE BALANCE SHEET**  
(In thousands)

	19x3	19x2	As of December 31, 19x1
<b><u>ASSETS</u></b>			
Cash and due from banks	\$	\$	\$
Securities			
Loans and leases, net			
Investments in and rec. due from subsidiaries			
Premises and equipment			
Intangible assets			
Other assets			
Total Assets			
<b><u>LIABILITIES</u></b>			
Short-term borrowings			
Long-term borrowings			
Mandatory convertible securities			
Subordinated notes and debentures			
Other liabilities			
Balances due to subsidiaries			
Limited-life preferred stock			
Total Liabilities			
<b><u>STOCKHOLDERS' EQUITY</u></b>			
Perpetual preferred stock			
Common stock			
Capital surplus			
Retained earnings			
Less: Treasury stock			
Total Stockholders' Equity			
Total Liabilities and Stockholders' Equity	\$	\$	\$

PARENT COMPANY COMPARATIVE STATEMENT  
OF INCOME AND EXPENSES  
(In thousands)

	For the Month Ended  19x3	For the Year Ended December 31, 19x2	19x1
<u>INCOME</u>			
Income from subs:			
Dividends	\$	\$	\$
Interest			
Mgmt. and service fees			
Other income			
Securities gains (losses)			
Other income			
Total	_____	_____	_____
<u>EXPENSES</u>			
Personnel expense			
Interest			
Provisions			
Other expenses			
Total	_____	_____	_____
INCOME BEFORE TAXES AND EQUITY IN UNDISTRIBUTED EARNINGS			
Income taxes (Credits)			
Extraordinary items	_____	_____	_____
INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS			
Equity in undistributed earnings	_____	_____	_____
NET INCOME	\$ _____	\$ _____	\$ _____

**SUMMARY OF CONSOLIDATED CLASSIFIED AND SPECIAL MENTION ASSETS,  
AND OTHER TRANSFER RISK PROBLEMS  
(In thousands)**

Organization	Special Mention	Other Transfer Risk Problems	Substandard	Value Impaired	Doubtful	Loss	Total	Valuation Reserves
Parent:								
Bank Subsidiaries:								
Nonbank Subsidiaries:								
Total								
Total Classifications:								

**Trends in Consolidated Asset Quality**

Information dates as of:	19x1	19x2	19x3
Weighted classifications <sup>1</sup> Tier 1 + Allowance for loan losses <sup>2</sup>			
Total classifications Tier 1 + Allowance for loan losses <sup>2</sup>			
Allowance for loan and lease losses Total loans and leases			
Information dates as of:	19x1	19x2	19x3
30+ PD & NA/Total loans & leases			
90+ PD & NA/Total loans & leases			
Allowance for loan and lease losses/ 90+ PD & NA			

1. Weighted classifications equal the aggregate of 20 percent of assets classified substandard and value impaired (net of allocated transfer risk reserve), 50 percent of doubtful, and 100 percent of loss.
2. For this ratio, tier 1 capital is to be calculated using risk-based capital guidelines effective December 31, 1992. Also, the allowance for loan and lease losses is included without limit.

CONSOLIDATED COMPARATIVE BALANCE SHEET  
(In thousands)

	19x3	As of December 31,	
		19x2	19x1
<u>ASSETS</u>			
Cash and due from banks	\$	\$	\$
Securities			
Federal funds sold and Reverse REPOs			
Loans and leases—net ICNE			
Less: Reserves			
Trading account assets			
Premises and fixed assets			
Other real estate owned			
Affiliated investments			
Acceptances—customer’s liab.			
Intangible assets			
Other assets			
Total Assets			
<u>LIABILITIES</u>			
Deposits			
Federal funds purchased and REPOs			
Commercial paper			
Other short-term borrowings			
Other long-term borrowings			
Mortgage indebtedness and lease obligations			
Mandatory convert. sec.			
Subord. notes and deb.			
Liability on acceptances			
Minority interest			
Other liabilities			
Limited-life prfd. stock			
Total Liabilities			
<u>STOCKHOLDERS’ EQUITY</u>			
Perpetual prfd. stock			
Common stock			
Capital surplus			
Retained earnings			
Less: Treasury stock			
Total Stockholders’ Equity			
Total Liabilities and Stockholders’ Equity	\$	\$	\$



CONSOLIDATED COMPARATIVE STATEMENT  
OF INCOME AND EXPENSES  
(In thousands)

	For the Months Ended 19x3	For the Year Ended December 31, 19x2	19x1
<u>INTEREST INCOME</u>			
Loan interest and fees	\$	\$	\$
Lease financing rec.			
Interest bearing bank balance			
Securities			
Trading account income			
Fed. funds sold & Rev. REPOs			
Other interest income			
Total Interest Income	_____	_____	_____
<u>INTEREST EXPENSE</u>			
Deposits			
Fed. funds purch. & REPOs			
Borrowed funds			
Other interest expense			
Total Interest Expense	_____	_____	_____
<u>NET INTEREST INCOME</u>			
Provisions			
Net Interest Income After Provisions	_____	_____	_____
<u>OTHER OPERATING INCOME</u>			
Fiduciary activities			
Service charges and fees			
Trading account income			
Other income			
Security gains (losses)			
Total Other Income	_____	_____	_____
<u>OTHER OPERATING EXPENSE</u>			
Personnel			
Premises and fixed assets			
Other expenses			
Total Other Expense	_____	_____	_____
<u>INCOME BEFORE TAX AND OTHER ADJUSTMENTS</u>			
Income taxes (Credits)			
Minority interest			
Extraordinary items			
NET INCOME	\$ _____	\$ _____	\$ _____

CONSOLIDATED CAPITAL STRUCTURE  
(In thousands)

	As of December 31, x
<hr/>	
<b><u>TIER 1 CAPITAL:</u></b>	
Common Stockholders' Equity:	
Common stock (par \$____: shares issued ____)	\$
Common stock surplus	
Undivided profits and capital reserves (net)	
Less: Treasury stock	(_____)
<b>Total Common Stockholders' Equity</b>	
Cumulative foreign currency translation adjustments	
Minority interest in equity accounts of consolidated subsidiaries	_____
<b>Subtotal of Core Capital Elements</b>	
Perpetual preferred stock eligible for Tier 1	_____
Tier 1 Capital Elements	_____
Less: Goodwill	(_____)
Tier 1 Capital	_____
 <b><u>TIER 2 CAPITAL:</u></b>	
Subordinated debt, intermediate-term preferred stock, and unsecured long-term debt	
Perpetual preferred stock and surplus eligible for Tier 2 only (par \$____: shares outstanding ____: rate____%)	
Perpetual preferred stock exceeding Tier 1 limit	
Perpetual debt	
Mandatory convertible securities (net)	
Long-term limited-life preferred stock	
Allowance for loan and lease losses	_____
<b>Supplementary Capital Elements</b>	
Less: Supplementary capital elements eligible for Tier 1	(_____)
Tier 2 Capital Elements	
Less: Amount Tier 2 Capital exceeds Tier 1 Capital	(_____)
<b>Tier 2 Capital</b>	_____

CONSOLIDATED CAPITAL STRUCTURE  
(In thousands)

	As of December 31, x
<b>TOTAL QUALIFYING CAPITAL:</b>	
Tier 1 Capital	\$
Tier 2 Capital	
Less: Investments in unconsolidated financial subsidiaries	( )
Reciprocal holdings of capital	( )
<b>Total Qualifying Capital</b>	<b>\$</b>
<b>RISK-WEIGHTED ASSETS:</b>	
Risk-weighted balance sheet assets <sup>1</sup>	\$
Risk-weighted off-balance sheet assets	
Add: Goodwill	_____
<b>Gross Risk-Weighted Assets</b>	
Less: Excess allowance for loan and lease losses (not included in capital)	( )
Allocated transfer risk reserve	( )
<b>Risk-Weighted Assets</b>	<b>\$</b>

**CAPITAL RATIOS AND TRENDS:**

	Peer Data	As of		
	December 31, 19x1	December 31, 19x1	December 31, 19x0	December 31, 19x9
Tier 1 capital ratio: <sup>2</sup>				
Year-end 1992 rules	%	%	%	N/A %
Total capital ratio:				
Year-end 1992 rules	%	%	%	N/A
Tier 1 leverage ratio <sup>3</sup>	%	%	%	N/A
Tangible leverage ratio <sup>4</sup>	%	%	%	N/A

1. Risk-weighted balance sheet assets excludes all goodwill, net unrealized loss in marketable equity securities, investments in unconsolidated banking or financial subsidiaries, and reciprocal holdings of capital.
2. The Tier 1 capital ratio is calculated by deducting 1/2 of all investments in unconsolidated banking or financial subsidiaries from Tier 1 capital and dividing the remaining amount by risk-weighted assets. If there is insufficient Tier 2 capital from which the other half of the investments in unconsolidated banking or financial subsidiaries would be deducted, then also deduct the deficient amount from Tier 1 capital.
3. The Tier 1 leverage ratio is calculated by dividing Tier 1 capital (as defined by the final capital guidelines, effective December 31, 1992) by average total assets (for the most recent quarter) less all goodwill.
4. The tangible leverage ratio is calculated by deducting all intangibles from Tier 1 capital and dividing by average total assets (for the most recent quarter) less all intangibles.

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**POLICIES AND SUPERVISION**

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Discuss and appraise the parent company's policies with respect to:

The level of control and supervision exercised over subsidiaries.

Dividends and fees from subsidiaries.

Loans and investments of subsidiaries.

Risk evaluation and control.

Funds management and the adequacy of existing policies.

Management information systems.

Loan participations by and between subsidiaries.

Internal loan review.

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VIOLATIONS

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Page

OTHER MATTERS

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CLASSIFIED ASSETS AND CAPITAL RATIOS OF SUBSIDIARY BANKS  
(In thousands)

Bank and Date of Examination	Total Assets	Sub-standard	Doubtful	Loss	Valuation Reserves	1992 Tier 1 Capital	1992 Total Capital	Weighted Classified Assets <sup>1</sup> To 1992 Tier 1 Capital Plus Valuation Reserve	1992 Tier 1 Capital To Average Total Assets

1. Includes 100 percent of loss, 50 percent of doubtful, and 20 percent of substandard and value impaired.

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ORGANIZATION CHART

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Page

HISTORY AND STRUCTURE

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1. Date and State of incorporation:
2. Date acquired control of first subsidiary bank:
3. Date became subject to the Bank Holding Company Act of 1965, as amended:
4. Comment on the bank holding company's structure:

Page					
INVESTMENT IN AND ADVANCES TO SUBSIDIARIES					
As of _____					
(In thousands)					
Subsidiary	Investment	Advance	Total	% of Parent's Total Assets	% of Parent's Stock- holders' Equity

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**INVESTMENT IN AND ADVANCES TO SUBSIDIARIES**

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1. If the parent's investment in a subsidiary differs from its proportionate interest in the stockholders' equity of the subsidiary, provided detail.
  2. Provide details if any advance to a subsidiary has been reclassified as equity by the parent company since the last inspection.
  3. Provide details if the proceeds of any parent company borrowings have been injected into its subsidiaries as Tier 1 and/or Tier 2 capital since the last inspection.
  4. How does the parent determine the interest rate charged to the subsidiaries?
  5. Does the parent company require timely payment of interest charged to subsidiaries?
  6. Does the parent guarantee any liabilities of the subsidiaries?
- 

Comments:

Page

COMMERCIAL PAPER  
(In thousands)

As of \_\_\_\_\_

Maturity Schedule

Maturity	Direct Placements	Dealer Placements	Total
0-30 days			
31-90 days			
91-180 days			
Over 180 days			
Total	<u><u>                    </u></u>	<u><u>                    </u></u>	<u><u>                    </u></u>

Page

LINES OF CREDIT  
(In thousands)

As of \_\_\_\_\_

Lending Bank	Credit Line	Expiration Date	In Use	Available	Compensating Balance*

\* Compensating balance maintained by subsidiary bank on behalf of parent.

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**PARENT COMPANY COMMERCIAL PAPER AND LINES OF CREDIT**

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1. Indicate the commercial paper rating, the rating agency, any recent changes in the rating, and the range of current rates paid on all paper.
2. Does any subsidiary sell commercial paper either for its own use or on behalf of the parent? If so, discuss.
3. Does the commercial paper clearly state that it is not an insured obligation of any banking subsidiary?
4. What is the minimum denomination of commercial paper sold?
5. Indicate the amount of parent's commercial paper being held in the trust department(s) of the subsidiary bank(s).
6. Discuss the holding company's policy with regard to the use of the proceeds from the sale of commercial paper.
7. Is there any concentration of holdings in excess of 10 percent of the bank holding company's commercial paper by any individual, organization or industry? If so, discuss.
8. Has the parent experienced any difficulty in refinancing its commercial paper at maturity? If so, discuss.
9. Indicate which of the lines of credit are contractual obligations of the lender.
10. Indicate which lines are specifically used as back-up lines for commercial paper borrowings.
11. Indicate if the lines of credit are used on a systematic rotation basis.
12. Indicate which lines of credit are reciprocal between the lender and either the subject bank holding company or its subsidiary banks.
13. Indicate if any subsidiary is authorized to borrow directly on the parent company's lines of credit.

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Comments:

Page

PARENT COMPANY CONTINGENT LIABILITIES AND SCHEDULE  
OF BALANCE SHEET AND INCOME & EXPENSE  
ACCOUNTS NOT DETAILED ELSEWHERE  
(In thousands)

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Page

PARENT COMPANY STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(In thousands)

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total
Balance as of 12-31-x3						



Page

INCOME FROM SUBSIDIARIES - INTERIM

For the \_\_\_\_ months ended \_\_\_\_

(In thousands)

Subsidiary	Equity in Undistributed Earnings	Dividends	Dividend Payout Ratio	Interest	Management Fees	Service Fees	Fees as a Percent of Subsidiary's Net Income

Page

INCOME FROM SUBSIDIARIES - FISCAL

For the \_\_\_\_ months ended \_\_\_\_

(In thousands)

Subsidiary	Equity in Undistributed Earnings	Dividends	Dividend Payout Ratio	Interest	Management Fees	Service Fees	Fees as a Percent of Subsidiary's Net Income

		Page		
		PARENT COMPANY CASH FLOW STATEMENT		
		(in thousands)		
		Prior Fiscal Year	Current Fiscal Year	Next Fiscal Year
<u>INCOME</u>				
Dividends from subsidiaries		\$	\$	\$
Interest from subsidiaries				
Management and service fees				
Other operating cash income		_____	_____	_____
Total Cash Income		_____	_____	_____
<u>EXPENSES</u>				
Interest	(2)			
Lease and rental	(3)			
Salary and employee benefits				
Other operating cash expenses		_____	_____	_____
Total Cash Expenses		_____	_____	_____
<b>BEFORE TAX CASH INCOME</b>		_____	_____	_____
Income tax payments from:				
Bank				
Nonbank/Other				
Income tax payments		_____	_____	_____
<b>AFTER TAX CASH INCOME (1)</b>		_____	_____	_____
<u>EXTERNAL SOURCES</u>				
Issuance of stock				
Net increase in borrowed funds				
Advances to subsidiaries repaid:				
Bank				
Nonbank				
Sale of assets		_____	_____	_____
Total External Sources		\$	\$	\$

			Page
PARENT COMPANY CASH FLOW STATEMENT (in thousands)			
	Prior Fiscal Year	Current Fiscal Year	Next Fiscal Year
<b>EXTERNAL USES</b>			
Net decrease in borrowed funds	\$	\$	\$
Dividend payments: Preferred (5)			
Common (6)			
Equity investment in subsidiaries:			
Bank			
Nonbank			
Advances to subsidiaries:			
Bank			
Nonbank			
Purchase of assets	_____	_____	_____
Total External Uses	_____	_____	_____
<b>NET CHANGE IN CASH POSITION</b>	_____	_____	_____
<b>CASH BALANCE BEGINNING</b>	_____	_____	_____
<b>ENDING CASH BALANCE</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>
 Memorandum:			
Contractual long-term debt retired (4)	\$	\$	\$

Page

PARENT COMPANY CASH FLOW STATEMENT  
(in thousands)

	Prior Fiscal Year	Current Fiscal Year	Next Fiscal Year
--	----------------------	------------------------	---------------------

FIXED CHARGE COVERAGE RATIO:

$$\frac{(1)+(2)+(3)}{(2)+(3)+(4)+(5)}$$

COMMON STOCK CASH  
DIVIDEND COVERAGE RATIO:

$$\frac{(1)-[(4)+(5)]}{(6)}$$

1. Are the parent company's fixed charges covered by its cash earnings? What is the amount of excess or deficiency?
2. Are the parent company's dividend payments to stockholders covered by its residual cash earnings? What is the amount of excess or deficiency?
3. Giving full consideration to the requirements for loan loss reserves and capital structure of the bank and the major nonbank subsidiaries:
  - (a) Is the present level of dividends paid by the bank and the major nonbank subsidiaries to the parent company sustainable?
  - (b) What is the scope for increasing the cash flow to the parent company?
4. If cash flow is insufficient to cover fixed charges and cash dividend payments, discuss the steps management has taken, or plans to take, to restore adequate cash earnings coverage. Include comments on whether such plans would be commensurate with the maintenance of adequate loan loss reserves and capital levels in the bank and the major nonbank subsidiaries.
5. If cash flow is insufficient to cover cash dividend payments, should the parent company revise its dividend policy to conform to the Board's guidelines on the payment of cash dividends?
6. Discuss significant cash flow transactions as deemed appropriate by the examiner.

Page

PARENT COMPANY LIQUIDITY POSITION  
(In thousands)

As of \_\_\_\_\_

	0-30 Days*	31-90 Days	91 Days- 1 Year	1-2 Years	2 Years Plus	Total
ASSETS						
Cash & Non-interest Bearing Balances Due from Banks						
Interest Bearing Deposits: With Subsidiary Banks With Other Banks						
Securities Purchased Under Agreements To Resell						
Advances/Loans to: Subsidiaries** Non-affiliated Entities						
Marketable Investment Securities (Market Value)						
Trading Account						
Interest Receivable						
Dividends Receivable						
Investments in Subsidiaries						
Other Assets						
Totals						

Page

PARENT COMPANY LIQUIDITY POSITION  
(In thousands)

	0-30 days*	31-90 days	91 days-1 Year	1-2 Years	2 Years Plus	Total
LIABILITIES						
Commercial Paper						
Master Notes						
Due to Banks						
Securities Sold Under Agreements to Repurchase						
Interest Payable						
Dividends Payable						
Other Short-term Liabilities or Debt						
Other Liabilities						
All Long-term Debt						
Totals						
Net Position						
Cumulative Excess (Deficiency)						

\*\*\*

\*For certain organizations, this grouping may be broken down into two categories 0-7 days and 8-30 days.

\*\*Do not include mandatory convertible or equity commitment notes.

\*\*\*Cumulative deficiency in this category must be covered appropriately through a contingency plan, including unused back-up lines of credit.

Page

PARENT COMPANY AND NONBANK SUBSIDIARY ASSETS  
SUBJECT TO CLASSIFICATION

Description of Assets*	Classification		
	Substandard (Amount)	Doubtful (Amount)	Loss (Amount)

\*Including maker (and endorser where applicable), security and comments.



Page

**BANK SUBSIDIARIES**  
(in thousands)

---

Page

NONBANK SUBSIDIARY

- 
1. Name:
  2. Location:
  3. Date of FRS approval:
  4. Date acquired or established:
  5. Date activity commenced (*de novo* only):
  6. Statutory authority:
  7. Branch office locations:
  
  8. History and description:
  
  
  9. Risk assessment:

Page

NONBANK SUBSIDIARY FINANCIAL STATEMENTS  
(in thousands)

---

Page

FIDELITY AND OTHER INDEMNITY INSURANCE

	Name of Surety	Primary Amount	Excess Amount	Expiration Date
--	----------------	----------------	---------------	-----------------

1. Bankers blanket and fidelity bonds:
  - a. Blanket bonds
  - b. Excess fidelity bonds
2. Are all officers and employees covered by bankers blanket or fidelity bonds?\_\_\_\_\_
3. Date of last recorded directors' approval of bankers blanket and fidelity bonds:\_\_\_\_\_
4. Indicate if any of the above coverage applies to any subsidiary of the holding company.
5. Indicate if any subsidiary of the holding company maintains the above coverage and extends the coverage to the holding company.

---

Examiner's Comments:



Page

OTHER SUPERVISORY ISSUES  
(FR 1225)

- 
1. Are there any intercompany transactions subject to comment? \_\_\_\_ . If so, discuss.
  2. Does the subsidiary bank(s) maintain compensating balances at another institution for debt advanced to the holding company? \_\_\_\_ . If the bank is not adequately compensated, discuss.
  3. Do the holding company's intercorporate income tax accounting policies and practices conform with the Board of Governor's September 1978 policy statement? \_\_\_\_ . If not, discuss.
  4. Is the holding company in compliance with the tie-in prohibitions contained in Section 106(b) of the BHC Act Amendments of 1970? \_\_\_\_ . If not, discuss.
  5. Are there any insider transactions subject to comment? \_\_\_\_ . If so, discuss.
  6. Is the holding company or its subsidiary(ies) a defendant in any litigation the results of which could have a significantly adverse effect on the overall organization? \_\_\_\_ . If so, discuss.
  7. Is the insurance program for the holding company considered adequate? \_\_\_\_ . If not, discuss.
  8. Is the holding company's audit program considered adequate? \_\_\_\_ . If not, discuss.
  9. Is the holding company's quality review program considered effective? \_\_\_\_ . If not, discuss.
  10. Are reports filed with the Federal Reserve System prepared accurately and submitted on a timely basis? \_\_\_\_ . If not, discuss.
  11. Has the holding company complied with all representations made in application(s) to the Board of Governors? \_\_\_\_ . If not, discuss.
  12. Does the holding company have any outstanding commitments to the Board of Governors? \_\_\_\_ . If so, discuss.
-

Page

**EXTENSIONS OF CREDIT TO BANK HOLDING COMPANY  
OFFICIALS AND THEIR RELATED INTERESTS AND  
INVESTMENTS IN AND LOANS ON STOCK OR  
OBLIGATIONS OF THEIR RELATED INTERESTS**  
(In thousands)

Recapitulation

	Direct	Indirect
1. Extensions of credit by the parent or its nonbank subsidiaries to:		
a. principal shareholders <sup>1</sup> of the parent company or its subsidiaries (excluding the subsidiary bank's nonbank subsidiaries)		
b. directors of the parent company or its subsidiaries (excluding the subsidiary bank's nonbank subsidiaries)		
c. executive officers <sup>2</sup> of the parent company of its subsidiaries (excluding the subsidiary bank's nonbank subsidiaries)		
d. related interests <sup>3</sup> of a bank holding company official <sup>4</sup>		
2. Investment of the parent company and its nonbank subsidiaries in stocks, bonds or other obligations of a related interest <sup>3</sup> of a bank holding company official <sup>4</sup>		
3. Loans by the parent company or its nonbank subsidiaries to any borrower secured by stocks, bonds of other obligations of a related interest <sup>3</sup> of a bank holding company official. <sup>4</sup>		
Totals		

1. "Principal shareholder" as defined in Section 215.2(j) of Regulation O.
2. "Executive officer" as defined in Section 215.2(d) of Regulation O.
3. "Related interests" as defined in Section 215.2(k) of Regulation O. Note the terms "company" and "control" are defined in Section 215.2(a) and (b) respectively, of Regulation O. However, for purposes of this item, "related interests" shall also include "insured banks."
4. "Bank holding company official" is defined as any director, executive officer, or principal shareholder of the parent company or any of its subsidiaries, excluding the subsidiary bank's nonbank subsidiaries.

Page

**EXTENSIONS OF CREDIT TO BANK HOLDING COMPANY  
OFFICIALS AND THEIR RELATED INTERESTS AND  
INVESTMENTS IN AND LOANS ON STOCK OR  
OBLIGATIONS OF THEIR RELATED INTERESTS**  
(In thousands)

Schedule

Listed individually below within each group as defined on the previous page are only those loans and investments of \$ \_\_\_\_\_ or more and all loans and investments classified; all other loans and investments are combined within each group and are not listed individually. Duplications within and between groups are deducted from the total of the appropriate group.

Name of Borrower or Investment and Comments	Direct	Indirect	Terms



Page

**INTEREST RATE SENSITIVITY  
ASSETS AND LIABILITIES  
(In Thousands)**

	Repricing Interval				
	1-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years
Interest-Sensitive Assets:					
Totals					
Cumulative totals					
Interest-Sensitive Liabilities:					
Totals					
Cumulative totals					
Gap					
Cumulative Gap					
Interest-sensitive Assets/ Interest-sensitive Liabilities (cumulative)			%	%	%
Cumulative gap/ Total assets			%	%	%

Comments:

Page

**TREASURY ACTIVITIES/CAPITAL MARKETS  
(FR 1225)**

- 
1. Provide an overview of the organization's capital markets activities. The overview should distinguish between various types of functional activity, such as market making, trading, or end user, and include a relevant measure of volume for the activity as well as earnings performance.
  2. Does the organization maintain written policies and procedures that clearly outline the process for controlling risks inherent in the organization's functional activities? Describe where policies and procedures are deficient.
  3. Does the organization have a written overall strategy covering all capital markets activities? \_\_\_\_ Explain.
  4. Has this strategy been effectively communicated to the Board of Directors? \_\_\_\_ Explain.
  5. Does the organization have risk-management processes in place to manage and control all significant risk exposures (e.g., market, credit, operations, liquidity, and legal-risk exposures)? \_\_\_\_ Can the organization manage and control risks on a consolidated basis? \_\_\_\_ Explain.
  6. Specifically, describe how the organization measures and manages the market-risk exposures related to these activities. Is this process adequate given the complexity and size of the activities as well as the capital position of the institution? \_\_\_\_ Explain.
  7. Also describe how the organization measures and manages both the current and potential credit-risk exposures related to these activities. Is this process adequate given the complexity and size of the activities as well as the capital position of the institution? \_\_\_\_ Explain.
  8. Does the organization have management information systems to provide accurate and timely information to senior management and the board of directors?
  9. Are internal control processes sufficient to ensure safe and sound operations? \_\_\_\_ Explain.
  10. Does the organization have an audit plan for capital markets activities? \_\_\_\_ Is it Adequate? \_\_\_\_ Explain.
-

Confidential Section  
PRINCIPAL OFFICERS AND DIRECTORS

Regular schedule of director's meetings: \_\_\_\_.

Fee paid each director: \_\_\_\_.

\* Meetings missed of \_\_\_\_ held during the last \_\_\_\_ months.

Name Address (City, State) Year of Birth	Shares Owned	Years on BHC Board	Meetings Missed*	Salary Bonus (1 and 2 only)		Title/Position at: 1. Holding Company (Committees) 2. Subsidiary and/or Affiliate 3. Principal Occupation or Business Affiliation
				Salary	Bonus	
				\$	\$	1. 2. 3.
				\$	\$	1. 2. 3.
				\$	\$	1. 2. 3.
				\$	\$	1. 2. 3.
				\$	\$	1. 2. 3.

Page B

Confidential Section  
CONDITION OF BANK HOLDING COMPANY

---

1. Future prospects of holding company.
  2. Assess Management and the Board of Directors. In addition, appraise the policies with respect to the level of control and supervision exercised over subsidiaries, including risk evaluation and control and management information systems.
  3. Subsidiary bank(s), date of most recent examination and rating.
  4. Is the holding company a member of a chain banking organization? \_\_\_\_ Summarize significant problems at any affiliated holding company, subsidiary bank or in the chain organization.
  5. List individuals or groups that own or control 5 percent or more of the outstanding voting shares of the bank holding company's stock. Discuss significant changes in ownership.
  6. Other supervisory concerns.
  7. RFI/C(D) Rating.
  8. Recommendations for supervisory action.
- 

Comments:

Confidential Section  
**LIQUIDITY AND DEBT INFORMATION**  
 (In thousands)

**Parent Only Short-term GAP Position**

	0-30 days	31-90 days	91 days-1 year
Liquid Assets			
Commercial Paper			
Net			
Net cumulative			

**Long-term Debt**

List all unaffiliated long-term debt in the following format indicating the amount that qualifies as Tier 2 capital.

Borrower	Type of Issue	Original Amount	On Date	Rate	Due Date	Present Outstanding	Lender
		\$		%		\$	
		\$		%		\$	
		\$		%		\$	
		\$		%		\$	
		\$		%		\$	
		\$		%		\$	

Page D

Confidential Section  
ADMINISTRATIVE AND OTHER MATTERS

---

Name of Examiners

Total Work Days

Field

Office

---

Final meeting held with:

---

Contact persons for records of bank holding company:

---

Suggestions for the next inspection:

Comments on Other Matters:

Bank Subsidiary Name	Page
<b>BANK SUBSIDIARY CAPITAL STRUCTURE</b>	
(In thousands)	
<hr/>	
	As of December 31, 19xx
<b><u>TIER 1 CAPITAL:</u></b>	
Common Stockholders' Equity:	
Common stock (par \$____: shares issued ____)	\$
Common stock surplus	
Undivided profits and capital reserves (net)	_____
<b>Total Common Stockholders' Equity</b>	
Cumulative foreign currency translation adjustments	
Noncumulative perpetual preferred stock and related surplus (par \$____: shares outstanding ____: rate____%)	
Minority interest in equity accounts of consolidated subsidiaries	
Tier 1 Capital Elements	_____
Less: Goodwill	(_____)
Tier 1 Capital	_____
<b><u>TIER 2 CAPITAL:</u></b>	
Subordinated debt and intermediate-term preferred stock	
Mandatory convertible securities (net)	
Cumulative perpetual preferred stock and related surplus (par \$____: shares outstanding ____: rate____%)	
Long-term limited-life preferred stock	
Allowable allowance for loan and lease losses	
<b>Supplementary Capital Elements</b>	_____
Less: Supplementary capital elements eligible for Tier 1	(_____)
Tier 2 Capital Elements	
Less: Amount Tier 2 Capital exceeds Tier 1 Capital	(_____)
<b>Tier 2 Capital</b>	_____
<b><u>TOTAL QUALIFYING CAPITAL:</u></b>	
Tier 1 Capital	\$
Tier 2 Capital	
Less: Investments in unconsolidated financial subsidiaries	(_____)
Reciprocal holdings of capital	(_____)
<b>Total Qualifying Capital</b>	<u>\$</u>

	Page			
<b>BANK SUBSIDIARY CAPITAL STRUCTURE</b>				
(In thousands)				
<hr/>				
	As of			
	December 31,			
	x			
<b>RISK-WEIGHTED ASSETS:</b>				
Risk-weighted balance sheet assets <sup>1</sup>	\$			
Risk-weighted off-balance sheet assets	<hr/>			
<b>Gross Risk-Weighted Assets</b>				
Less: Excess allowance for loan and lease losses (not included in capital)	( )			
Allocated transfer risk reserve	( )			
<b>Risk-Weighted Assets</b>	<u>\$</u> <sup>2</sup>			
<hr/>				
<b>CAPITAL RATIOS AND TRENDS:</b>				
	Peer Data	Quarter Ended	Year Ended	Year Ended
	December 31,	December 31,	December 31,	December 31,
	19x1	19x1	19x0	19x9
Tier 1 capital ratio: <sup>3</sup>				
Year-end 1992 rules	%	%	%	%
Total capital ratio:				
Year-end 1992 rules	%	%	%	%
Tier 1 leverage ratio <sup>4</sup>	%	%	%	%
Tangible leverage ratio <sup>5</sup>	%	%	%	%
<hr/>				
<ol style="list-style-type: none"> <li>1. Risk-weighted balance sheet assets excludes all goodwill, net unrealized loss in marketable equity securities, investments in unconsolidated banking or financial subsidiaries, and reciprocal holdings of capital.</li> <li>2. If the bank's risk-based capital ratios exceed the December 31, 1992 minimum requirements and detailed risk-weighted asset information is not readily available, then write 'NA' here and on Tier 1 capital ratio and total capital ratio lines below.</li> <li>3. The Tier 1 capital ratio is calculated by deducting 1/2 of all investments in unconsolidated banking or financial subsidiaries from Tier 1 capital and dividing the remaining amount by risk-weighted assets. If there is insufficient Tier 2 capital from which the other half of the investments in unconsolidated banking or financial subsidiaries would be deducted, then also deduct the deficient amount from Tier 1 capital.</li> <li>4. The Tier 1 leverage ratio is calculated by dividing Tier 1 capital (as defined by the final capital guidelines, effective December 31, 1992) by average total assets (for the most recent quarter) less <i>all</i> goodwill.</li> <li>5. The tangible leverage ratio is calculated by deducting all intangibles from Tier 1 capital and dividing by average total assets (for the most recent quarter) less all intangibles.</li> </ol>				



**BANK SUBSIDIARY**  
(In thousands)  
(FR 1241)

**Balance Sheet Data**

	19x3	19x2	19x1
	As of December 31,		
Cash and due from banks	\$	\$	\$
Investments			
Federal funds sold			
Loans (net of ICNE)			
Valuation reserve	( )	( )	( )
Other assets	_____	_____	_____
Total Assets	=====	=====	=====
Total deposits			
Borrowings			
Other liabilities			
Subordinated debt	_____	_____	_____
Total liabilities	_____	_____	_____
Stockholders' Equity	_____	_____	_____
Total Liabilities and Stockholders' Equity	\$ =====	\$ =====	\$ =====
Asset growth rate	%	%	%

**Income Data**

	Months Ended (Month), 19x3	19x2	19x1
	For the Year Ended December 31,		
Net Income	\$	\$	\$
Cash dividends	\$	\$	\$
Net income to average assets	%	%	%
Cash dividends to net income	%	%	%

Page

**BANK SUBSIDIARY**  
 (In thousands)  
 (FR 1241)

Examination Data

	(Month), 19xx	As of (Month), 19xx	(Month), 19xx
Classified assets:			
Substandard			
Doubtful			
Loss			
Weighted classified assets <sup>1</sup> to Tier 1 and Allowance for loan losses <sup>2</sup>		%	%

1. Twenty percent of substandard and value impaired (when applicable), plus 50 percent of doubtful, plus 100 percent of loss classification.
2. For this ratio, Tier 1 capital is to be calculated using risk-based capital guidelines effective December 31, 1992. Also the allowance for loan and leases losses is included without limit.

Page

OTHER SUPERVISORY ISSUES  
(FR 1241)

- 
1. Comment on the extent of control the holding company exercises over the policies of the subsidiary bank. \_\_\_\_ .
  2. Is the holding company's policy on assessing dividends from the subsidiary bank(s) reasonable and is it being complied with? \_\_\_\_ .
  3. Has the holding company complied with all representations made in application(s) to the Board of Governors? \_\_\_\_ .
  4. Does the subsidiary bank(s) maintain compensating balances at another institution for debt advanced to the holding company? \_\_\_\_ .
  5. If applicable, describe the holding company's policy on assessing management and service fees for work performed for the subsidiary bank. Are policies and fees reasonable? \_\_\_\_ .
  6. Are there any intercompany transactions subject to comment? \_\_\_\_ .
  7. Are there any insider transactions subject to comment? \_\_\_\_ .
  8. Do the holding company's intercorporate income tax accounting policies and practices conform with the Board of Governors' September, 1978 policy statement? \_\_\_\_ .
  9. If the holding company uses a subsidiary bank's personnel, or assets to sell credit related life insurance to the bank's customers, does the holding company give the bank reasonable compensation for its services in compliance with the Board of Governors' policy statement of May, 1981? \_\_\_\_ .
  10. Is the holding company in compliance with the tie-in prohibitions contained in Section 106(b) of the BHC Act Amendments of 1970? \_\_\_\_ .
  11. Is the holding company or its subsidiary(ies) a defendant in any litigation the results of which could have a significantly adverse effect on the overall organization? \_\_\_\_ .
  12. Is the insurance program for the holding company organization considered adequate? \_\_\_\_ .
  13. Is the holding company's audit program considered adequate? \_\_\_\_ .
  14. Is the holding company's credit quality review program considered effective? \_\_\_\_ .
  15. Are reports filed with the Federal Reserve System prepared accurately and submitted on a timely basis? \_\_\_\_ .
  16. Did the inspection uncover any violation of law, regulation or Federal Reserve policy statement not cited above? \_\_\_\_ .
  17. Does the holding company have any outstanding commitments to the Board of Governors? \_\_\_\_ .
  18. Is there any other matter having a detrimental impact on the subsidiary bank(s) not discussed elsewhere in this report? \_\_\_\_ .
-

# Procedures for “Limited-Scope” Inspection Report Preparation (General Instructions) Section 5040.0

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## 5040.0.1 OBJECTIVES

The limited-scope inspection will review all areas of activity covered by a full-scope inspection report but less intensively.

## 5040.0.2 IMPLEMENTATION GUIDELINES

The ultimate responsibility for determining the appropriateness of the limited scope, and the actual elements of the scope of the inspection beyond the guidelines, rests with the Reserve Bank.

Certain report pages are required to be included in the limited-scope inspection. Other pages are required when certain events trigger their applicability, “exception (E)” pages. Pages not required may be included at the Reserve Bank’s option. These are labeled as “optional” pages.

### 5040.0.2.1 Required Report Pages

As in the full-scope inspection report,<sup>1</sup> the limited-scope inspection report is divided into

---

1. The basis for the limited-scope inspection report will be the “large” report, FR 1225.

three parts: a core section, a section consisting of report pages that provide support to the core section, and a confidential section.

*Core section.* The core section of the report serves as the main vehicle for communicating the results of the inspection to management. The core pages contain the scope of the inspection, comments on administration of policies and supervision over subsidiaries, and an analysis of the RFI/C(D) rating components (see section 4070.0), any or all of which could be used to support supervisory action, when necessary.

*Support section.* The supporting report pages contain narrative and financial and other data to support the analyses in the core section. The *required* pages provide the primary statistical support when addressing important supervisory problems or issues, and as appropriate, the RFI/C(D) rating, or supervisory action, when needed.

*Confidential section.* The pages in this section are also required since they address matters of supervisory importance and other matters not deemed appropriate in the open section.

For a limited-scope inspection, the following report pages are *required*:

---

### *Manual Section*

<i>No.</i>	<i>Page Location</i>	<i>Page Title</i>
5010.2		Cover (FR 1427)
5010.3	Page i	Table of Contents
5010.4	Core Page 1	Examiner’s Comments
5010.5	Core Page 2	Scope of Inspection
5010.41	Confidential Page B	Condition of the BHC

---

The Directors’ Summary Report will be required as in the full-scope inspection. Appropriate information provided by other reporting vehicles, inspection/examination activities, or other finan-

cial institution regulatory agencies should be considered. Refer to footnote 3 for further guidance as to the need for a Directors’ Summary Report.

### 5040.0.2.2 Exception Limited-Scope Report Pages

The following “exception (E)” pages should be included in the report as indicated below:

<i>Manual Section No.</i>	<i>Page Location</i>	<i>Page Title</i>
5010.6	Core Page 3	Structure and Abbreviations
5010.7	Core Page 4	Analysis of Financial Factors
5010.10	Core Page 7	Summary of Consolidated Classified and Special Mention Assets, and Other Transfer Risk Problems
5010.11	Core Page 8	Consolidated Comparative Balance Sheet
5010.12	Core Page 9	Comparative Statement of Income and Expenses (Consolidated)
5010.13	Core Page 11*	Capital Structure (Consolidated) <sup>2</sup>
5010.14	Page	Policies and Supervision
5010.15	Page	Violations
5010.16	Page	Other Matters
5010.17	Page*	Classified Assets and Capital Ratios of Subsidiary Banks
5010.19	Page*	History and Structure
5010.27	Page	Cash Flow Statement (Parent)
5010.28	Page	Parent Company Liquidity Position
5010.29	Page*	Parent Company and Nonbank Assets Subject to Classification
5010.31	Page*	Nonbank Subsidiary
5020.2	Page	Other Supervisory Issues
5010.40	Confidential Page A*	Principal Officers and Directors
5010.43	Confidential Page D	Administrative Matters

Pages with an (\*) are optional if the limited-scope inspection is preceded by a full-scope inspection within the same annual period.

2. The corresponding FR 1241 page may be used if the basis is to be a lead bank subsidiary rather than on a consolidated position.

#### 5040.0.2.2.1 Reasoning for Including “E” Pages

The “E” pages are included when the activities are present, or have been disclosed through the inspection process, or when significant findings or issues must be reported and communicated to management or to the appropriate supervising agency(ies). The limited-scope inspection report may include, at the discretion of the appropriate Reserve Bank, copies of the Bank Holding Company Financial Statements (FR Y-9) and Reports of Condition of Subsidiary Banks in place of pages containing required or optional financial statements. The FR Y-9 statements or the Reports of Condition should only be included when the financial statements accurately represent the condition of the bank holding company as determined during the inspection.

#### 5040.0.2.3 Optional Limited-Scope Report Pages

In the limited-scope inspection, several pages have been labeled as optional because of the nonexistence of an activity or the absence of a problem in that area. Any inspection report page may be included in the report at the option of the Reserve Bank or the examiner-in-charge. Note that the “Commercial Paper” and related pages (5010.21 through 5010.23) are optional since the existence of this activity would be a “complex” organization, requiring a full-scope inspection within the same annual period.

The *optional* pages are:

*Manual  
Section  
No.*

*Page Location*

*Page Title*

5010.8	Core Page 5	Parent Company Comparative Balance Sheet
5010.9	Core Page 6	Comparative Statement of Income and Expenses (Parent)
5010.18	Page	Organization Chart
5010.20	Page	Investment in and Advances to Subsidiaries
5010.21	Page	Commercial Paper (Parent)
5010.22	Page	Lines of Credit (Parent)
5010.23	Page	Commercial Paper and Lines of Credit (Parent)
5010.24	Page	Contingent Liabilities and Schedule of Balance Sheet Accounts Not Detailed Elsewhere (Parent)
5010.25	Page	Statement of Changes in Stockholders' Equity
5010.26	Page	Income from Subsidiaries (Fiscal and Interim)
5010.30	Page	Bank Subsidiaries
5010.32	Page	Nonbank Subsidiary Financial Statements and Condition
5010.33	Page	Fidelity and Other Indemnity Insurance
5010.34	Page	Audit Program
5010.37	Page	Interest Rate Sensitivity—Assets and Liabilities
5010.42	Confidential Page C	Liquidity and Debt Information

### 5040.0.3 LIMITED-SCOPE INSPECTION PROCEDURES

Procedure:	Complete FR 1417 and indicate that the scope was limited (“L”).
Nature of Inspection:	Disclose on the “Scope of Inspection” page that the scope is limited, including any additional procedures utilized for a certain area or activity during the inspection that might be comparable to a full-scope inspection.
Directors’ Summary:	Required under the same conditions as in the full scope. <sup>3</sup>
Rating:	Assign RFI/C(D) rating (see section 4070.0) as appropriate. Indicate under what circumstances the rating was assigned and what components were changed, including the reasons why they were changed.
Inspection Cover:	Cover will designate “limited” scope (FR 1427) and will be a designated color other than the full-scope reports.

3. Should generally be prepared in accordance with the requirement for the preparation of written reports to directors summarizing the inspection finding following a full-scope

inspection. Reserve Banks that have previously identified the problems and provided a report to the directors are not required to prepare the summary for the limited-scope inspection.

5040.0.4 LIMITED-SCOPE INSPECTION REPORT COVER (FR 1427)

FR 1427-Cover  
(Revised 7/08)



REPORT OF  
BANK HOLDING COMPANY  
INSPECTION  
(Limited Scope)

Name: \_\_\_\_\_ Inspection Commenced: \_\_\_\_\_  
Location: \_\_\_\_\_ Inspection Concluded: \_\_\_\_\_  
RSSD ID Number: \_\_\_\_\_ Inspection Date: \_\_\_\_\_

THIS REPORT OF INSPECTION IS STRICTLY CONFIDENTIAL

This report has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The report is the property of the Board of Governors and is furnished to directors and management for their confidential use. The report is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission, except in limited circumstances specified in the law (12 USC 1817(a) and 1831m) and in the regulations of the Board of Governors (12 CFR 261.20). Under no circumstances should the directors, officers, employees, trustees or independent auditors dis-

close or make public this report or any portion thereof except in accordance with applicable law and the regulations of the Board of Governors. Any unauthorized disclosure of the report may subject the person or persons disclosing or receiving such information to the penalties of Section 641 of the U.S. Criminal Code (18 USC 641). Each director or trustee, in keeping with his or her responsibilities, should become fully informed regarding the contents of this report. In making this review, it should be noted that this report is not an audit, and should not be considered as such.

FEDERAL RESERVE BANK OF

# Procedures for “Targeted” Inspection Report Preparation (General Instructions) Section 5050.0

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## 5050.0.1 OBJECTIVES OF A TARGETED INSPECTION

A targeted inspection is designed to focus intensively on one or more specific areas, activities, or problems relating to a bank holding company. Such inspections may be conducted for various reasons, including serving as a com-

plement to an annual full-scope inspection.<sup>1</sup> Targeted inspections are conducted as directed by the System or at the discretion of the individual Reserve Banks. As a minimum, the inspection procedures used are comparable to a full-scope inspection.

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1. FR 1225 will serve as the basis for a targeted inspection.

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Report Pages Included: Cover (FR 1428)

Table of Contents for included pages and a key for abbreviations used in the report

Examiner’s Comments

Scope of Inspection

Other report pages supporting the scope, and the nature of the targeted inspection, as deemed appropriate by the Reserve Bank and the examiner-in-charge.

Confidential pages consisting of confidential page B, “Condition of the Bank Holding Company,” and confidential page D, “Administrative Matters.”

Nature of Inspection: Disclose on the “Scope of Inspection” that the scope is targeted and describe the procedures utilized for the targeted areas or activities.

Directors’ Summary: Required as prescribed in the full scope.<sup>2</sup>

Rating: A new RFI/C(D) *composite rating* of 1 through 5 would only be assigned if the bank holding company inspection results provide sufficient information to either reaffirm or modify the most recently assigned RFI/C(D) composite rating. At least one component area must be rated between 1 and 5 in order to assign a new composite rating; otherwise, a composite rating of 0 should be assigned.

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2. Should generally be prepared in accordance with the requirement for the preparation of written reports to directors summarizing the inspection’s findings following a full-scope

inspection. Reserve Banks that have previously identified the problems and provided a summary report to the directors are not required to prepare the summary for the targeted inspection.



5050.0.2 TARGETED INSPECTION REPORT COVER (FR 1428)

FR 1428–Cover  
(Revised 7/08)



**REPORT OF  
BANK HOLDING COMPANY  
INSPECTION  
(Targeted Scope)**

Name: \_\_\_\_\_ Inspection Commenced: \_\_\_\_\_  
 Location: \_\_\_\_\_ Inspection Concluded: \_\_\_\_\_  
 RSSD ID Number: \_\_\_\_\_ Inspection Date: \_\_\_\_\_

**THIS REPORT OF INSPECTION IS STRICTLY CONFIDENTIAL**

This report has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The report is the property of the Board of Governors and is furnished to directors and management for their confidential use. The report is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission, except in limited circumstances specified in the law (12 USC 1817(a) and 1831m) and in the regulations of the Board of Governors (12 CFR 261.20). Under no circumstances should the directors, officers, employees, trustees or independent auditors dis-

close or make public this report or any portion thereof except in accordance with applicable law and the regulations of the Board of Governors. Any unauthorized disclosure of the report may subject the person or persons disclosing or receiving such information to the penalties of Section 641 of the U.S. Criminal Code (18 USC 641). Each director or trustee, in keeping with his or her responsibilities, should become fully informed regarding the contents of this report. In making this review, it should be noted that this report is not an audit, and should not be considered as such.

FEDERAL RESERVE BANK OF

A management information system (MIS) can be described as an automatic data processing system designed to aid in the performance of management functions. The MIS system is used in the decision-making process, which facilitates the collection and presentation of information to plan, organize, and control activities within the confines of the organizational culture. MIS encompasses the policies, procedures, and internal controls pertaining to management reporting which provide the information needed by the board to monitor and ensure control of operations and activities. MIS supports all levels of the organization in the execution of their duties—from the board of directors down to the lowest level of management within the company. A successful MIS will support the strategic direction of the company and promote the process by which decisions are made.

The objective of a targeted MIS inspection is to determine if the corporation has in place a management information system which is capable of providing its board of directors and senior management committees with sufficient, reliable, and timely data from which informed decisions can be made to monitor and manage risks. As a result, the targeted inspection uses a “top-down” approach, which focuses on the information used by the board and senior management committees and on the overall MIS architecture. For further inspection guidance, see the MIS sections 2060.0 to 2060.5 and SR-95-45 and its exhibits. The MIS supporting other levels of management should be reviewed during subsequent bank holding company inspections.

A targeted MIS inspection should be performed in companies in which there has been a notable alteration in the risk profile or aggressive expansion, or in which significant changes in information systems have occurred. This will ensure that executive management and the board have taken into consideration MIS and its ability to keep up with the changes in the organization. It should be noted that there is no one management reporting system. Depending on the structure of the organization, the activities that it engages in, the risk profile that results, and the technological environment that it operates under, MIS will be different in each bank holding company.

A key element of a successful MIS is the creation of the necessary technological support system. Since MIS is the primary tool for executive management and the board to monitor risk and measure performance, it is vital that the

generated reports are accurate, provide sufficient information, and address all areas of the organization. Thus, data integrity is a key factor in analyzing the MIS process; inaccurate data can lead to faulty conclusions by management and the board. In addition, information flows to the top level of the organization should be comprehensive enough to allow for informed decisions. An overload of trivial information can cause confusion and slow the decision-making process.

The MIS inspection process focuses on three broad areas:

1. Relevance and Use of MIS
  - overall risk assessment of the corporation
  - identification of risk responsibilities and reporting lines within the organization
  - evaluation of the quality and relevancy of MIS reports
2. Internal Controls over MIS Integrity
  - identification of information flows and internal control points
  - evaluation of internal controls over information flows
  - evaluation of the report-development process and contingency plans
3. MIS Architecture and Planning
  - analysis of corporate strategic and technology plans, and the effect of their interrelationship on MIS
  - identification of the system architecture, including planned enhancements, and its effect on MIS
  - evaluation of the capability of system architecture to assimilate acquired organizations and the subsequent effect on MIS

The targeted MIS inspection evaluates the information flows to senior management and the computer or manual systems which support them. Bank holding company inspections place emphasis on reports generated by MIS rather than on the process by which they are created.

Management information systems are made up of various subsystems and will generally be unique to the organization. MIS will be influenced by the structure of the organization, its activities, its risk profile, and its technological capabilities. The targeted MIS inspection guidelines and procedures focus on the three broad areas outlined above and provide examiners

with guidance on how to evaluate a bank holding company's MIS process.

### 5052.0.1 RELEVANCY AND USE OF MIS

Management information requirements will be determined by the size and complexity of an organization's operations. As an organization grows in size and its operations become more complex, management must recognize that information needs change. In addition, strategic goals may dictate a change in the focus of the company, requiring revisions in data collection and presentation. Guidelines and requirements for reports that flow to executive management and the board should be established, recognizing, however, that different levels of the organization have different informational needs.

The effectiveness of MIS has to be analyzed in terms of its ability to assist executive management and the board in identifying, monitoring, and controlling risks throughout the organization. Reports should be analyzed for quality, timeliness, and consistency. They should provide coverage of the major areas in the institution and communicate information clearly and concisely. An organization might have a comprehensive MIS, but if pertinent information is not flowing to executive management and the board of directors, the system is not effective.

Information must be presented in a summarized form, which is easy to read and understand. Procedures must be in place to allow for rapid collection and assimilation of data allowing for timely presentation to executive management and the board. The presentation of data should be consistent from one period to another to avoid any undue confusion. Changes in format need to be agreed on by all users of the report before implementation. Data should cover all areas of risk within the organization and provide comparisons to enable executive management and the board to measure performance.

An assessment of the executive management committee and board members should be performed. A review of reporting lines should also be performed. (See section 2060.4.)

### 5052.0.2 INTERNAL CONTROLS OVER MIS INTEGRITY

The review of data integrity of reports to the

board of directors and executive management committee is essential to ensure that information flows are accurate and that reports are consistently prepared. For each report reviewed, the flow of information through MIS must be identified, including computer platforms, applications software, and interrelationships with other computer systems. Controls such as data entry and modification, data security, disaster recovery, back-up, and program changes should be assessed. Any points in the system where manual intervention occurs should be identified, and information on the flexibility of the system should be obtained.

The procedures used to assess the data integrity controls will vary depending on the nature of the computer platform and application software and on the amount of manual intervention required to produce the report. However, in all cases, the assessment of MIS data integrity controls should begin with a review of the results of prior inspections and the result of internal and external audit reports. Previously identified deficiencies that have not been corrected can affect the integrity of current data.

Reports produced by a mainframe application system should have controls within the mainframe environment and in the application system used to produce the report. These controls are reviewed during EDP examinations and periodic EDP audits. These examination and audit reports should be used as leverage during the MIS inspection, and the current status of deficiencies noted should be ascertained through discussions with internal auditors and management.

Reports may also be produced by personal computers using spreadsheet and other office-product software in a distributed processing environment. Reviews of distributed processing systems require interviews with the persons responsible for preparing the reports. Any instances of manual intervention in such an environment must be identified and evaluated. The most recent EDP examination report should also be reviewed for any deficiencies noted in the bank holding company's microcomputer policies and procedures. A review of internal audit reports for the applicable business area and discussions with audit personnel will reveal whether this PC/spreadsheet application has been audited recently.

### 5052.0.3 MIS ARCHITECTURE AND PLANNING

The business plan and the computer system's architecture plan should be designed to comple-

ment each other and must support the strategic plan. The business plan identifies the goals, target markets, and areas of risk of the organization. The architecture plan describes the corporate technological plans for implementing the systems that will achieve the strategic and business goals, and it should include MIS.

Information is a valuable corporate asset. In a competitive banking environment, the ability to effectively manage this asset is crucial to a bank holding company's ability to remain competitive, introduce new products and services, and achieve desired goals. Therefore, the computer system's architecture plan should be developed in conjunction with its business plan. The architecture plan should ensure that mainframe processing and MIS are appropriately integrated and in place for the banking organization to achieve its strategic goals.

The dynamic and competitive banking and technology environments make effective planning critical. Reconciliation of the business and computer system's architecture plans is necessary to determine the effectiveness of the banking organization's planning process. With the proliferation of mergers and acquisitions in the financial industry, this process becomes more complicated. It is essential that management have a clear vision of its strategic and business goals and the technology required to achieve them if it is to effectively manage the divergent technologies that may be inherited through mergers and acquisitions. Bank holding companies in this situation should decide which acquired systems will survive. Documentation should support management's decision, and formal conversion plans should be documented. Telecommunications, compatibility of systems, data integrity, capacity, contingency planning, and data security are especially critical in this situation and should be evaluated in the planning and conversion process.

Ultimately, the business and the computer system's architecture plans should support the strategic plan. If these plans do not complement one another, the ability of management to achieve its goals may be difficult.

#### 5052.0.4 INSPECTION OBJECTIVES

1. To review the organizational structure to determine the various levels of decision-making and reporting lines, risk assessment, and controls, including board and executive management committees.
2. To assess the adequacy of the management reports generated for their timeliness, qual-

- ity, accuracy, and coverage of crucial areas.
3. To evaluate reports in terms of their ability to measure the company's progress in meeting its financial and business goals, including the capability to produce forecasts using various scenarios.
4. To evaluate management procedures for reacting to elevated risk, weaknesses, or deficiencies disclosed by the MIS, and the system's ability to adapt to change caused by regulatory and accounting issues or by other market conditions.
5. To determine if the policies, practices, procedures, and internal controls regarding management information systems and management reporting are adequate.
6. To evaluate the controls in place to ensure the integrity of the information within MIS, including data security, disaster recovery, and the system's development life cycle.
7. To determine if the functions of automated systems, reconciliation procedures, and reporting processes are completely understood by staff and that these functions are fully documented.
8. To ensure that an architecture plan exists that includes MIS and that it supports the business and strategic plans.
9. To determine if a management process exists for MIS planning, including organizational responsibility, development, and implementation.
10. To determine if a strategy exists for an effective consolidation of systems in the event of a merger or acquisition.
11. To recommend enhancements and/or corrective action when policies, practices, procedures, internal controls, or MIS are deficient.

#### 5052.0.5 INSPECTION PROCEDURES

##### 5052.0.5.1 General

1. Present the first-day request letter to executive management well in advance of the targeted inspection commencement date, allowing sufficient time for data collection (e.g., at least two weeks before). (See SR-95-45, exhibit A, for a sample first-day letter.) The examiner-in-charge should review the responses well in advance of the start of the inspection.
2. Solicit the cooperation of key senior officials

in organizing and conducting a meeting to discuss with them the identification, control, and reporting of identified risks within the various key operating areas of the bank holding company. Request that key senior management officials make or arrange for presentations during this meeting that will identify the major departments, functions, and activities within the organization and how MIS is used to identify and manage risk. (See SR-95-45, exhibit B.)

3. Draft the inspection report for participating examiners to review before the close of the on-site phase of the inspection, ensuring the inclusion of all relevant findings.

#### 5052.0.5.2 Relevancy and Use of MIS

1. Review the organizational structure to determine reporting lines and the various levels of decision making, risk assessment, and controls. Determine if there are any corporate policies specific to risk management or internal reporting requirements.
2. Review the board and executive management committee structure, including its membership, mission, and authority and the experience levels of the members.
3. Read board and committee minutes and obtain sample copies of the board and committee packets.
4. Obtain a listing of internal reports that are submitted to corporate executive management and the board of directors. Ask that copies of each of these *top-level* reports be attached to the listing.
  - a. Review each listed report for timeliness, clarity, completeness, relevancy, and measurability.
  - b. Analyze the management reports for information sufficient to measure the company's progress in meeting its financial and business goals, including the ability to produce various forecasting scenarios.
5. Identify management procedures for reacting to elevated risk, weaknesses, or deficiencies disclosed by MIS. Evaluate the system's ability to handle regulatory and accounting issues and to adapt to change.
6. Discuss the examiners' perceptions of MIS reports with executive management as to their timeliness, clarity, completeness, relevancy, and measurability.

#### 5052.0.5.3 MIS Integrity and Internal Controls

1. Review and analyze any policies, procedures, and practices governing the corporation's MIS, including descriptions of existing controls to ensure data integrity throughout the system, disaster-recovery plans, and standardized procedures for the development and use of systems and applications.
2. Review the architecture of MIS. Determine whether there is a single MIS system or a number of related systems. Ascertain if MIS is produced by the mainframe, distributed processors, personal computers, or a combination of these systems. Identify the databases in use for MIS reporting.
3. For each board and executive management report identified, review and verify the flow of data through MIS to the reports, include all computer platforms and application software used. Identify risk points and the controls in place to ensure data integrity. (See SR-95-45, exhibit C for a suggested format.)
4. For each report, verify the controls over data input and the report-distribution process. Determine that sufficient controls are in place to reasonably ensure the accuracy and confidentiality of the data.
5. Review all internal and external audit, regulatory examination, and outside consultant reports concerning MIS since the previous inspection. Note any deficiencies and/or recommendations, and determine whether management has taken appropriate corrective action. Perform follow-up action on any unresolved issues.
6. Through discussions with management and other personnel, determine if any significant changes to MIS are planned. If so, obtain and document the details and analyze their potential effect on MIS integrity.

#### 5052.0.5.4 MIS Architecture and Planning

1. Review the corporate strategic, business, and computer architecture plans, if applicable, to determine if the architecture plan supports the strategic and business goals. The business plan should reflect goals in support of the strategic plan, and any differences between these plans should be reconciled. If a reconciliation has not been performed, request that management complete one during the inspection. Otherwise, complete the reconciliation.

2. Request (or create) a conceptual overview model to identify the flow of information through the organization. (See SR-95-45, exhibit D.)
3. Evaluate management's conversion planning process by selecting a recently converted or consolidated MIS application for review. This application will be emphasized when completing other sections of the work program.
4. After determining the extent of merger and acquisition activity at the institution, review conversion plans and the methodology for consolidating systems and ascertain their effectiveness.
5. Review a copy of development plans for any significant MIS-related projects. Determine if they address cited MIS weaknesses, meet strategic and business goals of the organization, and are in compliance with established policies.
6. Discuss with executive management any inconsistencies among the business, system architecture, and strategic plans.

Examiners' access to automated databases that include supervisory data on state member banks (SMBs) and bank holding companies (BHCs) has been significantly enhanced. In addition, the increased availability of copiers, fax machines, and personal computers has made it possible for SMBs and BHCs to more easily transfer data to Reserve Banks. As a result, the volume of information on SMBs and BHCs available to examiners in Reserve Bank offices has been greatly augmented, and many inspection activities that have traditionally been conducted in the field can now be completed in Reserve Bank offices.

The option to complete certain inspection activities in Reserve Bank offices has various advantages. For example, examiners' ability to access automation resources, reference materials, and senior staff is much better in the office than on-site. In addition, in completing more activities off-site, Reserve Banks can reduce the burdens of on-site evaluations of SMBs and BHCs. Further, greater reliance on off-site work can allow Reserve Banks to reduce travel-related expenses.

### 5060.0.1 CONDUCTING INSPECTION ACTIVITIES IN RESERVE BANK OFFICES

Examiners should conduct in Reserve Bank offices all inspection activities that can be efficiently and effectively completed off-site. Activities that may be completed off-site include planning the inspection, reviewing historical information, completing preliminary financial analyses, and preparing certain report pages using data maintained at Reserve Bank offices. For additional information, see SR-95-13 (SUP) and SR 02-1.

When using this approach, examiners should contact BHCs by letter and ask them to forward to Reserve Bank offices financial and other information to be used in the off-site portion of the inspection. Most information that has traditionally been requested in first day letters and made available to examiners at the start of an inspection should be requested, with the exception of documents such as minute books or bulky printouts that would be inappropriate or impractical to have sent. While it is anticipated that this approach will be preferred to approaches that require a longer on-site examiner presence, BHCs are not required to be inspected under this approach and should be given the option to be inspected using traditional on-site

approaches. Given the burdens imposed on BHCs to prepare and mail materials to Reserve Bank offices, Reserve Banks should also offer to pay the shipping costs and give adequate lead time in requesting materials.

In the cases of certain shell BHCs, Reserve Banks are authorized to complete all inspection activities off-site on an every-other-inspection basis. As noted above, however, these BHCs should be given the option to be inspected using the traditional on-site approach. Noncomplex shell bank holding companies (NCSBHCs)<sup>1</sup> with consolidated assets of less than \$1 billion and that on their last inspection were rated RFI/C(D) 3 or better may be inspected off-site, subject to the following restrictions.

- If information becomes available to the Reserve Bank in the period between inspections suggesting that the condition of an organization is deteriorating significantly, an on-site inspection should be scheduled or commenced immediately if warranted.
- Deteriorating 3-rated BHCs are excluded and must be inspected on-site.
- When a BHC's lead bank subsidiary is an SMB, the inspection of the BHC should be carried out in the field concurrently with the examination of its lead bank.
- NCSBHCs in the same metropolitan statistical area as the Reserve Bank or its bank supervision staff should be inspected on-site unless there is good reason to do otherwise. Newly formed NCSBHCs or those that have recently undergone a change in control should also be inspected on-site.
- If a BHC is unable to forward the information necessary to conduct an off-site inspection, or if the company is assigned a RFI/C(D) rating of 4 or 5 or is determined to be a deteriorating 3-rated organization as a result of an off-site inspection, an on-site inspection should be scheduled or commenced immediately if warranted.
- Information requested from the NCSBHC should include all information typically requested in a first day letter, as well as copies from the company's general and subsidiary

1. Noncomplex shell bank holding companies are those companies with less than \$1 billion in consolidated assets without credit-extending nonbank subsidiaries or debt held by the general public whose condition is predicated almost entirely on the condition of subsidiary banks.

ledgers that document all significant accounting entries made since the last on-site inspection, copies of cancelled checks written since the last on-site inspection, copies of the BHC's notes payable and receivable, copies of all agreements between the BHC and its bank subsidiaries, and any other information considered necessary to complete an off-site inspection of the institution.

- Findings on the BHC's condition and compliance with laws and regulations should be conveyed to management by telephone or, if the situation requires, in person at company or Reserve Bank offices. The examiner-in-charge should then complete an inspection report for transmission to the company.

### 5060.0.2 OFF- AND ON-SITE BHC INSPECTION PROCEDURES— APPENDIX 1

This appendix includes inspection procedures that can be completed in the Reserve Bank's offices and those procedures that should be conducted on-site. A sample first day letter information request form is included.

#### 5060.0.2.1 Activities That Can Be Completed in the Office

Work to be performed in the office in preparation for a bank holding company inspection should include the—

- determination of the scope of inspection,
- completion of financial schedules and certain other pages, and
- review of historical financial and supervisory data leading to preparation of draft financial analyses (for example, parent, subsidiary banks, consolidated entity).

In addition, if centralized management functions (for example, investments, asset/liability management, internal audit, or loan review) are performed by the bank holding company, a preliminary understanding of these functions can be obtained in the office by reviewing policies, reports, and other relevant materials. Further, if the bank holding company has nonbank subsidiaries, the preliminary risk assessment mandated by SR-93-19 (see sections 5010.6.3 and 5010.31) can be performed in the office, based on information submitted by the institution.

#### 5060.0.2.2 BHC Inspection Activities That Should Be Conducted On-Site

The following inspection activities are recommended and should continue to be performed at the bank holding company:

- review of credit and investment files at holding company and nonbank subsidiaries for quality, documentation, and compliance with policy, laws, and regulations;
- in-depth discussions with management;
- verification of selected financial information;
- review of selected tax workpapers, including the review of intercompany tax allocations;
- observation of operations and internal controls;
- collection of follow-up documentation to complete the financial analysis;
- review of documents such as minute books for the holding company and nonbank subsidiaries and bulky printouts that would be inappropriate or impractical to have sent to the Reserve Bank's office;
- exit meetings with management.

#### 5060.0.2.3 Sample Information Request for a Bank Holding Company

##### *Information To Be Sent to the Federal Reserve Bank*

1. Exhibits A through N (See attachment #2, SR-95-13). Also, please assemble applicable workpapers that correspond to reported information for verification on-site.
2. The corporation's current legal-entity and management organization charts, detailing line and staff authority from the chairman of the board through the various division heads.
3. Copies of any strategic planning documents.
4. A copy of the most recent information package provided to the directors in connection with regular board meetings.
5. A copy of any other management reports that summarize the performance of the subsidiary banks.
6. Schedules of internal audits and internal loan reviews for the prior and current year. In addition, please furnish a copy of the most recent management letter provided to the corporation by its external auditing firm and management's formal response.
7. List of consolidated past-due, restructured, and nonaccrual loans and overdrafts; watch-list



report; and any results of internal loan-grading systems.

8. Loan-loss reserve adequacy evaluation (consolidated and lead bank). Include the most recent calculation for assessing the adequacy of the loan-loss reserve based on the organization's internal methodology.

9. Risk-based capital analysis (consolidated and lead bank) for the most recent quarter-end and two prior year-ends, including workpapers. Break out guaranteed loans and loans secured by certificates of deposit. Also include the total amount and proportionate guarantee of each loan guaranteed by such entities as the FmHA, SBA, and VA.

10. Current and upcoming year's budgets (consolidated and lead bank).

11. A copy of any capital, dividend, or cash-flow plans or projections.

12. Most recent internal consolidated interest-rate-sensitivity analysis and liquidity analysis.

13. Parent-company consolidating entries and consolidated comparative financial statements as of the most recent quarter-end.

14. Parent-company-only comparative financial statements as of the most recent quarter-end.

15. The parent company's trial balance as of the most recent quarter-end.

16. Details of any items included in parent-company "other" assets, liabilities, income, or expense, which cannot be readily identified from the most recent quarter-end trial balance.

17. A summary of insurance coverage for the parent company and its subsidiaries. Please include a copy of the cover pages of each policy, along with the amount of coverage and expiration date. In addition, also indicate the most recent board approval of such coverage.

18. A detailed schedule of all consolidated borrowings as of the most recent quarter-end. Include the average interest rate paid on each type of borrowing.

19. For the parent company only, please provide the following information on all outstanding obligations: (a) amount outstanding, (b) lender (if publicly held, only note holders of greater than 10 percent), (c) origination and maturity dates, (d) interest rate and payable dates, (e) principal repayment schedule, and (f) reason for incurring debt.

20. A schedule of the fiduciary holdings of the parent company's stock and convertible debt by the parent's subsidiaries. Indicate the degree of investment authority the respective trust departments have over these shares.

21. Copies of all intercompany management and service agreements along with (1) the names

of the staff members responsible for the administration of these activities and (2) documentation showing the basis of the assessments.

22. Litigation letter from the holding company's attorneys relating to the status of all lawsuits in which the holding company or its subsidiaries is named defendant. If none, please submit a letter from an officer of the holding company indicating such.

23. A complete copy of all written policies that have been amended or adopted since the previous FRB inspection.

24. A copy of the bank's most recent Report of Condition and Income (call report), including the corresponding internal balance sheet and income statement (daily statement) for the lead bank.

25. Daily statement for the lead bank as of the inspection date.

26. Copies of any "key man" or "split-dollar" life insurance policies held at the holding company or the subsidiaries.

27. Copy of compensation agreements with subsidiary bank personnel who sell credit-related life insurance for the holding company, along with any tie-in policies, if applicable.

28. Copy of any other compensation arrangement either at the holding company or between the holding company and the subsidiary banks.

29. Most recent market-rate survey for local deposits at the lead bank.

30. For all nonbank subsidiaries, please provide (a) financial statements for the most recent quarter-end; (b) strategic plans; (c) directors' monthly reports; (d) internal audit reports; and (e) a trial balance of all credits, delinquency reports, nonperforming reports, and watch-listed loans for credit-extending subsidiaries.

### *Information To Be Provided at the Holding Company*

31. Access to all written policies pertaining to specific operational areas (for example, due diligence/acquisitions, lending, funds management, tax allocation, and dividends).

32. Access to internal audit and internal loan review reports and workpapers.

33. Minutes of meetings of the board of directors, shareholders, and any committees. Please include a list of committees and their members, and fees paid to directors.

34. Holding company articles of incorporation and by-laws.

35. Stock register.

36. Access to federal tax returns filed since the most recent FRB inspection, along with workpapers. In addition, provide schedules of intercompany tax allocations for the corresponding periods, including projected allocations.

37. Access to parent company accounting records such as ledgers, journals, and check registers.

38. Access to monthly account-analysis statements for any parent company transaction accounts held at a subsidiary bank.

39. For all nonbank subsidiaries, please provide (a) directors' minutes; (b) annual budgets and cash flow projections; (c) checking account statements and check registers and/or cash receipts and disbursements registers; (d) a listing of directors and officers; and (e) access to credit policies and credit files for all nonbank credit-extending subsidiaries.

40. Access to due-diligence reports and workpapers and assimilation plans.

41. Any available information on local economic conditions.

### 5060.0.3 PROCEDURES FOR IMPLEMENTING OFF-SITE INSPECTIONS FOR CERTAIN SHELL BHCS—APPENDIX 2

This appendix includes procedures for implementing the program authorizing off-site inspections for certain shell BHCS. Listed below are general procedures that can be followed in implementing the program for off-site inspections of certain noncomplex shell bank holding companies (NCSBHCS). Sample documents are included that can be used in implementing the program, including examples of correspondence with eligible bank holding companies and a sample first day letter information request form.

#### 5060.0.3.1 General Procedures for Off-Site Inspections

In implementing the program, Reserve banks should conform to the following procedures:

1. Senior management of bank holding companies should be notified before or early in the calendar year if their company qualifies for a full off-site inspection. They should also be informed that they may opt out of the off-site process and that, even if they choose to participate, the Reserve Bank may conduct the inspection on-site if conditions change or if, at some point during the year, examiners will be traveling to the company's vicinity to carry out other activities.

2. When the Reserve Bank is ready to conduct the off-site inspection, the holding company should be contacted by telephone, as well as by letter. An information request form should be attached to the letter.

3. After assigned examiners have reviewed information forwarded by the company, additional information may be requested by telephone or other means if deemed necessary. Once all necessary information has been received, the designated examiners should commence the off-site inspection.

4. Findings of the inspection should be conveyed to company management by telephone or, if the situation requires, at company or Reserve Bank offices.

5. The examiner-in-charge should then complete an inspection report for transmission to the company.

SAMPLE LETTER



Date:

BHC Official  
 BHC Name  
 Address

Dear BHC Official:

This year, the Federal Reserve Bank of New York will conduct off-site inspections of certain bank holding companies. Your company will be inspected during 19X0 and presently qualifies for an off-site review by our office.

As part of our off-site program, you will receive an information request form which must be completed and returned to the Reserve Bank. The Reserve Bank will reimburse you for postage expenses. The form requires responses to several questions, as well as submission of copies of certain holding company financial documents. Our examiners will review the information, complete their analysis, and discuss their findings with management, either by telephone conference or, if necessary, at the offices of your bank holding company. Following the off-site review, holding company management will receive a written report which will include the following:

- a description of the scope of the inspection;
- the examiner's presentation of the financial condition and performance of the parent company and the subsidiary bank;
- an evaluation of the company's compliance with laws and regulations; and
- the examiner's comments, conclusions, and recommendations.

We have found that the off-site inspection program has proved attractive to many banking organizations. However, participation is not mandatory. Therefore, if you do not wish to participate, please sign and mail the enclosed form by DATE. We do want to make it clear, however, that while we plan to conduct an off-site review of your company if you accept this proposal, we still may conduct an on-site inspection if conditions change or if examiners are otherwise in your vicinity.

Should you have any questions concerning the off-site inspection program, please contact OFFICE STAFF MEMBER at (800) \_\_\_\_-\_\_\_\_, extension \_\_\_\_.

Sincerely,

Officer  
 Title

Enclosure

SAMPLE RESPONSE FORM



OFF-SITE INSPECTION PROGRAM  
FEDERAL RESERVE BANK OF NEW YORK  
RESPONSE FORM

We do not wish to participate in the off-site inspection program in 19X0.

Name of Company: \_\_\_\_\_

City: \_\_\_\_\_

State: \_\_\_\_\_

Signed: \_\_\_\_\_

Title: \_\_\_\_\_

SAMPLE LETTER



Date:

BHC Official  
BHC Name  
Address

Dear BHC Official:

Pursuant to our telephone conversation of (Date), an off-site inspection of (BHC Name), will be conducted by our office. Please respond to each item of the information request form attached and complete the enclosed schedules. Please be aware that all items submitted for review will be retained by our office and not returned to the company. Therefore, it is advisable to submit copies of records rather than originals. Upon receipt of the items requested, we will reimburse your bank holding company for the postage expense.

In order for us to use the off-site program, you must submit a complete response to this information request no later than (Date). If we are unable to satisfactorily resolve any issues arising from your response to this request, or if the information contained in your response is substantially incomplete, we will schedule the company for an on-site inspection.

Upon review of the information submitted, we will contact you to schedule a meeting with our examiners. If you have any questions concerning the inspection process or the preparation of your responses, please contact (Office Staff Member) at (800) -----, extension -----.

Sincerely,

Name  
Examiner

Enclosures

SAMPLE INFORMATION REQUEST FORM



BHC  
 OFF-SITE INSPECTION CONDUCTED AS OF  
 DATE \_\_\_/\_\_\_/\_\_\_

INFORMATION REQUEST FORM

Please submit or provide responses to the following (if non-applicable, answer N/A):

1. Statements for the most recent quarter and the two latest fiscal years:
  - A. Parent Company -- Balance Sheet
  - B. Parent Company -- Income Statement
  - C. Parent Company -- Statement of Changes in Stockholders' Equity
  - D. Bank -- Reports of Condition and Income (most recent quarter only)
  - E. Reconciliation of the parent company's "Investment in Bank" account to the subsidiary bank's "Stockholders' Equity" as reported in the Reports of Condition
2. The bank's daily statement and income and expense statement dated \_\_\_/\_\_\_/\_\_\_.
3. Projected cash flow worksheet for the year 19X1 (see attached form).
4. Excerpts from the company's general ledger and subsidiary ledgers containing all significant accounting entries since \_\_\_/\_\_\_/\_\_\_.
5. Detail of any "other assets" or "other liabilities" accounts for the company, as well as "other income" or "other expense" items, presented in financial statements requested above IF the amounts exceed \$500.
6. Details on any liabilities, contingent or otherwise, not appearing in the financial statements.
7. A copy of the company's bank statements and its check register and/or cancelled checks issued since \_\_\_/\_\_\_/\_\_\_.
8. A copy of any notes payable and/or receivable of the bank holding company (including a copy of any related loan agreements) if they have been put in place or amended since the last inspection.\*

\*The last inspection of           (BHC Name)           was conducted on           (Date)          .

SAMPLE INFORMATION REQUEST FORM—Continued

- 2 -

9. A copy of any agreements originating since the last inspection between the company and the bank, between stockholders, or between the bank holding company and the stockholders.
10. A list of changes of specific services performed by the holding company for the bank or for any other company since the last inspection. Also indicate the method for computing fees, provide copies of any relevant agreements, and provide documentation supporting any management/service fee assessments.
11. For any changes to the parent company's investments in stocks of companies OTHER THAN subsidiaries, a list of the (1) date of acquisition/sale, (2) number of shares acquired/sold, (3) resulting percentage ownership, and (4) nature of business engaged in by the subject company.
12. A copy of any internally prepared reports of problem loans and nonperforming assets for the banking organization.
13. A list of any stock issuances or redemptions by the company since the last inspection, including the issue/redemption date and price. Also, list all stockholders and their percentage interest in the holding company as of \_\_\_/\_\_\_/\_\_\_.
14. A statement of the date and amount of any capital injections into the bank since the last inspection.
15. A copy of the minutes of all shareholders'/directors' meetings for the company held since the last inspection.
16. For each director of the holding company, provide his or her (1) date of birth, (2) date first elected to the board, (3) position in the bank holding company, (4) position in the bank, (5) principal occupation if different than bank or bank holding company officer, (6) ownership percentage in other financial institutions, and (7) positions in other financial institutions.
17. A statement of any material litigation affecting the company or the bank.
18. A list of all tax transactions since \_\_\_/\_\_\_/\_\_\_ . These transactions would include those between the bank and the holding company as well as any transactions with the tax authorities. (See attached example.)
19. A copy of the last two years' federal and state income tax returns, including any amendments.
20. A copy of your accountant's workpapers showing the calculation of the holding company tax benefit or liability for the last two years.

SAMPLE INFORMATION REQUEST FORM—Continued

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21. If the parent company filed for a tax loss carryback in the last two years, provide documents filed with the IRS and related prior-year tax returns.
22. A copy of the tax sharing agreement between the bank holding company and its bank subsidiary if amended or redated since the last inspection.
23. The date of the last IRS audit of the bank holding company's tax returns, an identification of the tax periods covered in the audit, and an indication of whether any assessments or refunds remain unsettled.
24. A copy of the bank's current year budget and operating projections, if available.
25. If the subsidiary bank maintains a correspondent balance at any creditor bank of the holding company, copies of (1) the monthly analysis of the account provided by the correspondent for the last 12 months, (2) any agreement whereby the loan to the holding company is contingent on the subsidiary bank maintaining such a balance, and (3) an explanation if the balances maintained by the subsidiary bank exceed the level required for services received.
26. If any Employee Stock Ownership Plan (ESOP) owns stock in the holding company, provide copies of (1) the ESOP plan and trustee agreement; (2) the ESOP's current balance sheet; (3) the independent appraisal used to determine the value of the holding company stock purchased by the ESOP; (4) any note payable, security agreement, loan agreement, and guarantees. Also provide (1) the date the plan was accepted by the IRS; (2) a description of the ESOP's current investments, including the date they were purchased and their cost; (3) the names of the individuals who have the power to vote the ESOP's stock; (4) a list of individuals having the power to make investments for the ESOP; and (5) a list of the beneficiaries of the ESOP.
27. Copies of the articles of incorporation and by-laws for the bank holding company, if amended since the last inspection.
28. If the holding company is selling insurance, list the (1) licensed agents employed by the company; (2) compensation received by each agent; (3) method for determining compensation; (4) a description of how customers of the bank are informed that they are not obligated to purchase insurance from the holding company in order to obtain credit; and (5) a breakdown of insurance accounts receivable, past due more than 90 days.



SAMPLE INFORMATION REQUEST FORM—Continued

- 4 -

29. If the subsidiary bank is providing the holding company with either personnel or facilities for the sale of insurance or any noninsured investment products, a statement indicating whether the subsidiary bank is reimbursed for its expenses. If the bank is reimbursed, a description of the method used to determine such amounts. Indicate when this reimbursement method was approved by the respective boards of directors.
30. If the holding company is involved in the sale of any non-insured investment products such as annuities or mutual funds, describe the program including any arrangements that involve the use of third-party brokers. If the holding company receives any share of the related commissions or lease income or if employees of the holding company or a nonbank subsidiary of the holding company are involved in the program, please describe.
31. Copies of the dividend policies of the holding company and the subsidiary bank. If no written policy exists, provide a description of the methods used to determine the amount of dividends paid by the bank holding company or any of its subsidiaries.
32. The dates and amounts of dividends paid by the subsidiary bank since the last quarter-end.
33. A description of any changes made to the holding company's audit and/or credit review programs.
34. Details of any directors and officers liability insurance maintained by the organization or indemnification provisions adopted by the bank or bank holding company.
35. For banker's blanket bond and excess fidelity bond coverage, please provide (1) name of surety; (2) form number; (3) primary and excess amount of coverage; (4) expiration date; (5) name of insured; (6) an indication of whether all officers and employees of the holding company, bank, and any nonbank subsidiaries are covered; (7) the date the insurance coverage was last approved by the bank holding company's board of directors and the bank's board of directors; and (8) a description of how insurance premiums are allocated among the entities of the organization.
36. Details of any significant transactions since \_\_\_/\_\_\_/\_\_\_ not already described in responses to the above questions.