BANK OF ANYTOWN

ANYTOWN	**ANY COUNTY**	**ANYSTATE**

Region:	Any Region	Certificate Number:	99999
Examiner-In-Charge:	Sandra E. Smart		
Examination Start Date:	August 01, 2004		
Examination As Of Date:	June 30, 2004		

Table of Contents

All dollar amounts are reported in thousands, unless otherwise indicated.

Uniform Financial Institutions Rating System

	Current Exam	Prior Exam	Prior Exam
Examination Start Date	08/01/2004	11/13/2003 / S	10/21/2002
Examination As Of Date	06/30/2004	09/30/2003	09/30/2002
Composite Rating	**3**	**3**	**3**
Component Ratings:			
Capital	**3**	**2**	**2**
Asset Quality	**4**	**4**	**3**
Management	**3**	**3**	**3**
Earnings	**4**	**4**	**3**
Liquidity	**2**	**2**	**2**
Sensitivity to Market Risk	**2**	**2**	**2**

SUMMARY

Although improving, the bank remains in less than satisfactory condition. Asset quality is weak, earnings are poor, and management needs to make additional efforts to comply with the outstanding Memorandum of Understanding (MOU). Capital is less than satisfactory in relation to the present risk profile. Liquidity is satisfactory and the bank's sensitivity to market risk is at manageable levels.

MEMORANDUM OF UNDERSTANDING

The bank entered into a MOU on July 31, 2003, based on the October 21, 2002, FDIC examination findings. Three of the six provisions of the MOU have not yet been fully satisfied, including an inadequate Allowance for Loan and Lease Losses (ALLL), significant errors in recent Reports of Condition and Income, and lack of documentation on credit extensions. Refer to the Compliance with Enforcement Actions page for additional details.

ASSET QUALITY – 4

Asset quality remains weak and is the primary impediment to improvement in the bank's overall condition. As reflected on the Examination Data and Ratios page, the volume of adversely classified items has decreased by 12 percent since the prior examination, with the volume of adversely classified loans dropping by 24 percent. Despite the decrease, adverse classifications still represent 84 percent of Tier 1 Capital and the ALLL, and the severity of classifications has increased significantly. In particular, $1,015M and $140M are presently adversely classified Loss and Doubtful, respectively.

Loans

Examination classifications are concentrated in the commercial real estate portfolio. Loans adversely classified Loss (portions of three relationships totaling $890M) are commercial real estate loans that were adversely classified Substandard at the prior examination.

Most troubled credits result from past liberal lending practices exacerbated by the depressed regional economy, particularly the local fishing industry. In response to past regulatory criticisms, management has taken affirmative steps to strengthen credit administration by tightening overall underwriting standards, strengthening collection efforts, decreasing commercial real estate advance rates from 90 percent to 75 percent, and avoiding financing for speculative real estate acquisition and development projects. Although these actions have longer-term positive implications, present credit quality remains hindered by numerous workout situations and the deterioration of existing credits not previously subject to adverse classification. Additional detail regarding trends in the level of adversely classified loans can be found on the Analysis of Loans Subject to Adverse Classification page.

Loan Review and Internal Grading System

The defined scope of the internal loan review and grading system is adequate. However, management has been unable to comply with internally defined review frequency standards given the elevated personnel demands associated with working out problem assets. Additionally, assigned credit grades for several larger credits were inaccurate, as exemplified by the partial Loss classification of the Ima Deadbeat, Ltd., and Kringle relationships. In both cases, the credits were internally rated substandard. Additionally, several credits adversely classified Substandard were internally rated “watch.” To address this issue, management should more tightly define all credit grades and ensure that they are accurately applied.

President Allie C. Lincoln stated that management should be able to adhere to established loan review frequency standards by mid-2005, and that all grading definitions would be reviewed before year-end 2004.

Allowance for Loan and Lease Losses (ALLL)

The ALLL is inadequate by at least $325M, primarily due to liberal internal credit grading. Additionally, the ALLL allocation for non-watch list credits is inadequate based upon the bank’s recent loan loss experience on non-watch list loans. Specifically, the institution’s average loss rate on non-watch list loans since 2001 is approximately 0.75 percent; however, management only allocates 0.10 percent for residential mortgages and only 0.50 percent for all other non-watch list loans.

The Board of Directors agreed to make a $325M loan loss provision prior to filing the September 30, 2004, Reports of Condition and Income. President Lincoln initiated a review of the loan grading system during the examination, and stated that all existing reserve percentages will be reviewed.

Credit Administration and Lending Policies

Credit administration, although improving, requires further attention. As detailed on the Assets with Credit Data or Collateral Documentation Exceptions page, loans possessing documentation exceptions remain high. In particular, the following significant credit weaknesses should be promptly addressed:

- *Credit Analysis on Participations Purchased* – Pre-purchase credit analysis is not performed on participations purchased. An institution purchasing a loan participation should perform the same degree of independent credit analysis as if it were the originator.

- *Inspections and Lien Waivers* – Inspections are not performed and mechanic's lien waivers are not obtained prior to making advances on construction loans. It is essential that inspections be performed and lien waivers obtained to protect the bank's collateral and lien positions.

- *Rent Rolls* – Rent rolls and vacancy figures are not obtained on an ongoing basis for loans secured by commercial real estate. Rent roll and vacancy information are essential to properly monitor these types of loans.

- *Perfection* – The institution periodically allows perfected interests in collateral to lapse due to its failure to file timely Uniform Commercial Code continuation statements. (Refer to the Assets with Credit Data or Collateral Documentation Exceptions page for examples.) An effective "tickler" system to assist in keeping filings current is necessary to prevent a loss in collateral protection.

The bank's loan policy is generally adequate with only minor enhancements recommended. (See the Risk Management Assessment page for additional detail.)

President Lincoln stated loan officers would immediately begin performing pre-purchase analyses on participations purchased. He also stated that the volume of documentation deficiencies is primarily due to understaffing, and indicated that management is in the process of hiring an additional loan clerk to assist in this area.

Other Real Estate (ORE)

The dollar volume of adversely classified ORE increased $535M, or 78 percent, since the previous examination. The ORE portfolio consists of commercial real estate previously written down to fair value. Further deterioration in carrying values is likely given the present condition and outlook for the local economy.

Concentrations

Several asset concentrations, including a fishing industry concentration, are listed on the Concentrations page of this Report. While these concentrations are not criticized in and of themselves, management does not currently have procedures in place to identify and monitor such concentrations. Given the potential for increased risk posed by asset concentrations, the Board of Directors should establish appropriate policies and procedures to ensure these risks are properly identified and monitored.

President Lincoln indicated he would develop procedures for monitoring concentrations of credit and present them to the Board for its review and approval by year-end 2004.

Disposition of Assets Classified Loss

President Lincoln stated that all assets classified Loss totaling $1,015M will be charged off by September 30, 2004.

EARNINGS - 4

Earnings performance remains poor. As detailed on the Analysis of Earnings page of this Report, the bank experienced significant net operating losses for both 2002 and 2003. Although the bank shows net income of $103M for the first six months of 2004, profits are substantially overstated due to inadequate provisions for loan losses. Once the additional recommended provision of $325M is made to the ALLL, the bank will show a pre-tax net operating loss of $222M for the first six months of 2004.

The poor earnings performance is a direct result of persistent poor asset quality, including a high level of ORE. The high level of nonperforming assets has weakened interest income, required high loan loss provisions, and increased overhead expenses. Although nonaccruals and other nonearning assets remain high, the net interest margin for the first six months of 2004 has actually improved as reflected on the Examination Data and Ratios page. This improvement is primarily the result of management's ability to maintain interest rates in the loan portfolio at 9 percent, while reducing the average cost of funds to approximately 4.26 percent.

Total Noninterest Expense as a percentage of Average Assets has steadily increased over the last three years and has reached 3.82 percent as of June 30, 2004. Present overhead levels are nearly 100 basis points above comparable institutions, and results largely from expenses associated with ORE. Given the composition and level of problem assets, management does not expect ORE-related expenses to diminish in the near future. Overhead expenses will also increase with additional lending staff. Management plans to close the institution's only branch office on September 30, 2004, in an effort to reduce overhead.

The 2005 budget forecasts net income of $226M. With the exception of inaccurate assumptions related to the level of provision expense, the budgeting process is adequate and the assumptions used are reasonable. Future profitability is primarily dependent on improved asset quality and controlling overhead expenses. Based on operational changes and cost-cutting measures already implemented, along with anticipated further reductions in troubled assets, it is possible that the bank will reflect a profit in 2005.

Chairman of the Board Sean Ratzlaff stated that the directorate and senior management would revise the budget to more accurately depict provision expense levels. He directed President Lincoln to have the revised budget ready for Board review and approval at its November 2004 meeting.

MANAGEMENT - 3

In aggregate, the performance of senior management and the Board of Directors remains less than satisfactory. The bank's current financial condition is primarily the result of liberal lending policies and poor credit administration practices dating to the late-1990s. As documented in prior examination reports, the present management team aggressively pursued loan growth at the expense of prudent lending standards, and ultimately, asset quality. Although initial signs of more prudent loan underwriting and improved credit administration are evident, asset quality remains weak and significant aspects of the credit function remain deficient as discussed in greater detail under Asset Quality.

Board Supervision

Board minutes indicate that Chairman of the Board Ratzlaff and President Lincoln dominate policy discussions and decisions. It appears that other Board members need to become more actively involved in the bank's affairs. For example, Director Michael D. Jones attended only 5 of the 12 Board meetings held since the previous examination. Regular attendance at Board and committee meetings is a prerequisite to fulfilling the duties of a director; directors who are unable to meet this obligation should consider resignation. The absence of formal objectives and the inadequacy of written policies have compounded the difficulties of the bank's directors, particularly the outside directors, in fully discharging their supervisory responsibilities.

Director Jones stated that he frequently travels out of town on business; however, he committed to attending Board meetings on a more regular basis.

Apparent Violations

Listed on the Violations of Laws and Regulations page are apparent violations of the Treasury Department’s Financial Recordkeeping regulations and the Federal Reserve Board’s Regulation O. The Financial Recordkeeping citation, regarding the late filing of Currency Transaction Reports, was also cited at the last FDIC examination. Although the number of late filings has declined, repeat infractions do not reflect favorably on the Board and management. The Board of Directors should implement improved controls and procedures to ensure late filings do not continue.

Chairman of the Board Ratzlaff committed to improved BSA and Financial Recordkeeping controls, and promised future compliance.

Strategic Planning

The bank’s 2000 strategic plan has not been maintained and is inconsistent with the present condition of the institution, the regional economy, and the local competitive environment. Specifically, the plan's assumptions do not consider the continuing decline of the local fishing industry, the potential impact of a new commercial bank in town, or the recent merger of two local savings and loan associations. Based on these factors, many of the goals and strategies in the plan are outdated and unrealistic. The Board should revise the current plan to include these factors and current conditions.

Chairman of the Board Ratzlaff stated that the strategic plan would be reviewed and updated before the end of 2004.

Audit and Internal Control

The audit and internal control function lacks independence. While the scope and frequency of the internal audit program are acceptable, Internal Auditor Jasmine Jackson reports directly to President Lincoln. Since President

Lincoln is ultimately responsible for most of the day-to-day operations reviewed by the internal auditor, this situation compromises the independence of the internal audit program. The internal auditor should report directly to the Board of Directors or the Audit Committee of the Board to ensure the independence and effectiveness of the audit function. President Lincoln is also a member of the Audit Committee, which oversees the external audit function. His presence on the committee further limits audit independence. Several outside directors are qualified to serve on the Audit Committee, and it is recommended that committee membership consist entirely of outside directors.

Several internal control deficiencies are detailed under Item 5 of the Risk Management Assessment page of this Report. While these deficiencies are relatively minor, management reported that two of these items were corrected in the response to the last external audit. This error underscores the need for more independence in the audit function.

Chairman of the Board Ratzlaff stated that the Board would consider these recommendations at its next meeting. He also stated the internal control deficiencies would be addressed.

Reports of Condition and Income

Material errors were noted in the last three quarterly Reports of Condition and Income. In numerous cases, examiners were unable to reconcile bank records and workpapers with reported figures. The most significant errors relate to the inaccurate reporting of loans and ORE, and the inappropriate inclusion of gains on the sale of repossessed assets in interest income. These errors have served to overstate net interest income somewhat, although as stated previously, the primary reason for the improvement has been management's ability to maintain loan portfolio rates while decreasing cost of funds.

Executive Vice President/Cashier John M. Gutierrez filed amended Reports of Condition and Income during the examination.

CAPITAL - 3

Capital is less than satisfactory in relation to the bank's risk profile. The Adversely Classified Items Coverage Ratio remains high at slightly more than 84 percent. In addition, after making the needed ALLL provision, the bank has had net operating losses over the past two and a half years, and future profitability is questionable. The existing concentration in fishing industry loans, considering the industry's current depressed condition and anticipated continuing decline, adds to capital concerns. The Tier 1 Leverage Capital ratio of 7.44 percent reflects current examination adjustments for assets classified Loss and the provision expense needed to replenish the inadequate ALLL.

President Lincoln pointed out that dividends have not been paid for five years. He further stated that no dividends would be paid until the Tier 1 Leverage Capital ratio exceeds 8 percent and bank earnings become positive and stable.

LIQUIDITY - 2

The bank's liquidity position is adequate. Asset growth has been minimal since the last FDIC examination and the loan portfolio is shrinking. Management has increased the bank's investment in mortgage-backed securities with the portfolio maintaining slight appreciation. Non-core funding has increased slightly but management is using these funds appropriately. Off-balance sheet commitments are minimal. While the bank's liquidity position and actual practices are generally satisfactory, no written funds management policy is in place.

President Lincoln stated that a written funds management policy would be developed and implemented by March 31, 2005.

SENSITIVITY TO MARKET RISK - 2

The bank's sensitivity to market risk relates primarily to interest rate risk, which is minimal. The balance sheet contains a low volume of potentially volatile assets, and funding sources reasonably match the bank's asset repricing structure. The bank does not engage in off-balance sheet derivative activity.

Although the bank has suffered from a lackluster net interest margin and overall poor earnings performance, the net interest margin has remained relatively stable when the substantial volume of nonperforming loans is removed from the calculation of Average Earning Assets. Management regularly monitors the bank's interest rate sensitivity position and presents detailed quarterly gap reports to the Board. The loan portfolio is composed primarily of adjustable-rate commercial loans and fixed-rate mortgage loans. Over the past two years, depositors have moved funds out of maturing time deposits and into money market demand accounts. Management actively manages rates on these deposits, as the local market is extremely competitive.

MEETING WITH THE DIRECTORATE

A Board of Directors' meeting was held on September 18, 2004. All directors were present with the exception of Director Henry P. Herrington. Will Smith, a partner with the bank's external auditing firm, was also present. Assistant Regional Director Cynthia Jones represented the State Department of Banking. Field Supervisor Ira B. Sharp, Assistant Examiner Monica D. Powers, and the undersigned examiner represented the FDIC. All matters listed above were discussed with the Board. Most of the discussion concerned the increase in severity of adverse classifications, the need to improve the ALLL methodology, and management's efforts to improve loan administration procedures. The Directorate's and management's commitments for corrective action are noted above. The Board strongly asserted that because of the improvement in the bank's overall condition, the Memorandum of Understanding should be removed.

DIRECTORATE RESPONSIBILITY

Each member of the Board of Directors is responsible for thoroughly reviewing this Report of Examination. Each Director must sign the Signatures of Directors page, which affirms that he or she has reviewed the Report in its entirety.

Examiner (Signature)	Reviewing Official (Signature) and Title

A Memorandum of Understanding (MOU) between the FDIC and the bank became effective on July 31, 2003. Detailed below are provisions of the MOU which need further efforts, are requirements of a continuing nature, or for which time limits have not expired.

2(b). The bank shall maintain an adequate Allowance for Loan and Lease Losses.

Based on this examination's findings, the Allowance for Loan and Lease Losses is inadequate by at least $325M. Refer to the Examination Conclusions and Comments (ECC) page of this Report for details.

3(a). The bank shall maintain a Tier 1 Leverage Capital ratio at or in excess of seven percent.

As of June 30, 2004, the Tier 1 Leverage Capital ratio is 7.44 percent.

3(d). The bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital.

As of June 30, 2004, the Total Risk-Based Capital ratio is 11.75 percent. The Tier 1 Risk-Based Capital Ratio is 10.48 percent.

4. The bank shall file accurate Call Reports.

Examiners noted significant errors in the December 31, 2003, and the March 31 and June 30, 2004, Call Reports which require amendments. Refer to the ECC page for details.

5. The bank shall not extend or renew, directly or indirectly, credit to, or for the benefit of, any borrower who has a loan or other extension of credit with the bank that has been charged off or classified, in whole or in part, Loss, Doubtful, or Substandard, unless rationale for the extension is noted in the official Board minutes and the appropriate credit file.

An extension of $50M was made to U. R. Worthless. The borrower was adversely classified Loss at the previous examination. The Board did not specifically document the reason(s) for the extension in the official Board minutes or in the appropriate credit file.

6. The bank shall not declare or pay any dividends without the written consent of the FDIC.

No dividends have been declared or paid since the previous examination.

1. Are risk management processes adequate in relation to economic conditions and asset concentrations?

No. The Board's strategic plan is outdated and unrealistic. In addition, management makes no effort to monitor asset concentrations. A concentration of credit in the fishing industry, which is projected to remain depressed for the foreseeable future, is listed on the Concentrations page of this Report. Additional details regarding these deficiencies can be found on the ECC page.

2. Are risk management policies and practices for the credit function adequate?

No. Internal credit review and grading are weak, and various credit administration practices are deficient. Refer to the comments under Asset Quality on the ECC page. In addition, although the bank's loan policy is generally adequate, it fails to address the following matters:

- <u>*Participation Loans*</u> - The bank regularly purchases loans or portions of loans from other institutions. These specialized lending activities are not specifically covered in the policy.

- <u>*Construction Loans*</u> - The bank finances the construction of 1- to 4-family residences. The policy lacks specific guidelines pertaining to construction lending. President Lincoln was provided with a detailed list of issues that should be considered.

- <u>*Environmental Risk*</u> - An Environmental Risk Policy is nonexistent. Management was provided with FDIC guidelines with respect to an acceptable environmental risk program.

President Lincoln stated that guidelines concerning purchased loans and construction lending would be developed and the bank's loan policy revised by December 31, 2004. He further stated that an environmental risk policy is currently under development.

3. Are risk management policies and practices for asset/liability management and the investment function adequate?

Generally, yes. Management's liquidity management practices are generally adequate; however, the bank has no written funds management policy. This deficiency is discussed more fully on the ECC page in the Liquidity comment.

Investment policy guidelines are adequate; however, management's adherence to its written investment policy is inconsistent. On at least three occasions since the previous examination, President Lincoln executed the purchase of securities over $250M without prior Board approval as required by the policy.

President Lincoln stated that he was presented with the opportunity to purchase these securities at a good price and could not await Board approval.

4. Are risk management processes adequate in relation to and consistent with, the institution's business plan, competitive conditions, and proposed new activities or products?

No. Refer to comments under Management on the ECC page.

5. Are internal controls, audit procedures, and compliance with laws and regulations adequate (includes compliance with the Bank Secrecy Act [BSA] and related regulations)?

No. As indicated under Management on the ECC page, apparent violations of Financial Recordkeeping regulations and Regulation O are cited during this examination. Full details of these citations can be found on the Violations of Laws and Regulations page. In addition, the audit and internal control function lacks independence.

Internal Controls

Examiners noted the following weaknesses in the bank's system of internal controls:

- *Dual Control of Negotiable Collateral* – The bank does not maintain dual control over negotiable collateral. Several bearer bonds are maintained in a dual-lock drawer in the vault; however, both keys to the drawer are readily accessible to tellers. The bank's external certified public accountant also noted this deficiency in its December 2003 audit. An effective system of dual control should be implemented.

- *Vacation Policy* – The bank's vacation policy requires employees to be absent from their normal duties for an uninterrupted period of two weeks each calendar year. Executive Vice President Leslie S. Commander did not remain absent during her two-week vacation in 2003 as she returned daily to reconcile the Federal funds sold account. Management is strongly encouraged to enforce its policy, particularly for employees who are responsible for sensitive transactions.

- *Reconcilement of Correspondent Bank Accounts* – The bank has not reconciled its correspondent bank accounts for the past three months. While these accounts were reconciled during the examination, they should be reconciled at least monthly.

President Lincoln stated he would take action to address these deficiencies.

6. Is Board supervision adequate, and are controls over insider transactions, conflicts of interest, and parent/affiliate relationships acceptable?

No. Board supervision is less than satisfactory. (Refer to comments under the Management heading on the ECC page.) Additionally, two loans are cited as apparent violations of Federal Reserve Regulation O regarding prior approval on loans to related interests of President Lincoln and Director Larry G. Killingbird. Refer to the Violations of Laws and Regulations page of this Report for details.

FINANCIAL RECORDKEEPING

Section 103.27(a) of the Treasury Department's Financial Recordkeeping regulations requires a bank to file a Currency Transaction Report (CTR) within 15 days following the day on which a reportable transaction occurs.

Examiners identified numerous instances where CTRs were not filed within the required 15-day period. This infraction was also cited at the previous FDIC examination. Between October 2003 and July 2004, 289 of 944 CTRs (31 percent) were filed late. In many cases, CTRs were signed by the approving official more than 15 days after the transaction date. The time between the transaction date and receipt by the Treasury Department on these late filings was generally around 20 to 25 days, with a few exceeding 70 days.

BSA Officer Donna Ludlow stated that some of the late CTRs were filed late after an internal audit noted that the forms had not been submitted; however, she could offer no explanation as to why the remaining CTRs were filed late. Chairman of the Board Ratzlaff and President Lincoln stated that new procedures would be implemented to ensure all CTRs are submitted in a timely manner in the future.

PRIOR BOARD APPROVAL OF INSIDER LOANS – REGULATION O

The Federal Reserve Board's Regulation O, which implements Section 22(h) of the Federal Reserve Act and is made applicable to insured nonmember institutions by Section 18(j)(2) of the Federal Deposit Insurance Act covers transactions with bank insiders. Section 215.4(b)(1) of Regulation O requires extensions of credit by an institution to a director or related interest exceeding the greater of $25M or 5 percent of equity capital and reserves to have prior approval of the institution's board of directors.

The following loans are apparent violations of this section in that they were extended with the prior approval of the Executive Loan Committee, which is composed of only three Board members, rather than by the full Board.

Borrower	Date of Note	Original Amount
Lincoln, Allie C.	12/11/2003	$500M
Any Body, Inc. (A related interest of President Lincoln and Director Killingbird.)	12/28/2003	$250M

President Lincoln stated that these exceptions were the result of oversight. He further indicated that bank policy requires that all insider loans receive the prior approval of the full Board. Examiners noted that all other insider loans received prior Board approval. President Lincoln and the Board of Directors promised future compliance.

Uniform Rating System for Information Technology

	Current Exam	Prior Exam	Prior Exam
Examination Start Date	08/01/2004	11/13/2003 / S	10/21/2002
Composite Rating	**1**	**1**	**2**
Component Ratings:			
Audit			**3**
Management			**2**
Development & Acquisition			**1**
Support & Delivery			**1**

A composite rating of 1 is assigned. Financial institutions and service providers rated composite "1" exhibit strong performance in every respect and generally have components rated 1 or 2. Weaknesses in information technology (IT) are minor in nature and are easily corrected during the normal course of business. Risk management processes provide a comprehensive program to identify and monitor risk relative to the size, complexity, and risk profile of the entity. Strategic plans are well defined and fully integrated throughout the organization. This allows management to quickly adapt to changing market, business, and technology needs of the entity. Management identifies weaknesses promptly and takes appropriate corrective action to resolve audit and regulatory concerns. The financial condition of the service provider is strong and overall performance shows no cause for supervisory concern.

SCOPE

This IT examination included a review of network data and physical security practices, electronic payment systems, IT-related audits, and disaster recovery planning activities using IT-MERIT examination procedures. These procedures include an assessment of management's efforts to comply with Interagency Guidelines Establishing Standards for Safeguarding Customer Information (Guidelines) set forth in Part 364, Appendix B, of the FDIC Rules and Regulations.

SUMMARY OF FINDINGS

The bank's overall IT performance is strong. Management has worked to address recommendations made at previous examinations, and has adopted policies to cover each area of computer operations in the bank. The Board has also created an IT Steering Committee that reviews the performance and controls of the bank's computer center and service providers. In addition, the bank is in substantial compliance with all requirements contained in the Guidelines. However, better documentation of the Board's annual review of the Information Security Program could be achieved by formally including a copy of the presentation in the official Board packet.

Chairman Ratzlaff stated that these presentations would be made a part of the Board's official records in the future.

MEETINGS WITH MANAGEMENT

The findings of this IT review were discussed in detail during the examination with Information Technology Manager William Robbins and President Lincoln. An overview of these findings was also presented to the bank's Board of Directors at its meeting on September 18, 2004.

Uniform Interagency Trust Rating System

	Current Exam 08/01/2004	Prior Exam 11/13/2003 / S	Prior Exam 10/21/2002
Composite Rating	2	2	2
Management	2	2	2
Operations, Internal Controls, and Audits	2	2	2
Earnings	0	0	0
Compliance	2	2	2
Asset Management	2	2	2

A Trust Department Rating of "2" is assigned. Trust departments so rated are fundamentally sound. Only moderate weaknesses are present and are well within management's capabilities and willingness to correct. Fiduciary activities are conducted in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size and complexity. There are no material supervisory concerns.

MANAGEMENT – 2

The Trust Department operates in general conformance with the Statement of Principles of Trust Department Management. The Board's and management's performance and risk management practices are satisfactory relative to the size of the department and the complexity of trust activities. Only moderate weaknesses are present and are within management's capabilities and willingness to correct. The full Board acts as the Trust Committee and reviews department activity reports monthly. Trust Officer Elizabeth K. Hancock is the primary administrator and record keeper for personal trust accounts, while President Lincoln administers the farm management agency account.

The Board has adopted a general Trust Policy. The Directorate should consider adding policy criteria regarding environmental reviews of real estate that may be held in current or future trust accounts.

Trust Officer Hancock agreed to develop such guidance for the Board's consideration.

OPERATIONS, INTERNAL CONTROLS, AND AUDITS – 2

Operations, internal controls, and audit are satisfactory in relation to the volume and character of trust business. Moderate weaknesses exist, but in general are effectively identified and monitored. The bank's audit program includes an annual review of trust department activity, including the verification of trust assets.

Trust department records are maintained manually, which limits internal control capability. Trust Officer Hancock is implementing a computerized trust record keeping system as time permits. The computerized system has the capacity to allow for the separation of record keeping and data entry functions from the account administration function. Limited staff restricts full segregation of duties. Despite this, check writing and account reconciliation procedures should be separated.

Trust Officer Hancock stated she would review potential changes to deposit account reconcilement procedures.

EARNINGS – 0

This small department is operating primarily as a service to current customers rather than as a profit center. Due to this aspect of the trust department's operations, and the size of assets under management, the earnings component is not rated.

COMPLIANCE – 2

Account administration is generally in compliance with originating documents. Potential conflicts of interest exist from the trust department using own-bank deposits, as well as from holding stock of the parent holding company and an affiliate in one trust account. Trust Officer Hancock surveys local deposit rates to ensure competitive rates are being paid on deposits, but does not maintain documentation of her surveys.

Trust Officer Hancock stated she would maintain documentation of comparable rates in the future.

Regarding the trust account with holding company and affiliate stock, the party in interest of that account is informed of the trust officer's proxy vote and attends annual stockholder meetings; however, these facts are not documented in the trust files.

Trust Officer Hancock indicated that since the party in interest to that account is a member of the Lincoln family, and stockholder meeting minutes of the holding company and the affiliate could be produced should the need arise, the risk is minimal.

ASSET MANAGEMENT – 2

Asset management practices are generally satisfactory. All account transactions, including discretionary disbursements, are included in monthly Board reports, and the Board reviews all accounts annually. Management should document in the annual account reviews an assessment of the needs of each applicable account and/or beneficiary, and whether the account's investment mix is meeting those needs. In addition, three trust accounts use fixed income and/or equity mutual funds. Qualified staff should annually review each mutual fund's investment mix, performance relative to competing mutual funds, and any other related criteria. These mutual fund reviews should also consider the ongoing needs and objectives of the respective trust accounts.

Trust Officer Hancock committed to documenting annual needs assessments for each trust account, as well as annual mutual fund reviews.

MEETING WITH MANAGEMENT

A meeting was held on September 8, 2004, with President Lincoln and Trust Officer Hancock to discuss examination findings in detail. An overview of these findings was also presented to the bank's Board of Directors at its meeting on September 18, 2004.

ASSET QUALITY		ADVERSELY CLASSIFIED			
		Substandard	Doubtful	Loss	Total
Loans and Leases		4,290	140	890	5,320
Securities		45			45
Other Real Estate Owned		1,125		100	1,225
Other Assets				25	25
Other Transfer Risk					
Subtotal		5,460	140	1,015	6,615
Contingent Liabilities		230			230
Totals at Exam Date	06/30/2004	5,690	140	1,015	6,845
Totals at Prior Exam	09/30/2003	7,345	220	194	7,759
Totals at Prior Exam	09/30/2002	6,655	177	67	6,899

	Exam Date 06/30/2004	Prior Exam 09/30/2003	Prior Exam 09/30/2002
Total Special Mention	354	515	
Adversely Classified Items Coverage Ratio	84.41	102.71	94.92
Total Adversely Classified Assets/Total Assets	8.21	9.93	8.20
Past Due and Nonaccrual Loans and Leases/Gross Loans and Leases	6.76	8.42	9.12
Adversely Classified Loans and Leases/Total Loans	9.86	12.68	11.30
ALLL/Total Loans and Leases	3.67	3.18	2.50

CAPITAL	Exam Date 06/30/2004	Prior Exam 09/30/2003	Prior Exam 09/30/2002
Tier 1 Leverage Capital/Average Total Assets	7.44	7.55	7.67
Tier 1 Risk-Based Capital/Risk-Weighted Assets	10.48	9.88	9.90
Total Risk-Based Capital/Risk-Weighted Assets	11.75	11.39	11.40
Capital Category			
The capital category relates only to the Prompt Corrective Action provisions of Part 325 of the FDIC Rules and Regulations. PCA Categories: W – Well-capitalized, A – Adequately capitalized, U – Undercapitalized, S – Significantly undercapitalized, C – Critically undercapitalized	W	W	W

	Period Ended 06/30/2004	Peer 06/30/2004	Period Ended 12/31/2003	Period Ended 12/31/2002
Retained Earnings/Average Total Equity	3.39	9.32	(2.05)	(3.86)
Asset Growth Rate	2.66	6.78	0.42	0.20
Cash Dividends/Net Income		32.65		

EARNINGS	Period Ended 06/30/2004	Peer 06/30/2004	Period Ended 12/31/2003	Period Ended 12/31/2002
Net Income (After Tax)/Average Assets	0.27	1.03	(0.15)	(0.30)
Net Interest Income (TE)/Average Earning Assets	4.74	4.64	4.37	4.64
Total Noninterest Expense/Average Assets	3.82	2.90	3.62	3.54

LIQUIDITY	Period Ended 06/30/2004	Peer 06/30/2004	Period Ended 12/31/2003	Period Ended 12/31/2002
Net Non-Core Funding Dependence	12.23	10.35	14.67	9.63
Net Loans and Leases/Assets	64.45	66.20	68.79	69.24

Comparative Statements of Financial Condition — 99999

	06/30/2004	12/31/2003
ASSETS		
Total Loans and Leases	53,931	55,545
Less: Allowance for Loan & Lease Losses	1,979	1,748
Loans and Leases (net)	51,952	53,797
Interest-Bearing Balances	20	
Federal Funds Sold and Securities Purchased Under Agreements to Resell	4,000	9,100
Trading Account Assets		
Securities: Held-to-Maturity (at Amortized Cost)	2,787	5,993
Available-for-Sale (at Fair Value)	10,888	
Total Earning Assets	**69,647**	**68,890**
Cash and Noninterest-Bearing Balances	5,895	4,743
Premises and Fixed Assets	2,530	2,709
Other Real Estate Owned	1,225	690
Intangible Assets		
Other Assets	1,307	1,175
TOTAL ASSETS	**80,604**	**78,207**
LIABILITIES		
Deposits	67,815	66,221
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	441	516
Other Borrowed Money	5,857	5,136
Other Liabilities	301	307
Subordinated Notes and Debentures		
Total Liabilities	**74,414**	**72,180**
Minority Interest in Consolidated Subsidiaries		
EQUITY CAPITAL		
Perpetual Preferred Stock		
Common Equity Capital	6,190	6,027
Includes net unrealized holding gains (losses) on available-for-sale securities.		
Other Equity Capital		
Total Equity Capital	**6,190**	**6,027**
TOTAL LIABILITIES, MINORITY INTERESTS, AND EQUITY CAPITAL	**80,604**	**78,207**
OFF-BALANCE SHEET ITEMS		
Unused Commitments	4,333	5,893
Letters of Credit	209	824
Other Off-Balance Sheet Items		
Other Derivative Contracts		
Appreciation (Depreciation) in Held-to-Maturity Securities	56	

Footnotes:

Date: 06/30/2004

Category:	Amount	Percent
Real Estate Loans	21,938	40.53
Installment Loans	7,058	13.04
Credit Card and Related Plans	90	0.17
Commercial Loans	22,292	41.18
All Other Loans and Leases	2,753	5.09
Gross Loans and Leases	54,131	100.00

PAST DUE AND NONACCRUAL LOANS AND LEASES

Date: 06/30/2004

Category	Past Due 30 through 89 Days and Accruing	Past Due 90 Days or More and Accruing	Total Past Due and Accruing	Percent of Category	Nonaccrual	Nonaccrual Percent of Category
Real Estate Loans	800	44	844	3.85	1,402	6.39
Installment Loans	125		125	1.77	107	1.52
Credit Card and Related Plans	3		3	3.33		
Commercial and All Other Loans and Leases	626		626	2.50	554	2.21
Totals	1,554	44	1,598	2.95	2,063	3.81
Memorandum Restructured Loans and Leases Included in the Above Totals						

Footnotes:

Recapitulation of Securities | 99999

Description	HELD-TO-MATURITY		AVAILABLE-FOR-SALE	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury Securities	1,537	1,593		
U.S. Government Agency Obligations Issued by U.S. Gov't Agencies Issued by U.S. Gov't-sponsored Agencies			2,550	2,554
Issued by States & Political Subdivisions	250	250		
Mortgage-backed Securities (MBS) Pass-through Securities: Guaranteed by GNMA Issued by FNMA and FHLMC Other pass-through securities Other MBS (include CMOs & REMICs): Issued or Gtd. by FNMA, FHLMC, or GNMA Collateralized by MBS Issued or Gtd. by FNMA, FHLMC, or GNMA All Other Mortgage-Backed Securities			7,322	7,415
Asset-backed Securities (ABS) Credit Card Receivables Home Equity Lines Automobile Loans Other Consumer Loans Commercial and Industrial Loans Other				
Other Debt Securities Other Domestic Debt Securities Foreign Debt Securities	1,000	1,000		
Equity Securities Investments in Mutual Funds and Other Equity Securities with Readily Determinable Fair Values			919	919
Totals:	2,787	2,843	10,791	10,888

SECURITIES APPRECIATION (DEPRECIATION)

Description	Held-to-Maturity	Available-for-Sale	Total
Securities Appreciation (Depreciation)	56	97	153
As a Percent of Amortized Cost	2.01	0.90	1.13

Footnotes:

Items Subject to Adverse Classification	99999

Includes assets and off-balance sheet items which are detailed in the following categories:
Substandard Assets - A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
Doubtful Assets - An asset classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
Loss Assets - An asset classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

		CATEGORY	
AMOUNT, DESCRIPTION AND COMMENTS	Substandard	Doubtful	Loss

Genesys provides 10 separate Data Display Types (DDTs) that can be used to display adversely classified and special mention loans. Use of an individual template is at the examiner's discretion or regional preference.

AMOUNT, DESCRIPTION AND COMMENTS	Substandard	Doubtful	Loss
LOANS			
290 AMHILL, MARC	290		
340 BOND, JAMES	200	140	
1,250 IMA DEADBEAT, LTD.	750		500
750 KRINGLE, CHRISTOPHER Gty: Eight Tiny Reindeer	750		
865 LAST CHANCE MOTEL, INC.	500		365
275 RABBIT, PETER	250		25
1,750 8 LOANS LESS THAN $250,001	1,550		
TOTAL ADVERSELY CLASSIFIED LOANS	4,290	140	890
SECURITIES			
45 ANYCOUNTY MUNICIPAL GENERAL OBLIGATION	45		
TOTAL ADVERSELY CLASSIFIED SECURITIES	45		

Items Subject to Adverse Classification (Continued)			**99999**
		CATEGORY	
AMOUNT, DESCRIPTION AND COMMENTS	Substandard	Doubtful	Loss
OTHER REAL ESTATE OWNED			
550 ONE WAY HOME, INC. PROPERTY	550		
675 ROLLY HOLLY PROPERTY	575		100
TOTAL ADVERSELY CLASSIFIED OTHER REAL ESTATE OWNED	1,125		100
OTHER ASSETS			
25 SUN, RAYMOND			25
Heavy Equipment			
TOTAL ADVERSELY CLASSIFIED OTHER ASSETS			25
CONTINGENT LIABILITIES			
230 AMHILL, MARC	230		
Amount represents unfunded portion of loan commitment for construction of a single-family residence.			
TOTAL ADVERSELY CLASSIFIED CONTINGENT LIABILITIES	230		
TOTAL ADVERSELY CLASSIFIED ITEMS	5,690	140	1,015

Items Listed for Special Mention	99999

Includes assets and off-balance sheet items which are detailed as follows:
Special Mention Assets – A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

DESCRIPTION	AMOUNT

LOANS

354 RAIN, ROBERT	354

Write up should be consistent with instructions contained in the DSC Risk Management Manual of Examination Policies.

TOTAL LOANS LISTED FOR SPECIAL MENTION	354

Analysis of Loans Subject to Adverse Classification

99999

DESCRIPTION	SUBSTANDARD	DOUBTFUL	LOSS	TOTAL
Book Value at Last Examination: 08/13/2003	6,641	220	176	7,037
Reductions:				
Payments	1,030	58		1,088
Not Now Adversely Classified	905	87		992
Now Classified Substandard				
Now Classified Doubtful	140			140
Now Classified Loss	890			890
To Other Real Estate or Other Assets	50	75		125
Charged-Off	209		176	385
TOTAL REDUCTIONS	3,224	220	176	3,620
Additions:				
Not Adversely Classified Previously Further Advances - Loans	873			873
Not Adversely Classified Previously Further Advances - Loans				
Adversely Classified Previously				
Credits Newly Extended				
Previously Classified Substandard		140	890	1,030
Previously Classified Doubtful				
Previously Classified Loss				
TOTAL ADDITIONS	873	140	890	1,903
Book Value at This Examination: 06/30/2004	4,290	140	890	5,320

Analysis of Other Real Estate Owned Subject to Adverse Classification | 99999

DESCRIPTION	SUBSTANDARD	DOUBTFUL	LOSS	TOTAL
Book Value at Last Examination: 08/13/2003	672		18	690
Reductions:				
Not Now Adversely Classified				
Sales With Outside Financing				
Sales With Financing Provided By Subject Institution				
Now Classified Substandard				
Now Classified Doubtful				
Now Classified Loss	100			100
Charged-Off			18	18
TOTAL REDUCTIONS	100		18	118
Additions:				
Not Adversely Classified Previously	550			550
Further Advances - ORE or Loans Not Adversely Classified Previously				
Transferred from Previously Adversely Classified Loans				
Further Advances - ORE or Loans Adversely Classified Previously	3			3
ORE From Credits Newly Extended				
Previously Classified Substandard ORE			100	100
Previously Classified Doubtful ORE				
Previously Classified Loss ORE				
TOTAL ADDITIONS	553		100	653
Book Value at This Examination: 06/30/2004	1,125		100	1,225

Assets with Credit Data or Collateral Documentation Exceptions	**99999**

This Page includes assets with technical defects not corrected during the examination. The appropriate number or description is noted in the “Deficiency Description” column.

1 - Appraisal
2 - Title Search or Legal Opinion
3 - Borrowing Authorization
4 - Recordation
5 - Insurance
6 - Collateral Assignment
7 - Financial Statement
8 - Inadequate Income/Cash Flow Information
9 - Livestock Inspection
10 - Crop Inspection

Name or Description	Amount	Date of Most Recent Financial Statement	Deficiency Description
LOANS			
AMHILL, MARC	400	None	7
BODY, CHARLES	1,932	12/31/2002	7
C&C MARINA	1,973	06/30/2002	7
GOETZ, MICHAEL	1,538		1, 6
IMA DEADBEAT, LTD.	270		4, 6
JENNINGS, JENNIFER	1,866		1, 5, 6
KRINGLE, CHRISTOPHER	750		5, 6
Gty: Eight Tiny Reindeer		None	7
LAST CHANCE MOTEL, INC.	560		3, 4, 6
TOTAL	9,289		

Total represents 33 percent of the dollar volume of loans reviewed.

Name or Description	Amount	Date of Most Recent Financial Statement	Deficiency Description
OTHER REAL ESTATE OWNED			
ONE WAY HOME, INC. PROPERTY	550		1
ROLLY HOLLY PROPERTY	675		1, 5
TOTAL	1,225		

Total represents 100 percent of the dollar volume of ORE reviewed.

Concentrations	99999

Listed below are concentrations of obligations, direct and indirect, according to the following guidelines: 1) Concentrations of 25% or more of Tier 1 Capital by individual borrower, small interrelated group of individuals, single repayment source or individual project; 2) Concentrations of 100% or more of Tier 1 Capital by industry, product line, type of collateral, or short term obligations of one financial institution or affiliated group. Any other concentrations may be listed in the 25% category if desired. An appropriate percentage of total assets is used when a bank's capital is so low as to make its use meaningless. U.S. Treasury securities, obligations of U.S. Government agencies and corporations, and any assets collateralized by same are not scheduled.

DESCRIPTION	DETAIL	AMOUNT EXTENDED
CORRESPONDENT BANK CONCENTRATIONS		
FIRST NATIONAL BANK Anothercity, Anotherstate		
Due From Account	3,025	
Federal Funds Sold	4,000	
		7,025
This concentration represents 124 percent of Tier 1 Capital.		
CREDIT CONCENTRATION		
John and Mary Smith Relationship		
John Smith		
Consumer installment	75	
John and Mary Smith		
RE mortgage	275	
JMS Corporation		
JM: John and Mary Smith		
Secured commercial loans (3)	685	
Commercial letters of credit (2)	215	
J&M Realty Trust		
Gty: John and Mary Smith		
Commercial RE mortgage	700	
		1,950
This concentration represents 34 percent of Tier 1 Capital.		
INDUSTRY CONCENTRATION		
Fishing, Hunting, and Trapping Industry (SIC Code 1009)		8,694

This amount is composed of 49 loans to fishing industry-related borrowers. Repayment of these loans is dependent upon the same sources of income and upon extension of fishing rights granted in the Georges Bank by the Canadian Department of Fisheries, which expire in 2005. The industry concentration represents 153 percent of Tier 1 Capital.

Capital Calculations | 99999

Tier 1 Capital		
Perpetual Preferred Stock and Related Surplus		
Common Stock	2,955	
Surplus	3,072	
Retained Earnings	103	
Accumulated Other Comprehensive Income and Other Equity Capital Components	60	
Total Equity Capital	6,190	
Net Unrealized Gains (Losses) on Available-For-Sale Securities (if a gain, deduct from Total Equity Capital in the calculation of Tier 1 Capital, if a loss, add it to Total Equity Capital)	60	
Less: Net Unrealized Losses on Available-For-Sale Equity Securities		
Accumulated Net Gains (Losses) on Cash Flow Hedges (if a gain, deduct from Total Equity Capital in the calculation of Tier 1 Capital, if a loss, add it to Total Equity Capital)		
Less: Nonqualifying Perpetual Preferred Stock		
Qualifying Minority Interest in Consolidated Subsidiaries		
Less: Disallowed Goodwill and Other Disallowed Intangible Assets		
Less: Disallowed Servicing Assets and Purchased Credit Card Relationships		
Less: Disallowed Deferred Tax Assets		
Other Additions to (Deductions from) Tier 1 Capital		
Subtotal: Tier 1 Capital Elements	6,130	
Less: Assets Other Than Loans & Leases Classified Loss	125	
Less: Additional Amount to be Transferred to Tier 2 for Inadequate Allowance for Loan and Lease Losses	325	
Other Adjustments to (from) Tier 1 Capital (1)		
Tier 1 Capital		5,680
Tier 2 Capital		
Qualifying Subordinated Debt and Redeemable Preferred Stock		
Cumulative Perpetual Preferred Stock Includible in Tier 2 Capital		
Allowance for Loan & Lease Losses	1,979	
Less: Loans & Leases Classified Loss	890	
Add: Amount Transferred from Tier 1 Capital	325	
Adjusted Allowance for Loan & Lease Losses	1,414	
Less: Ineligible Portion of Allowance (If Applicable)	728	
Allowance for Loan and Lease Losses Includible in Tier 2 Capital	686	
Unrealized Gains on Available-For-Sale Equity Securities Includible in Tier 2 Capital		
Other Tier 2 Capital Components		
Other Adjustments to (from) Tier 2 Capital		
Tier 2 Capital (Not to Exceed 100% of Tier 1 Capital)		686
Tier 3 Capital Allocated for Market Risk (Tier 3 Plus Tier 2 Not to Exceed 100% of Tier 1 Capital)		
Less: Deductions for Total Risk-Based Capital (1)		
Total Capital		6,366
Risk-Weighted Assets and Average Total Assets Calculations		
Risk-Weighted Balance Sheet Items	55,761	
Risk-Weighted Off-balance Sheet Items	159	
Market Risk Equivalent Assets		
Less: Risk-Weighted Amounts Deducted from Capital	1,015	
Gross Risk-Weighted Assets		54,905
Less: Ineligible Portion of ALLL & ATRR (1)	728	
Total Risk-Weighted Assets		54,177
Average Total Assets (From 06/30/04 Call Report Schedule RC-K)	76,803	
Less: Amounts Deducted from Tier 1 Capital (1)	450	
Adjusted Average Total Assets		76,353
MEMORANDA		
Securities Appreciation (Depreciation)		153
Contingent Liabilities/Potential Loss	4,542/	

Footnotes:

(1) Includes adjustment for financial subsidiaries as defined by the Gramm-Leach-Bliley Act of 1999, if applicable.

Comparative Statement of Income

	Period Ended 06/30/2004	Period Ended 12/31/2003	Period Ended 12/31/2002
Interest Income	2,519	5,582	7,329
Interest Expense	894	2,452	3,850
Net Interest Income	1,625	3,130	3,479
Noninterest Income	304	589	643
Total Noninterest Expense	1,467	2,902	2,904
Provision for Loan and Lease Losses	300	1,025	1,580
Securities Gains (Losses)	15	48	
Net Operating Income (Pre-Tax)	177	(160)	(362)
Applicable Income Taxes	74	(36)	(117)
Net Operating Income (After-Tax)	103	(124)	(245)
Extraordinary Credits (Charges), Net			
Net Income	103	(124)	(245)
Other Increases/Decreases *Includes changes in the net unrealized holding gains (losses) on Available-For-Sale Securities*	60		
Cash Dividends			
Net Change in Equity Accounts	163	(124)	(245)

Reconcilement of Allowance for Loan and Lease Losses

	Period Ended 06/30/2004	Period Ended 12/31/2003	Period Ended 12/31/2002
Beginning Balance	1,748	1,407	950
Gross Loan and Lease Losses	181	884	1,274
Recoveries	112	200	151
Provision for Loan and Lease Losses	300	1,025	1,580
Other Increases (Decreases)			
Ending Balance	1,979	1,748	1,407

Other Component Ratios and Trends

Ratio	Period Ended 06/30/2004	Period Ended 12/31/2003	Period Ended 12/31/2002
Net Interest Income (TE)/Average Earning Assets	4.74	4.37	4.64
Total Noninterest Expense/Average Assets	3.82	3.62	3.54
Net Income/Average Total Equity	3.39	(2.05)	(3.87)
Net Losses/Average Total Loans and Leases	.025	1.24	1.88
Earnings Coverage of Net Losses (X)	6.70	(1.19)	(1.08)
ALLL/Total Loans and Leases	3.67	3.15	2.50
Noncurrent Loans and Leases/ALLL	106.47	143.88	100.64

Footnotes:

Comparative Statements of Income and Changes in Equity Capital Accounts | 99999

ITEMS	06/30/2004	12/31/2003	12/31/2002
INTEREST INCOME:			
Interest and fee income on loans	2,185	4,826	6,305
Income from lease financing			
Interest on balances with depository institutions			
Income on Federal funds sold and repos	66	350	512
Interest from assets held in trading accounts			
Interest and dividends on securities	268	406	512
Other Interest Income			
TOTAL INTEREST INCOME	2,519	5,582	7,329
INTEREST EXPENSE:			
Interest on deposits	858	2,434	3,832
Expense on Federal funds purchased and repos	5	18	18
Interest on demand notes, other borrowed money, mortgages, and capitalized leases.	31		
Interest on subordinated notes and debentures			
TOTAL INTEREST EXPENSE	894	2,452	3,850
NET INTEREST INCOME	1,625	3,130	3,479
NONINTEREST INCOME:			
Services charges on deposit accounts	234	461	415
All other noninterest income	70	128	228
TOTAL NONINTEREST INCOME	304	589	643
NONINTEREST EXPENSE:			
Salaries and employee benefits	750	1,422	1,342
Premises and fixed assets expense (net of rental income)	271	549	584
Amortization expense of intangible assets (including goodwill)			
Other noninterest expense	446	931	978
TOTAL NONINTEREST EXPENSE	1,467	2,902	2,904
Provision for loan and lease losses	300	1,025	1,580
Securities gains (losses)	15	48	
NET OPERATING INCOME (PRETAX)	177	(160)	(362)
Applicable income taxes	74	(36)	(117)
NET OPERATING INCOME (AFTERTAX)	103	(124)	(245)
Extraordinary credits (charges) net of income tax			
NET INCOME	103	(124)	(245)
Other increases in equity capital accounts	60		
Other decreases in equity capital accounts			
Cash dividends declared on common stock			
Net change in equity capital accounts for the period	163	(124)	(245)
Equity capital accounts at beginning of the period	6,027	6,151	6,396
Equity capital accounts at end of the period	6,190	6,027	6,151

Footnotes:

HOLDING COMPANY RATIOS AND TRENDS

	HOLDING COMPANY		
CONSOLIDATED HOLDING COMPANY	(Date)	(Date)	(Date)
Net Operating Income to Average Assets			
Total Risk-Based Capital Ratio			
Leverage Capital Ratio			
This Institution's Assets to Consolidated Holding Company Assets			
PARENT ONLY			
Pre-Tax Operating Income and Interest Expense to Interest Expense (X) (Fixed Charge Coverage)			
Operating Income - Tax + Non-Cash Items to Total Operating Expense and Dividends Paid (Cash Flow Match)			
Total Liabilities to Equity			
Equity Investments in Subsidiaries to Equity (Double Leverage)			
Equity Investment in Subsidiaries - Equity Capital/Net Income - Dividends (Double Leverage Payback in Years)			

EXTENSIONS OF CREDIT TO AFFILIATED ORGANIZATIONS

DESCRIPTION	DIRECT	INDIRECT	TOTAL
A. Affiliated organizations including securities issued by affiliated organizations.	250		250
B. Indebtedness of others, or portions of such indebtedness, collateralized by securities issued by affiliated organizations.			0
Total	250	0	250
Less duplications within and between groups			0
Net Total	250	0	250

Comments:

HOLDING COMPANY

Any Company, Inc.
Anytown, Anystate

SUBSIDIARY

Any Time, Inc.
Anytown, Anystate

OTHER AFFILIATES

Any Body, Inc.
Anytown, Anystate

This page as shown above does not include all information that could be included to support examination findings, but is for illustrative purposes only. Refer to the instructions for this page for specifics.

Extensions of Credit to Directors/Trustees, Officers, Principal Shareholders, and Their Related Interests	99999

Description	Total
A. Executive Officers and their related interests	1,200
B. Directors/Trustees and Principal Shareholders and their related interests	250
TOTAL	1,450
Less duplications within and between groups	250
NET TOTAL	1,200
Capital and unimpaired surplus as of last Call Report date (Per Regulation "O")	7,094
Net total insider borrowing as a percentage of unimpaired capital and surplus	16.92%

NAME AND COMMENTS (Designate all duplications with a "D")	Detail	% of Unimpaired Capital & Surplus
GROUP A		
LINCOLN, ALLIE C.	500	7.05%
Director and President		
Duplication debt is guaranteed by President Lincoln and Director Killingbird. The debt is to Any Body, Inc.	250 D	3.52%
GUTIERREZ, JOHN M.	450	6.34%
Executive Vice President and Cashier		
TOTAL	1,200	
GROUP B		
ANY BODY, INC.	250 D	3.52%
A related interest of President Lincoln and Director Killingbird, both of whom guarantee the debt.		

Signatures of Directors/Trustees	99999

We the undersigned directors/trustees of Bank of Anytown, Anytown, Anystate, have personally reviewed the contents of the Report of Examination dated June 30, 2004.

Signatures of Directors/Trustees	**Date**
______________________________	______________
HENRY P. HERRINGTON	
______________________________	______________
MICHAEL D. JONES	
______________________________	______________
LARRY G. KILLINGBIRD	
______________________________	______________
KELLY A. KING	
______________________________	______________
ALLIE C. LINCOLN	
______________________________	______________
JOHN S. MARVEL	
______________________________	______________
JOHN D. PICKINGER	
______________________________	______________
SEAN RATZLAFF	

NOTE: This form should remain attached to the Report of Examination and be retained in the institution's file for review during subsequent examinations. The signatures of committee members will suffice only if the committee includes outside directors and a resolution has been passed by the full board delegating the review to such committee.

CONTROL AND RELATIONSHIPS

Any Company, Inc., a one-bank holding company, continues to own 100 percent of the common stock. Bank directors own or control a combined 908,584 shares or 56 percent of holding company stock. President Lincoln is the largest individual stockholder, controlling 500,326 shares or 31 percent of the outstanding stock. Any Time, Inc., is a subsidiary of the bank and holds title to ORE. Any Body, Inc., is an on-premise insurance agency owned by President Lincoln and Director Killingbird. President Lincoln stated that no ownership or management changes are planned.

EXAMINATION SCOPE

The examination scope was expanded from the pre-exam planning (PEP) memo in the following areas:

- *Construction Lending* – Expanded due to administrative problems identified in the original loan sample. Ten additional construction loans serviced by the two construction lenders and originated in 2004 were reviewed.
- *BSA Review* – Expanded to include a review of all CTRs filed in 2004 due to indications that they were being filed late.
- *Call Reports Review* – Expanded to include year-end 2003 in response to the volume of errors noted with our original review.

As a result, examination hours, totaling 760, are 150 over budget (25 percent). Other examination procedures were not modified from those identified in the PEP memo.

BSA REVIEW SCOPE

Examiners reviewed the bank's compliance with the Bank Secrecy Act and financial recordkeeping regulations. Core analysis procedures of the Examination Documentation module were completed, as well as expanded procedures related to timely CTR filings, to summarize the findings of this review. Examiners compared bank records with information on the FinCEN CTR filing data report for October through December 2003, and year-to-date 2004. FinCEN 314(a) requests are being received and checked by management. BSA examination findings were discussed during the examination with President Lincoln and BSA Officer Donna Ludlow. Findings were also discussed with the bank's Board of Directors at its September 18, 2004, meeting.

BSA Sharp Number: 67890

LOAN PENETRATION

Asset review date:	7/30/2004
Number of relationships reviewed:	55
Total $ of credit extensions reviewed / % of Total	$28,148M / 52%
Total $ of non-homogenous credit extensions reviewed / % of Total	$27,635M / 60%
Credit extension cutoff review point:	$450M

REMINDERS – The loan penetration comment can include a breakdown of credit extensions by major loan types, location, officer, etc., as appropriate. The information can be effectively presented in chart form.

DIRECTOR INVOLVEMENT

Invitations for the bank’s directors to participate in examination discussions were extended during the pre-exam and on-site portions of the examination. Outside director involvement was limited to the Board meeting.

SUGGESTIONS FOR FUTURE EXAMINATIONS

- There is sufficient working space for seven examiners.
- Management accommodated working hours of 7:30am to 5:00pm.
- The FDIC phone line is in place in the basement boardroom.
- The examination crew should contain at least one examiner with construction loan analysis experience.
- ALERT data can only be provided in fixed-width format.

SYSTEM DESCRIPTION

Hardware:		Software:	
Manufacturer Name:	Vantage Computers Memphis, TN	Vendor Name and Address:	Virus Technology Lenexa, KS
Model:	Magnum 400	Package Name and Version:	Singapore Banker Version 8.5(b)

BACKUP ARRANGEMENTS		STAFF	
Site:	Other State Bank Somewhere, AS	Staff Size:	3
		Contact Person:	Robert Paraguay
Date Last Tested:	05/27/2004	Phone Number:	(888) 555-5555

AUTOMATED APPLICATIONS	DATE REVIEWED	PRIOR IT EXAMINATIONS	
Demand Deposits	08/01/2004	Agency:	State
Time Deposits	11/13/2003	Date:	11/13/2003
Savings Deposits	10/21/2002	Rating:	0-0-0-0/1
Loans		Agency:	FDIC
		Date:	10/21/2002
		Rating:	3-2-1-1/2

WORKING HOURS

Examiners/Assistants	GG	Exam	Training	Travel	Total
Henlee, Walter H. Jr.	14	20		5	20
Garrett, Karen	11	15	5	5	20
					0
					0
Total Hours		35	5	10	40

Ratings: 0-0-0-0/1

The Technology Profile Script assigned a total score of 45, and, as anticipated in the PEP memo, a Type I examination was performed.

Bank website: www.anytownbank.com.

IT Sharp Number: 54321

RECOMMENDATIONS FOR FUTURE EXAMINATIONS

Recommendations parallel those shown on the Confidential – Supervisory Section page.

TRUST EXAMINATION DATA			
Date of Last FDIC Examination	10/21/2002	Date of Last State Examination	11/13/2003
Date This Examination Commenced	08/01/2004	Date This Examination Completed	09/30/2004
SHARP Examination Number	67890	Total FDIC Examination Hours	24
Type of Examination (Concurrent/Joint/Independent)			I
Was this examination performed in conjunction with a Commercial examination?			Y
Name of State Examiner-In-Charge:	N/A	Total State Hours: 0	

EXAMINATION SCOPE

A trust MERIT examination was performed. The scope included a review of policies, practices, and procedures, trust-related comments in Board minutes, the last external audit, selected accounts, compliance with applicable laws, and matters criticized at previous examinations. Account review included seven accounts.

RISK PROFILE

Fiduciary activities pose minimal risk to the institution. Total Trust Department assets are $3,318M held in 8 personal trust accounts, 44 burial trust accounts, and 1 farm management agency account. Department records are currently maintained manually, but Trust Officer Hancock is gradually migrating the accounts to a computerized system using Delta Data software running on a stand-alone PC.

RECOMMENDATIONS FOR FUTURE EXAMINATIONS

Recommendations parallel those shown on the Confidential – Supervisory Section page.

Directors/Trustees and Officers	99999

List alphabetically all directors/trustees, senior officers, and principal stockholders. Also indicate their titles. Number of shares owned is not rounded. (J – indicates stock jointly owned; P – indicates preferred stock owned; H – indicates holding company stock owned; C – indicates stock controlled but not owned)

Names and Comments	Net Worth		Year Joined Bank	Year of Birth	Atten-dance	Number of Shares Owned	Salary and Bonus (B)
	Amount	Date of Statement					

Biographical and background information on Directors, officers, and other key management officials listed on this page should be prepared in accordance with the Report of Examination Instructions.

Names and Comments	Amount	Date of Statement	Year Joined Bank	Year of Birth	Attendance	Number of Shares Owned	Salary and Bonus (B)
<u>DIRECTORS/TRUSTEES</u>							
HERRINGTON, HENRY P. Attorney	501	3/1/2003	1980	1961	12	50,992 (H)	
JONES, MICHAEL D. Commercial RE Consultant (1)	7,890	6/1/2003	1983	1959	5	5,005 (H)	
KILLINGBIRD, LARRY G. Automobile Dealership Owner (1)	10,000	#	1981	1955	12	200,150 (H)	
KING, KELLY A. Retired Doctor	2,500	6/1/2003	1979	1933	12	1,010 (H)	
LINCOLN, ALLIE C. President (1)(2)	1,357	2/1/2003	1982	1951	12	500,326 (H)	100 25(B)
MARVEL, JOHN S. Race Car Driver	3,565	3/1/2003	1981	1950	11	150,500 (H)	
PICKINGER, JOHN D. Certified Public Accountant (2)	7,234	8/7/2003	1982	1954	11	101 (H)	
RATZLAFF, SEAN Chairman of the Board (1)(2)	5,000	##	1980	1960	12	500 (H)	24(B)
<u>OFFICERS, NOT DIRECTORS/TRUSTEES</u>							
COMMANDER, LESLIE S. Executive Vice President - Commercial Lending (1)			1983	1960			85
GUTIERREZ, JOHN M.			1983	1958			70

Names and Comments	Net Worth		Year Joined Bank	Year of Birth	Atten-dance	Number of Shares Owned	Salary and Bonus (B)
	Amount	Date of Statement					
Executive Vice President / Cashier (2)							

<u>PRINCIPAL SHAREHOLDERS, NOT DIRECTORS/TRUSTEES OR OFFICERS</u>

ANY COMPANY, INC. Anytown, An						2,955	

(1)-Loan Committee; (2)-Investment Committee

- Estimated by President Lincoln

- Estimated by *Money Magazine*

Total Holding Company shares owned by the Directorate: 908,584
Percentage Holding Company ownership by the Directorate: 56 percent

There have been 12 regular Board meetings since the last regulatory examination.
Director fees are $250 per Board meeting attended.
Committee fees are $100 per committee attended.

INTERNATIONAL

REPORT PAGES

AND WORKPAPERS

		CATEGORY			
AMOUNT, DESCRIPTION, AND COMMENTS	Exposures Warranting Special Comment	Other Transfer Risk Problems	Substandard	Value Impaired	Loss
Argentina					
October 21, 2002					
All Other Exposures (including Bank Credits)				181	
Less: Credit Risk Adverse Classification				(181)	
Net Exposure				0	

In December 2001, the Argentine government defaulted on $50 billion of bonds held by foreign creditors and subsequently imposed strict capital controls that have severely limited the ability of private borrowers to service their external liabilities. Private Argentine borrowers have accumulated significant interest and principal arrears to external creditors. Prior to the present interruption of external debt service, the country had been current on payments since completing a Brady-plan restructuring of bank debt in the early 1990s. A Paris Club rescheduling in 1992 accompanied that exercise.

U.S. banks cut their exposures to Argentina sharply in 2002, reflecting both large reductions in business activity and credit lines, and significant write-offs. In June 2002, U.S. banks' cross-border exposure totaled $6.2 billion, down roughly 44 percent from a year earlier. Locally-funded business fell by over two-thirds, to $3.3 billion.

A severe and extended …

Performing short-term trade credits …

Amount scheduled represents restructured trade exposure with Banco CMF, scheduled as Value Impaired (net of reserve). Amount is not extended for transfer risk as it is subject to a credit risk Doubtful classification.

Note that this write-up is incomplete. Refer to specific guidance for this page in the Report of Examination Instructions Section of the Manual.

DISCLAIMER: This page is provided for illustrative purposes only. It is not intended to correspond with or tie to information in the Bank of Anytown Report of Examination.

Management of the country risk process is regarded as generally satisfactory. Senior management and the Asset/Liability Management Committee continue to closely monitor the economic and political stability of countries where the bank maintains international transaction activity. Due to deteriorated economic and political situations in certain of the countries where the bank conducts business, there has been a reorientation of business strategy. The Board has strategically decided to focus future business development on its domestic banking market and to basically reduce its overall risk emanating from transfer risk exposure. As a result, the bank has substantially reduced the level of approved country limits, and it has “frozen” most assigned limits, and the resulting level of net transfer risk exposure. Also, the Board has reduced …

The current examination revealed five concentrations of transfer risk …

The International Policy is adequate; however, the following deficiencies …

Note that this write-up is incomplete. Refer to specific guidance for this page in the Report of Examination Instructions Section of the Manual.

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Selected Concentrations of Country Exposure	**99999**

CROSS BORDER/CROSS CURRENCY CLAIMS AND CONTINGENT CLAIMS				**ADJUSTMENT FOR GUARANTEES**				
Amount Maturing in								
Less than 1 year	More than 1 year	Commitments / Contingent Claims	Subtotal by location of borrowers	Plus other credits guara- -nteed by residents in this country	Less credits externally guaranteed	Net local current assets of offices in this country	Exposure by Country of risk	Exposure by Country of risk as a % of Tier 1 capital
ARGENTINA								
981					800		181	1.00%
BRAZIL								
2,000							2,000	11.00%
DOMINICAN REPUBLIC								
1,000							1,000	6.00%
ECUADOR								
1,233					1,209		24	0.14%
GUATEMALA								
5,358					1,698		3,660	21.00%

Note: Adjustments for external guarantee represent available cash and/or ATRR. All dollar amounts are reported in thousands.

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International Loans, Acceptances, and Letters of Credit - Distribution	99999

An international loan, acceptance, or letter of credit is defined as any such instrument between this bank and a resident or entity domiciled outside the United States, District of Columbia, Puerto Rico or other United States Territory or Possession.

DISTRIBUTION

Description	**Amount**
Mortgage loans (Including Ship loans of $_2,327______)	8,732
Loans insured or guaranteed by the U.S. government or its agencies	14,065
Loans to foreign governments, agencies thereof and central banks	15.971
Loans to financial institutions other than central banks	500
Loans to commercial, industrial and agricultural interests	41,689
Other Loans (Describe) Loans to religious institutions	8,572
All other loans	1,171
Total International Loans*	90,700
*Does NOT include loans to U.S. subsidiaries of foreign corporations	12,444

Description	**Amount**
Participation loans and paper purchased	41,505
Placed paper, direct loans and participation loans sold	5,365
Syndication and consortium financing	5,000
International acceptances outstanding	1,489
International letters of credit outstanding	7,836
Other (Describe)	

1. Are duties and responsibilities for the conduct of international operations clearly defined? Comment briefly.

Yes. The bank's Board of Directors has a written policy statement setting forth the various duties and responsibilities of the operating entities within the international division.

2. Does the bank have a definite international lending policy? If "yes", summarize such, state whether it has been approved by the board of directors/trustees, and indicate extent of compliance.

Yes. The subject bank's Board of Directors, in line with the directives of the parent bank, has delineated specific guidelines on clientele to be served, limits on country exposure both in the aggregate and by maturity within those limits and risks to be undertaken. Officers submit recommendations to the international loan committee which has authority to approve loans up to $5 million. Larger loans require senior loan committee approval. In all cases, these policies have been followed.

3. (a) Comment upon policy guidelines in effect regarding country risk assets and volume limitations imposed thereon. (b) How often are guidelines reviewed? (c) Does the bank have any country risk concentrations of credit? If "yes", list the country and percentage of such extensions of credit to the bank's total capital and reserves.

(a) Policy calls for all extensions of credit including bank placements, formal loan commitments, and foreign exchange lines to be included within country limits. Claims are reallocated to the country of guarantor or the country where collateral is realizable. Sublimits are provided by maturity of the obligation. Separate limits are provided for in each of the 15 countries where lending is permitted.

(b) Reviewed quarterly.

(c) Yes, Japan 84%, France 40%, Federal Republic of Germany 59%, United Kingdom 39%.

4. Are guarantees of other banking institutions and/or parent or affiliated organizations of borrowers required on certain loan obligations? If "yes", under what circumstances and in what form are such guarantees extended?

Yes. Letters of Guarantee from two European banks have been furnished as support to financially weak borrowers. The parent bank has extended guarantees in the form of letters of credit essentially to provide additional protection to the subject bank's position. The parent's guarantee was not relied upon as a primary source for repayment of the loan.

5. (a) Describe the general nature and character of collateral pledged, and (b) comment upon the adequacy of supporting documentation.

(a) Collateral includes first preferred ship mortgages, notes and bond obligations of various foreign governments, time deposits, commodities, stocks, and UCC filings.

(b) Supporting documentation appeared in order.

6. Is credit information timely in content and available in sufficient readable detail?

Credit information on loans originated at the Nassau Branch continues to be inadequate. Deficiencies include a lack of current and complete financial information on the obligor and guarantor, an absence of thorough credit analysis, and a lack of complete information on country conditions.

7. (a) Describe the general nature and types of acceptance financing extended, and (b) the general lines of business involved.

(a) Bank is primarily involved in acceptance financing in connection with international trade activity; several million dollars in dollar exchange acceptances were booked between examinations.

(b) Manufactured goods, commodities, and exchange activities of central banks.

8. (a) Describe the general nature and types of letter of credit accommodations offered, and (b) the general lines of business involved.

(a) The bank issues documentary letters of credit to importers, confirms other banks' letters of credit for export customers and, to a limited extent, engages in deferred payment letter of credit financing. Standby letters of credit are undertaken only for prime customers.

(b) Manufacturers, machinery exporters and importers, commodity importers, and foreign governments and agencies.

9. Describe the provision for repayment of (a) acceptances, and (b) drafts drawn under letters of credit. Include comment regarding extent of refinancing.

(a&b) Provisions for repayment are arranged prior to issuance and vary as individual conditions warrant. Repayment is generally accomplished by charge to customer's account or by loan accommodation under approved credit lines in the case of acceptances and by charge to the customer's account or acceptance with respect to letters of credit. In certain situations, refinancing is permitted, generally for short periods.

1. Comment on the general nature and volume of present eurocurrency operations.

Eurocurrency operations are conducted through the Nassau Branch. Investments are primarily loans to South American corporations and central governments, securities of foreign governments and bank placements. Sources of funding are IPC, bank and affiliate time deposits. At examination date, Eurocurrency loans, securities, and bank placements totaled $325 million with $285 million funded by Eurocurrency time deposits and the remainder through main office funds.

2. Describe the procedures followed and guidelines utilized in establishing lines of credit and making and approving due to (takings) and due from (placements). Comment on the adequacy of procedures enabling senior management to ascertain compliance with guidelines and directives.

The parent bank has issued general guidelines to be considered before establishing lines of credit and bank relationships. With respect to banks, these criteria center on the obligor’s capital resources, country risk, and type of institution. Bank and nonbank clientele analysis includes consideration of volume and maturity factors, as well as a review of financial responsibility and reputation. Senior management receives weekly reports.

3. (a) Comment on the maturity composition of present eurocurrency takings and placements and the effect of such on the bank's liquidity position. (b) Are asset and liability maturities reasonably matched?

(a) At examination date, Eurocurrency takings totaled $285 million, while placements aggregate $195 million. All placements and 74% of takings ($210 million) mature within 90 days with no adverse effects on the bank’s liquidity position.

(b) Both near-term and longer-term maturities are reasonably matched.

4. Are all interbank placements confirmed at inception and, thereafter, subject to periodic direct verification audits?

Yes.

NOTE: A negative answer below (questions 2 through 8(e)) may be indicative of a condition in need of correction. Such answers may call for comment, or expanded treatment, below or elsewhere in the examination report.

	DESCRIPTION	YES	NO
1.	Is the bank engaged, in any manner, in foreign exchange activities? If "Yes", answer the following questions:	X	
2.	Is the net open position of each foreign currency reasonable in relation to the bank's total capital and reserves?	X	
3.	Is the aggregate net open position of all foreign currencies reasonable in relation to the bank's total capital and reserves?	X	
4.	Are the future maturities of foreign currency assets, liabilities, and contracts reasonably matched with respect to long and short positions in all time periods?	X	
5.	Does a current revaluation of the bank's foreign currencies reflect an insignificant profit or loss?	X	
6.	Has the directorate and/or head office imposed reasonable guidelines and limits with respect to foreign exchange operations?	X	
7.	Are guidelines and limits being adhered to by active management?	X	
8.	With respect to foreign exchange operations, are the following adequate:		
	(a) recording procedures?	X	
	(b) bookkeeping procedures other than 8(a)?		X
	(c) contract confirmation procedures?	X	
	(d) internal routines and controls other than 8(c)?	X	
	(e) audit procedures?	X	

8(b) Refer to comments under Audit and Internal Controls.

Position Analysis - Major Currency Positions	**99999**

Country United Kingdom	**Monetary Unit Pound Sterling**			
Description	**Assets and Purchases (Long Position)**		**Liabilities and Sales (Short Position)**	
	Foreign Currency	U.S. Dollar Book Value	Foreign Currency	U.S. Dollar Book Value
Cash	1,000	2,600		
Demand Balances Due (Nostro)	50,000	19,800		
Loans	1,000,000	2,500,000		
Securities	100,000	275,800		
Deposits of Banks (Vostro)			100,000	242,000
Other Deposits			400,000	1,040,000
Spot Contracts	1,300,000	3,120,000	1,400,000	3,346,000
Forward Contracts				
Holdovers				
Other: (Specify) Accrued Interest Receivable	10,500	25,200		
Accrued Interest Payable			3,000	7,200
Gross Position	2,461,500	5,943,400	1,903,000	4,635,200
Less: Long/Short	1,903,000	4,635,200		
Net Position	558,500	1,308,200		
Net position as a % of the bank’s total capital and reserves:	2.90%			

		OTHER CURRENCIES						
		Long		**Short**		**Net Position**		**(%)***
Country	**Monetary Unit**	Foreign Currency	U.S. Dollar Book Value	Foreign Currency	U.S. Dollar Book Value	Foreign Currency	U.S. Dollar Book Value	**Net Position**
Australia	Dollar	24,600	27,900			24,600	27,900	0.06%
Canada	Dollar	66,000			90,000	66,000	(90,000)	0.20%
France	Franc	1,000,000	210,000			1,000,000	210,000	0.47%
Germany	Mark	693,000	215,000	203,000	61,000	490,000	154,000	0.34%
Italy	Lire	27,873,600	30,500	54,344,500	59,500	(26,470,900)	(29,000)	0.06%
Switzerland	France					0	0	0.00%
						0	0	0.00%
						0	0	0.00%
						0	0	0.00%
						0	0	0.00%
						0	0	0.00%
						0	0	0.00%
						0	0	0.00%
						0	0	0.00%
						0	0	0.00%
						0	0	0.00%
Subtotal (U.S.)						0	536,200	0.00%
Plus: Major Currency (U.S.)							1,308,200	
Aggregate Position (U.S.)						0	0	
* as a percentage of the bank's Total Capital and Reserves.							1,844,400	3.88%

DESCRIPTION	YES	NO
1a. Is the net open position of each foreign currency reasonable in relation to the bank's total capital and reserves?	X	
1b. Is the aggregate net open position of all foreign currencies reasonable in relation to the bank's total capital and reserves?	X	

MATURITY DISTRIBUTION SCHEDULE

Monetary Unit	Maturity Dates	Assets and Purchases Long	Liabilities and Sales Short	Net Gap for Period Long/Short	Spot Rate P = Prem. D = Disc.	Profit	Loss
		F.C.	F.C.	F.C.		U.S.	U.S.
Pound (UK)	5/15	51,000	100,000	(49,000)			
	5/16	25,000		25,000			
	5/17	25,000		25,000			
	5/18	35,000		35,000			
	5/19	50,000	40,000	10,000			
	5/22		50,000	(50,000)			
	5/23	50,000	75,000	(25,000)			
	5/24	100,000	50,000	50,000			
	5/25	50,000		50,000			
	5/30	50,000	75,000	(25,000)			
	5/31		100,000	(100,000)			
	June	110,500	100,000	10,500			
	July	125,000	203,000	(78,000)			
	August	175,000	110,000	65,000			
	September		75,000	(75,000)			
	October	245,000	225,000	20,000			
	November	175,000	100,000	75,000			
	December	325,000	200,000	125,000			
	20X6	370,000	300,000	70,000			
	20X7	150,000	50,000	100,000			
	20X8	250,000	50,000	200,000			
	After	100,000		100,000			
	TOTALS	2,461,500	1,903,000	558,500		0	0
				Less:	Profit/Loss		
				Future	**Adjustment**	0	0
						YES	**NO**
2. Are future maturities of foreign assets, liabilities, and contracts reasonably matched with respect to long and short positions in all time periods?						X	

Revaluation and Income/Loss Analysis | 99999

Monetary Unit	Book Value of F.C.	Net Position U.S.	Exam Date Spot Rate	Current U.S. Market Value (F.C. x Spot)	U.S. Spot Rate Profit (Loss)	U.S. Future Profit (Loss) Adjustment	U.S. Net Profit or (Loss)
Australia $	24,600	27,900	1.149500	28,300	400		400
				0	0		0
Canada $	66,000	(90,000)	0.868300	57,300	147,300	(500)	146,800
				0	0		0
France Franc	1,000,000	210,000	0.219100	219,100	9,100		9,100
				0	0		0
German Mark	490,000	154,000	0.493800	242,000	87,700		87,700
				0	0		0
Italian Lira	(26,470,900)	(29,000)	0.001176	(31,100)	(2,100)		(2,100)
				0	0		0
Swiss Franc	(60,700)	(25,300)	0.532800	(32,300)	(7,000)		(7,000)
				0	0		0
UK Pound	558,500	1,308,200	2.222000	1,241,000	(67,200)	1,000	(66,200)
				0	0		0
				0	0		0
				0	0		0
				Total	168,200	500	168,700

Does not include $ profit (loss) attributable to outstanding SWAP transactions

$ has already been taken into income/expense through accrual accounting

	YES	NO
3. Does a current revaluation of the bank's foreign currencies reflect an insignificant profit or loss?	X	

Income/Loss Schedule	99999

Previous Calendar Year	Amount or Percent
Quarterly Average of Gross Assets	562,500,000
Total Foreign Exchange Income	1,000,000
Net Foreign Exchange Income (Loss)	550,000
% of Total Foreign Exchange Income to Average Gross Assets	0.18%
% of Net Foreign Exchange Income (Loss) to Average Gross Assets	0.10%
Year to Date	**Amount or Percent**
Total Operating Income (Bank)	25,156,300
Net Operating Income (Loss)	4,192,700
Total Foreign Exchange Income	735,200
Net Foreign Exchange Income (Loss)	404,400

1. **(a) Describe the net and aggregate position limits, maturity exposure limits, and any other limits placed on foreign exchange operations by the board of directors/trustees. (b) Do such limits appear reasonable?**

(a) The bank's Board of Directors has authorized trading only in these currencies listed in the position schedules. Overnight limits for each currency with the exception of the pound sterling are fixed at $250M; pound sterling limit is $1,500M. The aggregate position limit for all currencies is $2,000M. Maturity gaps are authorized only on major active currencies up to $100M not to exceed 3 months. Major active currencies have been described as having an active forward market. No general ledger account limits have been formulated.

(b) Limits appear to be reasonable.

2. **Describe the limits and guidelines established by the board of directors/trustees for dealing in foreign exchange with other banks and customers.**

Individual customer limits are approved by the bank's International Committee based on the customer's creditworthiness and the volume of its foreign currency needs. The bank's written internal credit policy pertaining to bank and nonbank customer foreign exchange lines is:

(a) 100% of foreign exchange line may mature within 180 days;
(b) 50% of the foreign exchange line may mature within 360 days;
(c) 20% of the foreign exchange line is available for contracts with maturities up to 18 months;
(d) no maturities may exceed 18 months.

Excesses must be approved in writing by the account officer who approved the customer line. Maximum daily delivery risk limits per customer are set at 20% of the aggregate limits approved.

3. **Fully describe any recent significant deviations by the bank from established limits and guidelines. Include in this description any significant deviations noted after completion of the Position Analysis, and the Maturity Distribution (GAP) Analysis.**

No deviations from bank policy were noted in preparing the position analysis. Two exceptions to bank policy on GAP exposure were in evidence due to an inability to obtain forward cover. These exceptions were approved by the International Committee. No other recent deviations from policy were uncovered.

4. **(a) Describe the reports (i.e., position maturity, gap, revaluation, etc.) required by the directorate and senior management to ascertain compliance with directives. (b) Is the directorate or senior management notified when actions are taken which constitute deviation from policy? If "Yes", describe the approval procedures for such deviations from policy.**

(a) Net position reports enumerating all foreign currency balance sheet items, future contracts, and after-hour and holdover transactions are transmitted to the designee of the International Committee on a daily basis. Reports are prepared by the foreign exchange bookkeeping department and reconciled to the trader's blotter. Maturity gap reports are produced daily with the next month's transaction reflected on a daily basis and subsequent transactions grouped in two-week intervals. Revaluation reports detailing ledger accounts, spot contracts, and forward contracts are developed on a weekly basis.

(b) Bank's written policy provides for the immediate generation of exception reports where applicable limits are exceeded. Prior written approval of account officer is required for deviation from customer limits. Deviation from other limits is not permitted under any circumstances without prior approval of International Committee.

5. If the bank is a subsidiary of a foreign bank, (a) what controls and guidelines has the parent imposed on the bank's foreign exchange activities? (b) Describe the foreign exchange reports prepared by the bank for the parent.

(a&b) The aforementioned guidelines and limits have been implemented at the direction of the parent bank. All reports of the bank's audit department and the reporting mechanisms described in 4(a) are furnished to the parent bank for review.

6. How frequently and by whom is the foreign exchange position revalued? Briefly describe the procedures used in the revaluation. If forward contracts are not revalued at future rates, so indicate.

Revaluation is performed on a bi-weekly basis by the International Operations section. Actual realized profit or loss is calculated by applying current spot rates to balance sheet accounts, as well as contracts of very near maturities. Unrealized profit or loss on future transactions is determined by utilizing the appropriate forward rates to the net position for each future period in the bank's gap report.

7. Describe the general ledger accounts affected by the periodic revaluation and the journal entries used to effect changes in these accounts. If any accounts are being used to capitalize losses or defer immediate recognition of profit, so indicate.

Actual realized profit or loss is charged to the profit and loss account with offsetting entries to the applicable local currency ledger accounts. With respect to future transactions, the bank charges "estimated profit(loss) on foreign exchange futures" account for the amount of the adjustment with an offset to the profit and loss account. Profits and losses are recognized at the date of revaluation.

8. (a) Approximately what volume of the bank's foreign exchange dealings are with related companies or banks? (b) In what manner, if any, do the terms and conditions of such dealings vary from similar transactions with non-related companies and banks?

(a) During 2003, the bank entered into approximately $40,000M of forward contracts to purchase and sell foreign exchange with a related bank, First European Bank, London, England.

(b) Terms and conditions of contracts are substantially the same as transactions with non-related parties.

9. Regarding holdover and/or after hour transactions, (a) describe the bank's system for controlling and recording such transactions and (b) indicate how management is informed of such transactions before recordation. (c) Does the system appear to be correctly designed and adequately controlled?

(a-b-c) The foreign exchange control group prepares a list of holdover items. Holdover items are incorporated into the daily position sheet, which together with the holdover list, is furnished to management on a daily basis. Holdover items are posted as of the dates contracted. The system is considered adequately controlled.

NOTE: A negative answer below indicates a condition which may be in need of correction. Such answers may call for comment below and elsewhere in the regular examination report.

AUDIT

		YES	NO
1.	Have the directors/trustees made provision for an audit of the foreign exchange area?	X	
	If "Yes," indicate method utilized: X Employment of full time auditor. X Periodic employment of independent auditor. ____ Designation of an audit supervisor and an established program of internal audit by bank personnel. Name of Audit Supervisor:		
2.	If the answer to question 1 is "yes", does the audit program include the following:		
(a)	Periodic proof of forward and spot contracts?	X	
(b)	Periodic proof and/or reconcilement of foreign exchange general ledger accounts?	X	
(c)	Periodic direct verification of forward and spot contracts? Frequency: Annually Amount: $25,200,000	X	
(d)	Review of management reports and adherence to guidelines?	X	
(e)	Comparison of rate quotations in management reports and revaluations with outside sources?	X	
(f)	Perusal of authorized signatures?	X	
(g)	Briefly describe any other audit procedures conducted:		
3.	If applicable, has the bank corrected major criticisms noted in the last independent audit report? Date of audit: 12/31/2003		X
	Briefly describe major criticisms and/or recommendations in such report: The bank was criticized for not maintaining a complete and current set of instructional memoranda describing the information generated from the accounting system and the general and subsidiary ledger accounts affected by trading activity. This defect has been corrected. Deficiencies still exist with respect to confirmation procedures.		
4.	Is the foreign exchange audit program adequate as to scope and frequency?	X	
5.	Does the foreign exchange auditor or audit supervisor report regularly and directly to the bank's board of directors/trustees or a committee thereof?	X	
6.	Is a written audit report of the foreign exchange area maintained by the bank?	X	

2(c) All outstanding spot and forward contracts as of the audit date are directly verified.

NOTE: A negative answer below indicates a condition which may be in need of correction. Such answers may call for comment below and elsewhere in the regular examination report.

INTERNAL CONTROLS

		YES	NO
7.	Are all contracts recorded on the date contracted?	X	
8.	Is it a firm rule that all forward and spot contracts be confirmed at inception?	X	
9.	Has the bank instituted an effective and current (within seven days) follow-up system regarding unconfirmed and/or incorrectly confirmed forward and spot contracts?		X
10.	Are foreign exchange contracts and dealing slips prenumbered and used in such order?	X	
11.	Does the bank have an effective system of controls over the trader and the trading environment?	X	
	A “Yes” answer to this question will necessarily require a “Yes” answer to each of the following (as a minimum). Is it a firm rule that:		
	(a) The trader not be allowed to receive confirmations on forward and spot contracts?	X	
	(b) The trader not be allowed to sign contracts?	X	
	(c) The trader be prohibited from initiating and receiving interbank funds transfers, opening current accounts, or receiving credits to current accounts?	X	
	(d) The trader not be involved in the revaluation procedure?	X	
	(e) Trading activities be segregated from other bank activities, in particular the accounting, confirmation, and report functions?	X	

8-9 Although the bank has a firm rule regarding the confirmation of spot and future contracts, it was observed that outgoing confirmations are frequently incomplete, with dates of trade and value dates frequently omitted. Further, the confirmation exception log is haphazardly prepared and is not reviewed by an operations officer. These deficiencies were noted by both the bank’s internal and external auditors; however, correction is yet to be effected. It is recommended that these areas of potential exposure be remedied at an early date.

Parallel-Owned Banking Organization (PBO)	99999

DISCLAIMER: This information is provided for illustrative purposes of a complex PBO. It does not correspond to the ownership/control information provided in the Bank of Anytown.

List the following information for the bank(s) and/or bank holding company(s) in the PBO.

U.S. Name: Demo International Bank[1]
City, Country: Miami, FL
Number of Outstanding Shares: 1,000,000

Foreign Name: Demo International, C.A.
City, Country: Caracas, Venezuela
Number of Outstanding Shares: 50,000

Foreign Name: Demo Bank Venezuela[2]
City, Country: Caracas, Venezuela

Foreign Name: Demo Bank Brazil[3]
City, Country: Rio de Janeiro, Brazil

Foreign Name: Demo Bank Mexico
City, Country: Mexico City, Mexico
Number of Outstanding Shares: 100,000

[1] Of the ten entities that comprise the PBO, only the three foreign banks and the foreign bank holding company that actively engage in transactions with Demo International Bank, Miami, Florida are detailed above. The remaining five entities within the PBO structure include: JMM Holdings, Caracas, Venezuela which wholly-owns Demo Bank International, Panama City, Panama; Mendosa Finance Company, Caracas, Venezuela which wholly-owns Demo Bank International, Cartegena, Colombia and Demo Bank International, Bogota, Colombia.

[2] Wholly-Owned subsidiary of Demo International, C.A., Caracus, Venezuela.

[3] Wholly-Owned subsidiary of Demo Bank Venezuela, Caracas, Venezuela.

Detail the stock owned by the beneficial owner(s) whose direct/indirect control forms the nexus of the PBO.

U.S. Name: Demo International Bank	**Number of Shares**	**Percent Owned**	**Type of Control**
Beneficial Owner: Mendosa Family Trust (Jose Mendosa controls 100%)	750,000	75.00%	Direct
Beneficial Owner: Rivera Family Trust (Juan Rivera controls 100%)	250,000	25.00%	Direct

Foreign Name: Demo International, C.A.	**Number of Shares**	**Percent Owned**	**Type of Control[1]**
Beneficial Owner: Jose M. Mendosa	5,000	10.00%	Direct
Beneficial Owner: Carlita S. Mendosa	12,500	25.00%	Direct
Beneficial Owner: Paco M. Mendosa	7,500	15.00%	Direct
Beneficial Owner: Juan H. Rivera	12,500	25.00%	Direct
Beneficial Owner: Mendosa Family Members	12,500	25.00%	Direct

[1] Mr. Jose M. Mendosa has indirect control of the shares owned by his wife, Ms. Carlita S. Mendosa.

Foreign Name: Demo Bank Mexico	**Number of Shares**	**Percent Owned**	**Type of Control[1]**
Beneficial Owner: Jose M. Mendosa	50,000	50.00%	Direct
Beneficial Owner: Carlita S. Mendosa	25,000	25.00%	Direct

[1] Mr. Jose M. Mendosa has indirect control of the shares owned by his wife, Ms. Carlita S. Mendosa.

Discuss the factor(s) or combination of the attributes (besides or in addition to common stock ownership) that was considered in determining that sufficient control is exercised to conclude that a PBO relationship exists, including whether the individual, family or group of persons acting in concert:

1) Constitutes a quorum or a significant presence on the Board of Directors of both the U.S. depository institution and the foreign bank or the foreign bank holding company.

The members of the Mendosa family listed above serve as the chairman, vice chairman or director for the five foreign entities except that none of them are on the Board of Demo Bank Guatemala. Their membership does not constitute a quorum on any of the three foreign or the U.S. banks' Board, but does constitute a quorum on the Board of the foreign bank holding company, Demo International, C.A.

2) Controls, in any manner, the election of a majority of the directors of the U.S. depository institution and the foreign bank or the foreign bank holding company.

The minutes of the shareholder meeting for the election of the directorate for Demo Bank Venezuela were not available for review. However, it is believed that Mr. Jose Mendosa and his family members controlled the election through their ability to vote a majority of the holding company's stock. Mr. Jose Mendosa's ability to vote the majority of Demo International Bank's stock indicates that he controlled the election of its directorate.

3) Constitutes a quorum or a significant portion of the executive management of both the U.S. depository institution and the foreign bank or the foreign bank holding company.

The members of the Mendosa family listed above serve as the president, vice president or cashier of Demo International Bank, Demo International, C.A. and at the four foreign banks except Demo Bank Guatemala. Their positions constitute a quorum of the executive management at Demo International, C.A., but not at the three foreign banks or at the U.S. bank. However, they occupy critical positions on those teams.

4) Exercises a controlling influence over the management and/or policies of both organizations.

Mr. Jose Mendosa's position as chairman of Demo International Bank and as president of Demo Bank Venezuela enables him to exert a controlling influence over the management and policies of both organizations.

5) Engages in an unusually high level of reciprocal correspondent banking and/or other transactions or facilities between the U.S. depository institution and the foreign bank.

The institutions primarily engage in correspondent bank services, dollar clearings, letters of credit, and trade related transactions. Fee income from transactions with the three foreign banks accounts for slightly over 40 percent of the total fee income generated by Demo International Bank, Miami, Florida in 2003. The U.S. bank also extended a $5 million line of credit secured by a $5 million certificate of deposit to Demo Bank Venezuela, Caracus, Venezuela.

6) Obtains financing to purchase the stock of either the U.S. depository institution or the foreign bank or the foreign bank holding company from, or arranged by, the foreign bank, especially if the shares of the U.S. depository institution are collateral for the stock-purchase loan.

None noted.

7) Requires the U.S. depository institution to adopt particular/unique policies or strategies similar to those of the foreign bank, such as common or joint marketing strategies, cross-selling of products, sharing of customer information, or linked web sites.

The Demo International Bank's web site is linked to Demo Bank Venezuela's web site. Both offer similar loan and deposit products and banking services.

8) Names the U.S. depository institution in a similar fashion to that of the foreign bank.

The titles of the banking organizations use similar naming conventions.

9) Presents any other factor(s) or attribute(s) that impacted the conclusion.

None known.

Summarize the Examination's Findings, including any concerns and criticisms relative to the PBO.

The review determined that a PBO relationship exists between Demo International Bank and three foreign banks and a foreign bank holding company through the common control of the Mendosa family, primarily through Mr. Jose Mendosa's ownership/control of the Demo International Bank in Miami, Florida, Demo International, C.A. (foreign bank holding company), and Demo Bank Mexico in Mexico City, Mexico.

Bank management acknowledges that the institutions are under common control. Management actively monitors all transactions with affiliated entities. No adverse trends were noted except that management was encouraged to devote additional time to review the banks' heightened wire activity. Refer to the Related Organizations page and the Risk Management Assessment page for additional information.

If a PBO relationship exists, then the field supervisor or case manager should forward this document under a cover letter to the Associate Director of the International and Large Bank Branch.