REPORT OF EXAMINATION INSTRUCTIONS

GENERAL INSTRUCTIONS

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These instructions apply to all safety and soundness Reports of Examination (ROE), except those targeted reviews of banks included in the Large State Nonmember Bank Onsite Supervision Program.

REFERENCES

Examiners should also apply the guidance detailed in the following directives:

- Federal Deposit Insurance Act, FDIC Rules and Regulations, and related statutes and regulations,
- FDIC and other applicable Statements of Policy,
- Instructions for the Preparation of Reports of Condition and Income (Call Reports),
- The User's Guide for the Uniform Bank Performance Report (UBPR),
- RMS Manual of Examination Policies (Manual),
- State Statutes and Regulations,
- FFIEC Information Technology Examination Handbooks,
- Outstanding Memoranda
- Financial Institution Letters,
- Uniform Financial Institutions Rating System,
- Uniform Rating System for Information Technology, and
- Uniform Interagency Trust Rating System.

Unless otherwise specified, complete Report financial schedules according to Call Report Instructions.

Reminder: Reports may be affected by changes to definitions, laws, regulations, Call Report Instructions, and regulatory policies within the aforementioned references. When significant Report changes occurred since the previous examination, use footnotes on the applicable report pages to explain the difference(s). Do not footnote minor changes.

REPORT COMMENTS

Examiners should ensure all comments conform to The Plain Writing Act (Public Law 111-274), which was signed into law on October 13, 2010. The Act improves the effectiveness of Federal agencies by promoting clear written communication. For additional information, refer to the Plain Writing Act.

Report comments should clearly and concisely support component and composite ratings. Comments should:

- Focus on assessments, rather than simple descriptions, of a policy, practice, or condition,
- Reflect a complete analysis that forms a conclusion,
- Explain an examiner's reasoning for assigning a particular rating or making a particular recommendation,
- Present issues factually and in order of significance,
- Reflect an appropriate tone,
- Avoid matters not subject to criticism and lengthy discussions of relatively minor items, and
- Include descriptive subheadings, bulleted lists, tables, etc. as needed to improve readability.

Peer Group Information - Examiners may use UBPR or user-derived ratios and peer group comparisons to support comments. However, examiners should avoid over reliance on peer group comparisons.

Apparent Criminal Violations - Examiners must not discuss criminal referrals or apparent criminal violations in the open section of the ROE. All comments in confidential report pages or workpapers should be limited to clear-cut statements of fact. Examiners must not include opinions about the probability of indictment, conviction, or related matters. Comments should be as specific as possible and identify who reported an issue and how it occurred. Do not use language such as, "It is reported...," or, "Management indicated...." Instead, use language such as, "President Scott reported...."

CONSOLIDATED AND INSTITUTION ONLY SCHEDULES

Examiners should complete ROE schedules on a consolidated basis in accordance with Call Report instructions and generally accepted accounting practices. Institution-only schedules, or a list of an institution's investments in subsidiaries, may be included in ROEs when they add meaningful information. Institution-only schedules may be meaningful when:

- A material volume of a subsidiary's assets is adversely classified and inclusion of institution-only schedules highlight a concentration of risk in a subsidiary,
- A material amount of an institution's assets or capital is invested in a subsidiary and inclusion of institution-only schedules helps explain an examination concern (such as weak core earnings), or
- An institution is at risk of failing and inclusion of institution-only schedules might help the bank's board or regulatory authorities develop recovery or resolution strategies.

Examiners should create institution-only pages on continuation pages. Often, simple lists of investments in each subsidiary are adequate.

REPORT DATES

The Report uses four different dates:

- ***Examination as of Date -*** This is the date of the financial information analyzed throughout the Report, generally the most recent quarter-end Call Report data available. For example, if an examination commences on August 31, and June 30 financial data is available, the Examination as of Date would likely be June 30.
- ***Examination Start Date -*** This is the date the examination commenced, typically, the date when the examination team begins formal on-site examination of the institution. It is used to monitor ROE completion times and the length of time between examinations.
- ***Date Examination Completed -*** This is the date the examiner formally completes the examination and submits the ROE for review. The date is used to monitor ROE completion and processing times.
- ***Asset Review Date -*** This is the date of the asset data analyzed in the loan review, and often the investment portfolio and other real estate reviews. Although the date could be the same as the Examination as of Date, often examiners are able to obtain more current information. For example, if an examination commences on August 31, and July 31 loan data is available, the Asset Review Date might be July 31. Note the Asset Review Date on the Confidential-Supervisory Section page and within the Asset Quality comment on the Examination Conclusions and Comments (ECC) page.

Selection of the Examination as of Date and the Asset Review Date - When selecting these dates, examiners should consider the availability of the information (quarter-end Call Report data is generally not available until 45 days after the quarter end), the amount of time institutions need to compile requested information, and any material changes that occurred between the dates.

Note: When significant changes in the composition of the balance sheet occur between the Examination as of Date and the Asset Review Date, make appropriate comments in the Report. There may be circumstances when a more recent month-end date would better serve as the Examination as of Date (rather than the most recent quarter-end).

PAGE ORDER AND NUMBERING

Page order is addressed in the Inventory of Report Pages section.

All pages in the open section are sequentially numbered. Sequential numbering continues through the confidential section, but the pages are not listed in the Table of Contents. The Table of Contents lists the titles and page numbers of all open section pages. The sequence of pages should generally follow the pages listed in the Inventory of Report Pages. When user-defined pages are included, they should be included where most appropriate, but not before the Risk Management Assessment (RMA) page.

Generally, do not number the Officer's Questionnaire. However, if the Officer's Questionnaire is included in the Report, numbering may be appropriate when the Officer's Questionnaire is lengthy. In such instances, the letters OQ should precede the number (for example, OQ.1, OQ.2, and OQ.3).

SUPPLEMENTAL PAGES

Supplemental (non-mandatory) pages should be used to support the conclusions, recommendations, and ratings on the ECC page. The Bank of Anytown ROE includes many supplemental pages that provide guidance for formatting the pages. The sample pages do not necessarily provide examples of comments that support ECC page conclusions.

ROUNDING

Numbers/Dollar Amounts - Examiners may round dollar amounts to the nearest thousand and omit "000." In narrative comments, "M" is the acceptable abbreviation for thousands. Examiners should round amounts consistently throughout the Report and not use abbreviations like $2.5MM, $2,500M, and $2,500,000 interchangeably.

In the Items Subject to Adverse Classification and the Items Listed for Special Mention pages, round to the nearest thousand and omit "000" in both the heading and the extended criticized amount (refer to the Bank of Anytown). In narrative comments, the numbers and dollar amounts may be rounded and abbreviated; however, it is acceptable to use precise dollar or numerical amounts to avoid confusion. *Example:* The $25,000 loan is secured by a mortgage on a 1,800 square-foot condominium valued at $31,500, or $17.50 per square foot.

Note: When rounding, minor adjustments may be necessary to balance related totals in the Report.

RATIOS

Generally, round percentages to the nearest hundredth of a percent, especially critical ratios such as Prompt Corrective Action capital ratios in problem institutions. Round noncritical or imprecise ratios to the nearest whole number.

Note: Avoid being overly precise in narrative comments.

ABBREVIATIONS

Matters Requiring Board Attention (MRBA), ECC, and Compliance with Enforcement Actions pages - An abbreviated term must be spelled out the first time it is used, with the abbreviation enclosed in parentheses following the term.

Other Report Pages - A list of standardized abbreviations for use on the other Report pages is provided on the back cover of the Report (shown in Appendix A).

Note: The effectiveness of Report comments is significantly diminished if the overuse of abbreviations makes a document harder for readers to understand by forcing them to refer to the list of approved abbreviations too often.

WRITING STYLE AND GRAMMAR

Examiners should ensure all ROE comments conform to the guidelines in the Plain Writing Act. As noted above, the Act improves the effectiveness of Federal agencies by promoting clear written communication. Examiners should write clear, concise comments that are free from jargon and technical terms whenever possible. Refer to the Plain Writing Act, Appendix B of this document, and references such as dictionaries and writer's handbooks for specific guidance.

Footnotes - For ROE pages that have a section titled Footnotes, use the section for footnotes and not for comments.

Dollar signs - Use dollar signs in narrative comments, but not tables.

Commas - Use commas in amounts of 1,000 or more.

Spaces - Use two spaces between sentences.

Negative figures - Consistently enclose negative figures in parentheses or refer to them as negative values. Reminder: Do not write double negative numbers.

> *Examples:*
> *Correct:* The borrower reports a negative NW of $25M.
> *Or*
> The borrower reports a NW of ($25M).
>
> *Incorrect:* The borrower reports a negative NW of ($25M).

Names - On the first reference to a person in the Report, generally use the complete title, first name, middle initial, and last name (for example, Senior Vice President (SVP) John A. Doe). After the initial reference, an abbreviated name may be used (SVP Doe), if confusion with other officers is unlikely. Use references consistently throughout the Report.

Financial Ratios - Typically, UBPR financial ratios are uploaded into the ROE through the Genesys application. The most current information should be in the left column on all pages. Manually calculated ratios should conform to UBPR Users Guide definitions and be footnoted as having been manually calculated.

INVENTORY OF REPORT PAGES

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REPORT OF EXAMINATION PAGE ORDER

Page	Section	Mandatory
Cover	**Open**	**Yes**
Table of Contents	**Open**	**Yes**
Matters Requiring Board Attention (MRBA)	Open	No
Examination Conclusions and Comments	**Open**	**Yes**
Compliance with Enforcement Actions	Open	No
Risk Management Assessment (RMA)	Open	No
Violations of Laws and Regulations	Open	No
Information Technology Assessment (ITA)	Open	No
Fiduciary Activities Assessment (FAA)	Open	No
Examination Data and Ratios (EDR)	**Open**	**Yes**
Comparative Statements of Financial Condition	Open	No
Loans and Lease Financing Receivables	Open	No
Recapitulation of Securities	Open	No
Items Subject to Adverse Classification	Open	No
Items Listed for Special Mention	Open	No
Analysis of Loans Subject to Adverse Classification	Open	No
Analysis of ORE Owned Subject to Adverse Classification	Open	No
Assets with Credit Data or Collateral Documentation Exceptions	Open	No
Concentrations	Open	No
Capital Calculations	Open	No
Analysis of Earnings	Open	No
Comparative Statements of Income and Changes in Equity Capital Accounts	Open	No
Relationships with Affiliates and Holding Companies	Open	No
Extensions of Credit to Directors/Trustees, Officers, Principal Shareholders, and Their Related Interests	Open	No
Internal Routines and Controls	Open	No
Composite Rating Definitions	**Open**	**Yes**
Signatures of Directors/Trustees	**Open**	**Yes**
Officer's Questionnaire	Open	No
Confidential – Supervisory Section	**Confidential**	**Yes**
Directors/Trustees and Officers	Confidential	No*

*Page must be completed at each examination (to collect data), but inclusion in ROEs is optional.

INTERNATIONAL REPORT PAGE ORDER

Examination Data and Ratios (International)	Open	Yes, when applicable
Transfer Risks Subject to Classification or Comment	Open	Yes, when applicable
Analysis of the Country Exposure Management System	Open	Yes, when applicable
Selected Concentrations of Country Exposure	Open	Yes, when applicable

Note: Use the EDR (International) page, in lieu of the standard EDR page, in the core section of the Report. Place International Report Pages immediately after the Items Subject to Adverse Classification and Items Listed for Special Mention pages.

EXAMINATION CONCLUSIONS AND COMMENTS (ECC)

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PURPOSE

The ECC page is the primary schedule examiners use to summarize examination findings, inform directors of undue risks, and guide corrective actions. Examiners should convey all significant examination findings on this page, including those relating to risk management, specialty areas, and, when material and relevant, Compliance/ Community Reinvestment Act (CRA) examinations. Examiners must document management's response to each significant recommendation and include an assessment of each CAMELS component on this page.

COMMENT STRUCTURE

Examiners must have a clear understanding of an institution's overall condition to prepare comments properly for this page. Comments should be sufficiently detailed to support all examination findings, ratings, and recommendations. Generally, commentary for a stable 1-rated component should be concise, while commentary for 2- through 5-rated components should be progressively more detailed.

In general, comments on the ECC page should not be duplicated on other ROE pages. However, some duplication is acceptable as certain types of examination issues can affect multiple UFIRS components.

PAGE STRUCTURE

Numerical Ratings

Uniform Financial Institutions Rating System – The top of the ECC page includes a grid to display the component and composite ratings for the current and two prior examinations. Previous examination dates should correspond to those noted elsewhere in the Report. Identify state examinations with "S" following the date, and designate other agency examinations with appropriate abbreviations. Composite ratings for the current and two prior specialty examinations, and the most recent Compliance and CRA examinations should be included at the bottom of the rating grid. Footnote any examination dates that do not correspond with the current or previous risk management examination dates.

Composite rating definitions for risk management and specialty examinations should be included on the Composite Rating Definitions page. Definitions of component ratings are publicly available in the FDIC Statement of Policy on the Uniform Financial Institutions Rating System and can be provided to management upon request.

Overall Condition Summary

The first narrative comments on this page should summarize the overall condition of the bank and briefly describe each component area. While this comment should be concise (often, two or three sentences), more extensive comments may be necessary for institutions with elevated risks. In all cases, the focus should be on providing a concise description of a bank’s overall condition. Often, bulleted comments can provide brief, yet effective, summaries of key conclusions. Examiners should include brief assessments of specialty areas in this section, but avoid significant duplication of comments included in other sections of the ECC page.

Matters Requiring Board Attention

Examiners should use this section of the ECC page (or the optional MRBA page), to highlight material issues and recommendations needing expeditious consideration by the directorate and between-examination follow-up by regulators. If the optional MRBA page is included in a Report, place it before the ECC page.

Examiners should include MRBA comments to highlight areas that require a board's prompt attention. The MRBA comments should prompt the board to evaluate risks and implement corrections before conditions deteriorate. In cases where conditions have already deteriorated, comments should prompt the board to take immediate action to correct deficiencies. Recommendations that management can address in the normal course of business without supervisory involvement can be included in the ECC or RMA pages.

Comment Structure - If MRBA comments are included on the ECC page, the comments should follow immediately after the Summary paragraph. Examiners may also use the optional MRBA page to highlight issues that are detailed on the ECC page. The MRBA section should consist of, at a minimum, a three-part comment that includes:

- An introductory sentence to explain the purpose of the MRBA comment,
- Brief comments highlighting the specific issues that require the directorate's attention, and
- A statement reminding the directorate of their responsibility to address issues appropriately and expediently.

Compliance with Enforcement Actions

Examiners should include a summary of outstanding formal or informal enforcement actions on the ECC page. Detailed analysis of outstanding actions should be presented on the Compliance with Enforcement Actions page. Generally, the summary should be included after the Overall Condition or MRBA summaries; however, placement of the comment depends on its significance in relation to other examination issues. Regardless of the type of action (formal or informal), the summary should discuss any unsafe or unsound practices or apparent violation of law that precipitated the enforcement action. Examiners should conclude comments by indicating if each practice, condition, or apparent violation was discontinued or still exists.

Note: Only the FDIC's Board of Directors is authorized to make a finding of unsafe or unsound banking practices. Therefore, do not use the statutorily significant phrase, "unsafe or unsound" in ROE comments. However, examiners should describe the facts that relate to unsafe and unsound conditions, and can use terms such as undesirable, unacceptable, or objectionable when commenting on unsafe and unsound practices.

Prompt Corrective Action **-** When applicable, present a summary of the Prompt Corrective Action (PCA) provisions included on the Compliance with Enforcement Actions page**.**

CAMELS Components

Each CAMELS component must be addressed on the ECC page. Components should be addressed in order of risk, although some latitude is allowed to facilitate effective communication. Include the assigned rating after each component heading (for example, Capital - 1). The narrative for each component must include an assessment of pertinent factors and support the assigned rating. If applicable, recommendations and management responses should also be detailed. When recommendations are included, the rationale for the recommendation should be provided. Refer to the Addendum to Section 1.1 (Basic Examination Concepts and Guidelines), of the RMS Risk Management Manual of Examination Policies for rating definitions and specific items to consider when evaluating each component.

The length of comments and level of detail should be consistent with assigned ratings. Generally, comments should be brief for 1- and 2-rated components and progressively more detailed for 3-, 4-, and 5-rated components. As commentary expands, it is important to use effective organization and presentation techniques. Subheadings and bullet points are encouraged to improve readability. Generally, lengthy comments should begin with a concise summary of the major issues being covered.

Violations of Law

If apparent violations of law or contraventions of statements of policy are cited in the ROE, the ECC page must include, at a minimum, a brief summary comment and reference to the Violations of Laws and Regulations page. References to other report pages may also be necessary if related issues, such as internal control or policy weaknesses, are detailed elsewhere in the ROE. Based on the significance of the violations, examiners may place the comments under a subheading in the appropriate CAMELS or specialty examination sections, or in a separate section on the ECC page. The amount of detail provided on the ECC page should be based on the materiality of a violation, management's response, and supervisory intentions regarding civil money penalties and enforcement actions.

Disposition of Assets Classified Loss

When applicable, management's response to examination Loss classifications should be discussed within the Asset Quality segment of the ECC page. For example, "President Smith indicated he will charge off all assets classified Loss prior to filing the June 30, xxxx Call Report."

Note: Except in formal cases under Section 8 of the FDI Act, examiners should not suggest management charge off a portion of loans classified Doubtful except when required by state law. Follow guidance contained in Section 3.3 (Securities and Derivatives), of the Manual when securities are adversely classified Doubtful or Loss. Other asset categories against which valuation reserves are not normally maintained require a judgment regarding a recommendation for charge-off.

Note: Comments should not include recommendations regarding the acquisition or disposition of specific assets.

Specialty Examinations

Concurrent specialty examinations <u>submitted under separate cover</u> (Information Technology (IT), Trust, Municipal/Government Securities Dealers (MSD/RSD), or Registered Transfer Agent RTA)) - In some situations, it may be necessary for specialty examination reports to be completed separately from Risk Management examinations. In these rare cases, separate cover specialty examinations should be prepared consistent with specialty examination guidance. Separate cover specialty ROEs require the approval of the regional director or designee.

Specialty examination findings for separate cover reports should be summarized in the ECC section of the risk management ROE. The placement and length of specialty examination comments should be commensurate with the risk profile of the specialty area.

Concurrent specialty examinations <u>embedded in the Risk Management ROE</u> - Specialty examination findings must be summarized in the ECC pages of the ROE. The placement and length of the comments should be commensurate with identified risks. When structuring comments, examiners should consider a department's risk profile, control environment, and risk management practices. Generally, comments should:

- Summarize the examination scope and key findings,
- Detail material recommendations and violations,
- Include management's response (including the timing of promised corrective actions) to material recommendations and violations, and
- Identify bank officials with whom examination findings were discussed.

There are no mandatory specialty examination pages. However, examiners may include specialty examination pages in the ROE to communicate findings, or to facilitate forwarding of information to other regulators or serviced institutions.

Note: Comments on the ECC page relating to RTA/MSD/GSD examinations should specifically state whether any apparent violations of laws or regulations were discovered. If apparent violations were discovered, but management disagrees with the violation, the apparent violation(s) should be cited and discussed in the ROE. If apparent violations were discovered and management agrees the violation occurred, examiners can list the violations associated with the applicable specialty examination in the ROE or include a statement indicating a list of violations was left with management. In either case, an ECC comment must be included detailing management's commitment, or lack of commitment, to correct the violations cited at the examination.

Note: Summary comments for IT examinations must include an ECC page comment assessing an institution's compliance with Appendix B to Part 364, Interagency Guidelines Establishing Information Security Standards (Security Guidelines). The length of the comment should vary based on the size and complexity of the institution and the significance of any weaknesses noted. Where programs are in compliance, comments need only state that compliance with the Security Guidelines was reviewed and the bank was found in compliance with the requirements. Comments should also address the overall adequacy of identity-theft prevention programs for the first examination cycle and on subsequent examination cycles until noted deficiencies (if any) are addressed.

Bank Secrecy Act (BSA)

Examiners must describe the adequacy of BSA and Office of Foreign Assets Control (OFAC) programs on the ECC page and factor their assessment into the Management component. The placement and length of comments should relate to the adequacy of the program and any outstanding regional guidance.

- Programs deemed satisfactory should be briefly discussed within a subsection of the Management component.
- Programs with moderate deficiencies should be discussed within a subsection under Management, with details of noted deficiencies and related recommendations included, as deemed appropriate, on the RMA or ECC page.
- Programs with significant deficiencies or violations of BSA related regulations should be presented, as deemed appropriate, in subsections under Management or as a separate section on the ECC page. Details of noted deficiencies and related recommendations should be included on the RMA or ECC pages.

Meetings with Management and the Board of Directors

If a meeting with the board of directors is held, the ECC page should include a concise presentation of the topics discussed and any related board responses and commitments. Specific management actions, commitments, or responses that are included in preceding comments need not be repeated. However, examiners should include enough detail to make the comment informative and to document commitments for corrective actions. The date of the meeting and a listing of attendees should be included. If a board meeting was not held, examiners should summarize the exit meeting held with senior management. This comment should precede the Board of Directors Reminder described below.

Board of Directors Reminder

This comment should be under a separate heading and the last narrative item on the ECC page. The comment should remind the directorate of their responsibility to review the entire ROE and sign the Signatures of Directors/Trustees page.

Examiner's Signature and Reviewing Official's Signature and Title

The examiner's signature (signatures if joint), and the reviewing official's signature and title should be the last items on the ECC page.

COMPLIANCE WITH ENFORCEMENT ACTIONS

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PURPOSE

This schedule presents facts relating to an institution's adherence to formal and informal administrative actions and to Prompt Corrective Actions. As noted below, examiners should address continuing conditions related to applications, notices, or other written requests on a separate schedule.

Formal enforcement actions are notices or orders issued by the FDIC against insured financial institutions and/or individuals. The purpose of formal actions is to correct noted safety and soundness deficiencies, ensure compliance with Federal and State banking laws, assess civil money penalties, and pursue removal or prohibition proceedings. Formal actions are legally enforceable and final orders are available to the public after issuance.

Informal enforcement actions are voluntary commitments made by an institution’s board of directors. They are designed to correct noted safety and soundness deficiencies or ensure compliance with Federal and State laws. Informal actions are not legally enforceable and are not available to the public.

WHEN TO INCLUDE THIS SCHEDULE

Include this schedule when an institution has one of the following outstanding actions:

Formal Action

- Consent Order
- Capital Directive
- Continuing Condition
- Other formal administrative action of a state authority or other regulatory agency

Informal Action

- Board Resolution
- Memorandum of Understanding
- Other informal administrative action of a state authority or other regulatory agency

Prompt Corrective Actions

When an institution is subject to Prompt Corrective Action (PCA), summarize the applicable provisions of the PCA and follow each provision with an examiner assessment. Carry forward a summary of the institution's adherence to PCA requirements/restrictions to the ECC page.

Continuing Conditions

Create a separate schedule titled "Compliance with Ongoing Conditions" to discuss an institution’s adherence to conditions imposed by the FDIC or other relevant banking agency in connection with an application, notice, or other request made in writing. Address continuing conditions, including any conditions or requirements imposed through orders approving deposit insurance, mergers, or other applications, as well as continuing conditions or requirements imposed through a non-objection to a change in bank control notice or other filing. Continuing conditions or requirements to be addressed may also be included in various agreements relating to an application, notice, or filing such as operating agreements, parent company agreements, capital and liquidity maintenance agreements, and passivity agreements. The schedule should follow the Compliance with Enforcement Actions page (if formal or informal actions are in place) or the ECC page.

PAGE STRUCTURE

Examiners should begin comments with a brief overview of the facts leading to the issuance of an action. (For example, "Based on deficiencies noted at the xx/xx/xx examination, ...") Comments should detail the type of action, effective date, and affected parties. At the first examination after the issuance of a formal or informal administrative action, the action should generally appear verbatim on this page. If the action is lengthy and no court action is contemplated, it may be paraphrased if permitted by regional office policy.

Note: Use bold print, indentation, or similar techniques to differentiate between action provisions and examiner assessments.

Each provision should be followed with an assessment of the adequacy of the steps taken by the institution to comply with each provision of the action. For example, an assessment of a new policy might say, "The updated Liquidity Policy appears to adequately address the requirements of provision X." Examiners should not use conclusory statements of opinion such as, "The institution is in compliance/partial compliance/substantial compliance/noncompliance with this provision." Comments should also indicate whether or not agreed upon time limits have expired.

At subsequent examinations, provisions may be paraphrased or summarized. Address only those points of the action that the institution had not complied with at the previous examination and requirements of a continuing nature. When all provisions have been satisfied, and the only remaining provisions are those of a continuing nature having no expiration date, remarks may be limited to a short paragraph concerning the continuing requirements of the action.

Note: In all cases, carry forward a summary of the institution's adherence to any outstanding formal or informal actions to the ECC page.

RISK MANAGEMENT ASSESSMENT

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PURPOSE

The purpose of this schedule is to provide additional details that support conclusions and recommendations included on the ECC page.

WHEN TO INCLUDE THIS SCHEDULE

Examiners should use the Risk Management Assessment (RMA) page to concisely detail risk management deficiencies, recommendations, and management responses that are material enough to be included in the ROE, but not on the ECC page. When determining where to place comments (ECC vs. RMA), consider the materiality of an issue, the impact an issue has on CAMELS ratings, and how placement of a comment most effectively supports recommendations and ratings.

GENERAL

Examiners should answer each RMA question by responding: "Yes," "No," or "Generally, yes." Responses at most 1 and 2 rated institutions will likely be answered: "Yes", or "Generally, yes."

"Yes" answers do not require ROE comments.

"Generally, yes" answers, which may be appropriate for moderate weaknesses, require comment on the RMA page, but may not require ECC page comments. Related comments should be concise and address management's response.

Answers of "No" normally require ECC page comments. To the extent possible, examiners should not duplicate comments on the ECC and RMA pages; however, RMA page comments may be used to address less significant issues or to provide additional details about weaknesses that are addressed on the ECC page.

In some cases, coverage of related issues may be split between the ECC and RMA pages. For example, a bank's loan policy is inadequate for several significant reasons. In addition, a number of less significant policy related weaknesses are identified that alone would not justify considering the policy inadequate. In this scenario, an appropriate RMA Question No. 2 response may be:

No. As indicated on the Examination Conclusions and Comments page, underwriting and credit administration practices relating to acquisition and development lending are deficient. Additionally, management should strengthen the Loan Administration Policy by:

- Addressing minimum documentation requirements relating to home lending,
- Developing minimum liquidity and net worth requirements for unsecured borrowers, and
- Modifying accounts receivable lending guidance to be consistent with actual practices.

President Smith agreed to modify the Loan Policy by the end of the year.

RISK MANAGEMENT QUESTIONS

Notes:
- The list of items under each question is for illustrative purposes and is not all-inclusive.
- In responding to these questions, examiners should consider the institution's existing and projected risk profile.

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

Consider issues such as:
- Local economic conditions and trends (including real estate markets),
- Trade area demographics,
- Loan demand and diversification strategies, and
- Industry or economic-sector concentrations.

Note: The level of formality in risk management processes should be consistent with the existing and projected size and complexity of an institution's activities. For example, written policies relating to monitoring economic conditions may not be needed in a stable 1 or 2 rated community bank.

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

Consider the adequacy of policies and practices relating to issues such as:
- Credit administration,
- Underwriting standards,
- Credit grading system,
- ALLL methodology,
- Real estate appraisals,
- Internal and external loan review programs,
- Documentation standards,
- Lending authorities,
- Loan approval processes,
- Loan committee structures,
- Nonaccruals and chargeoffs,
- Environmental risk controls,
- Out-of-area lending,
- Loan participations,
- Subprime lending programs,
- Credit card lending programs, and
- Renewals and extensions.

Additional guidance regarding this area is included in Section 3.2 (Loans), of the Manual.

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

Consider the adequacy of policies and practices relating to issues such as:
- Asset/Liability management,
- Liquidity strategies,
- Investment strategies,
- Hedging strategies,
- Investment authorities,
- Committee structures, and
- Outside advisory services.

Additional guidance regarding this area is included in Sections 3.3 (Securities and Derivatives), 6.1 (Liquidity and Funds Management), and 7.1 (Sensitivity to Market Risk), of the Manual.

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?

Consider the adequacy of policies and processes relating to issues such as:
- Strategic and capital planning,
- Management depth and succession,
- New activities or products,
- Competitive environment,
- Feasibility and budgeting analysis,
- Fidelity insurance coverage,
- Consistency of present business plan with that provided with the Application for Federal Deposit Insurance (de novo institutions), and
- Consistency of proposed new activities or products with the business plan provided with the Application for Federal Deposit Insurance (de novo institutions).

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

Consider the adequacy of practices, as well as policy coverage and implementation, relating to issues such as:
- Independence, scope, and frequency of internal/external audit programs,
- Internal control standards,
- Management information systems,
- Audit committee composition,
- Management's responses to previous regulatory and audit recommendations,
- Accounting issues/Call Report errors,
- Fidelity insurance coverage,
- Compliance with the Bank Secrecy Act and Financial Recordkeeping regulations, and
- Compliance with laws and regulations, including continuing conditions other than orders granting approval for deposit insurance (which should be covered on the Compliance with Enforcement Actions Page).

Note: RMA page comments should only briefly address cited violations. Primary commentary regarding apparent violations should be included on the ECC and Violations of Laws and Regulations pages.

Note: BSA and OFAC comments are not required on the RMA page if there are no concerns. However, moderate deficiencies or recommendations for program enhancements that do not require ECC comments may be detailed on this page. (In all cases, scope comments for BSA and OFAC should be included on the Confidential - Supervisory Section page.)

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

Consider issues such as:
- Ownership/Control of the institution,
- Quality and completeness of Board reporting,
- Committee structure adequacy to the extent not addressed in prior questions,
- Directorate attendance,
- Transactions with insiders, affiliates, holding companies, and parallel-owned banking organizations,
- Unusual or nontraditional activities conducted through affiliates,
- Policies and procedures regarding conflicts of interest and ethical conduct,
- Affiliate/subsidiary relationships,
- Excessive compensation and director's fees, and
- Key man life insurance/deferred compensation arrangements.

VIOLATIONS OF LAWS AND REGULATIONS

←

PURPOSE

Examiners use this page to communicate details regarding apparent violations of laws and regulations, as well as contraventions of statements of policy or non-conformance with other guidelines.

GENERAL

The ECC page must include a reference to this page whenever violations or contraventions are cited. References to this page on other report pages may also be necessary if related issues, such as internal control or policy weaknesses, are detailed elsewhere in the ROE.

Because of possible administrative or judicial reviews, all violations must be described as "apparent violations."

Examiners should list violations in order of importance, with consideration given to the materiality of violations, adequacy of management's response, and supervisory intentions regarding civil money penalties and enforcement actions.

FORMATTING WRITE-UPS

Headings - A descriptive heading should precede each scheduled violation or group of violations.

Citation of Violation - When scheduling apparent violations of laws or regulations:

- Refer to general regulations by part number (for example, Part 329),
- Refer to specific parts of regulations by section number (for example, Section 328.2 or Section 329.1(e)), and
- Quote or paraphrase the requirements of violated statutes. Ensure summarized comments accurately reflect the key aspects of any paraphrased statutes. For example, "Section 337.3(b) prohibits banks from making loans exceeding defined amounts to directors without prior board approval."

Description of Violation - Describe the specific actions or circumstances that caused an apparent violation. For example, "The $3 million loan to Director Smith funded on 12/2/11 is in apparent violation of Part 337 because it was extended without prior board approval." Lengthy descriptions of violations may be unnecessary, especially if details are included in other schedules. In such cases, include references to the other schedules.

Management Response - Comments should include:

- Management's explanation for violations and their commitments for corrective action, or lack thereof,
- The name and title of any officers or directors who provided explanations and commitments, and
- Details of any promises of restitution (when applicable).

Director Approval - To reflect director responsibility, include the names of directors who approved assets held in nonconformance with applicable State or Federal laws, regulations, or similar transactions. While this is not necessary in all violation write-ups, it is essential when violations may result in civil money penalties. In such cases, show the date approval was granted and include the names of any dissenting directors. Follow this procedure even if approval consisted merely of ratifying a group of loans identified only by numbers. Generally, also include director approval information when the apparent violation(s) involves insider transactions, whether or not civil money penalties are being recommended.

Summary of Technical Violations – Generally, when citing technical violations involving numerous accounts or credits, examiners may include lists of sample violations in the ROE. If sample lists are included, examiners should give complete lists to management and retain a copy in the workpapers. Refer to specialty examination guidance when citing apparent violations relating to specialty examinations.

LEGAL LENDING LIMIT VIOLATIONS

Generally, courts have held that only the loan(s) that cause a borrower's debt to exceed the legal limit is illegal. Therefore, consider only the advance(s) that cause the excess over the legal limit a violation. However, the state law or practices regarding this matter should prevail.

UNCORRECTABLE VS. REPEAT VIOLATIONS

After violations are first cited at an examination, refrain from citing the violations at subsequent examinations if they cannot be corrected. For example, violations of Regulation O prior approval requirements are not correctable and should not be cited at subsequent examinations. However, examiners should cite repeat violations (new infractions of previously cited violations), and violations that could have been corrected but were not.

CIVIL MONEY PENALTIES

Examiners must not refer to the FDIC's ability to impose Civil Money Penalties (CMPs) except in the most serious circumstances. If institutions repeat or fail to correct serious violations, comments can indicate that violations may be subject to CMPs.

Reminder: Examiners must determine if an insured depository institution should be considered for a CMP referral when significant violations of the BSA/AML Compliance Program have been cited.

Note: When CMPs are being recommended, the home mailing addresses of all directors and any other individuals involved in the violation should be included in the Confidential-Supervisory Section.

CONTRAVENTIONS OF STATEMENTS OF POLICY

List contraventions of statements of policy after cited violations under the subheading Contraventions of Statements of Policy.

VIOLATIONS OF PART 325 VS. CONTRAVENTIONS OF FDIC STATEMENTS OF POLICY

- Violations of Part 325 leverage capital standards are violations of a regulation.
- Failure to meet Risk-Based Capital guidelines is a contravention of an FDIC Statement of Policy, not a violation of Part 325.

Reference: Violations of Laws and Regulations section of the Manual

INFORMATION TECHNOLOGY ASSESSMENT (ITA)

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PURPOSE

The purpose of the ITA page is to convey supporting comments for embedded IT examination findings, which must be summarized on the ECC page. Significant findings from separate cover IT reports completed during the risk management examination cycle must also be summarized on the ECC page.

WHEN TO INCLUDE

Examiners have the option to include the ITA page when necessary to provide additional support for significant examination findings. In cases where a composite 3, 4, or 5 URSIT rating is contemplated, IT comments may have a higher priority on the ECC page, but should generally be formatted as a summary of overall IT conditions, with detailed findings included on the ITA page if necessary.

PAGE STRUCTURE AND ORDER

Numerical Ratings

The ITA page, as formatted by Genesys, includes a grid at the top of the page to display the composite and component ratings for the current and two prior IT examinations. To enhance readability, examiners may wish to include composite IT ratings in the grid (but must still include the ratings in the ECC ratings grid). Rows for component ratings, which are generally not included in embedded IT examinations, should be deleted, or completed as NA and footnoted as Not Assigned.

Supporting Comments

Examiners should focus comments on the overall strengths and weaknesses of information security programs, risk management programs, and IT operations. Comments should be presented in order of importance and provide support for the conclusions and recommendations summarized on the ECC page. Use descriptive subheadings, bulleted lists, and other such devices to promote readability.

FIDUCIARY ACTIVITIES ASSESSMENT (FAA)

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PURPOSE

The purpose of the FAA page is to convey supporting comments for embedded trust examination findings that are summarized on the ECC page.

WHEN TO INCLUDE

Examiners have the option to include an FAA page when additional information regarding embedded trust examination findings, recommendations, or management responses is necessary to support ECC page comments.

Supporting comments on an FAA page may relate to apparent violations, contingent liabilities, potential losses, estimated losses, or other issues subject to comment or criticism.

PAGE STRUCTURE AND ORDER

Numerical Ratings

The FAA page includes a grid at the top of the page to display the component and composite ratings for the current and two prior trust examinations. At a minimum, examiners must include composite trust ratings and a summary comment on the ECC page. However, if deemed appropriate, examiners may also include composite and component trust ratings on the FAA page. The definition of the assigned composite rating must be included on the Composite Rating Definitions page.

Supporting Comments

Examiners should prepare comments on an exception-only basis as much as possible. Comments should be presented in order of importance and provide support for the conclusions and recommendations summarized on the ECC page. Descriptive subheadings, bulleted lists, and other such devices should be used to promote readability.

EXAMINATION DATA AND RATIOS (EDR)

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PURPOSE

The EDR page includes various data that details trends in key financial components and supplements examination assessments of capital, asset quality, earnings, and liquidity. Examiners must include the EDR page in all examination reports.

SUMMARY OF ITEMS SUBJECT TO ADVERSE CLASSIFICATION

Generally, classification information automatically pulls from other report schedules.

Contingent Liabilities

Only Category I contingent liabilities (liabilities that will result in an equivalent increase in bank assets if the contingencies convert to actual liabilities) are subject to adverse classification.

FINANCIAL PERFORMANCE AND CONDITION RATIOS

The standard ratios included on this page are derived from examination results, Call Reports, and the UBPR. When Call Report data is used, ratio calculations are consistent with UBPR User's Guide definitions.

Selection of Ratios

Data in the Asset Quality section and the top portion of the Capital section[1] is based on results from current and prior examinations (if applicable). The left column of the bottom three Capital ratios[2] and the Earnings and Liquidity ratios should tie to the Examination as of Date of the current examination. The information in the adjacent three columns is user-defined. When selecting the period and type of information displayed in the adjacent columns (whether institution or peer), examiners should select the data that best supports examination conclusions.

Examiners can add one user-defined ratio to each section to further support examination findings. User-defined ratios for prior periods that are not readily available can be shown as NA and footnoted as Not Available, or manually calculated based on UBPR definitions.

Note: The Capital Category will need to be changed from "W-Well-Capitalized" if the bank is operating under a formal corrective action even if the capital ratios meet the requirements of the Well-Capitalized PCA category. (Change the category designation by overwriting the Capital Category cell in Genesys.)

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[1] Tier 1 Leverage Capital/Average Total Assets, Tier 1 Risk-Based Capital/Risk-Weighted Assets, and Total Risk-Based Capital/Risk-Weighted Assets

[2] Retained Earnings/Average Total Equity, Asset Growth Rate, and Cash Dividends/Net Income

COMPARATIVE STATEMENTS OF FINANCIAL CONDITION

←

PURPOSE

This schedule presents a general snapshot of the institution's balance sheet. It is not intended for detailed financial analysis. Examiners should use the institution's Report of Condition, UBPR, and other sources for balance sheet analysis.

GENERAL

This schedule should conform to Call Report Instructions. If Call Report Instructions change, examiners may need to add new line items.

Show all asset categories net of specific and general valuation allowances, except Total Loans and Leases, which has a separate line item for general valuation allowances (the Allowance for Loan and Lease Losses).

DATES

Left Column - In the left column, place the financial information for the current Examination as of Date. Generally, this will be the most recent quarter-end available; however, month-end or another date may be more appropriate when circumstances dictate.

Right Column - The right column should usually detail information for the year-end prior to the Examination as of Date shown in the left column. However, when desired, substitute a different date, such as the Examination as of Date from the prior examination. If using a date other than the previous Examination as of Date, ensure the information follows Call Report guidelines.

At the first examination of a new institution, examiners may use the right column to display a projected balance sheet. If this information is not useful, leave the right column blank. In the case of a new institution, footnote the date the institution opened.

ASSETS, LIABILITIES, AND EQUITY CAPITAL

Ensure line items tie to Call Reports line items and footnote any unusual items. If an examination as-of date does not correspond to a quarter-end, line items must still conform to Call Report definitions.

OFF-BALANCE SHEET ITEMS

Off-Balance Sheet Items should correspond to those listed on Call Report Schedule RC-L, although Schedule RC-L includes further breakdowns. If additional categories are needed, space is available below Other Off-Balance Sheet Items.

Include only Category I contingent liabilities (contingencies that give rise to accompanying increases in assets if the contingencies convert into actual liabilities). Do not include Category II contingent liabilities (those that are not expected to result in an increase in assets if converted to actual liabilities, such as pending litigation). Category II contingent liabilities should be discussed on the ECC page under the financial aspect most significantly affected (for example, capital, management, earnings, or liquidity). If more than one financial aspect is impacted, comments relating to the other areas should briefly reference the contingencies and be cross-referenced as needed.

FOOTNOTES

Use this section strictly for footnotes, not comments.

LOAN AND LEASE FINANCING RECEIVABLES

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PURPOSE

The purpose of this schedule is to provide an overview of the types of loans in an institution's loan portfolio and the volume of past-due and nonaccrual loans. This schedule is not intended for in-depth loan analysis. Examiners should review an institution's internal records, Call Reports, and UBPR to gain a thorough understanding of the composition and quality of a loan portfolio.

GENERAL

Complete this schedule according to Call Report Instructions.

Percentages - Round percentages to the nearest whole percent in the loan portfolio section and to the nearest hundredth percent in the past-due and nonaccrual section.

Dates - Examiners have the flexibility to use the same or different dates for the loan category and past-due/nonaccrual sections. The loan category date will usually be the Examination as of Date. The past-due/nonaccrual date should normally correspond with the Asset Review Date.

Note: Past due and nonaccrual ratios may not tie to Call Report ratios if the Asset Review Date and the Examination as of Date are not the same. When the dates differ, ensure the dates used are clearly footnoted. Examiners may prepare the loan portfolio section as of the Asset Review Date if significant loan portfolio changes occurred after the Examination as of Date.

LOAN PORTFOLIO BREAKDOWN

All Other Loans and Leases - This item includes overdrafts.

Note: Gross loans and leases per the Call Report may actually be total loans and leases (gross loans and leases less unearned income). Call Report Instructions encourage but do not require institutions to report loan categories net of unearned income. Using total loans is acceptable when total and gross figures are not substantially different or unearned income is difficult to separate from loan categories.

PAST-DUE AND NONACCRUAL LOANS AND LEASES

Past-due and nonaccrual information should correspond to information in Call Report Schedule RC-N. Refer to the instructions for Schedule RC-N and the Call Report Glossary under "Nonaccrual Status."

Note: The past-due columns are only for past due loans that are still accruing interest. The nonaccrual column may contain current and past-due loans.

Total Past Due and Accruing - This column is the sum of the previous two columns within each category.

Percent of Category Columns - The Percent of Category column calculates the ratio of past-due and accruing loans to the respective loan category. The Nonaccrual Percent of Category column calculates the ratio of nonaccrual loans to the respective loan category. (The totals in these two columns are not the sum of the ratios above the totals. The column totals are the Total Past Due and Accruing and the Nonaccrual dollar amounts expressed as a percent of gross loans and leases. The total Percent of Category ratio plus the total Nonaccrual Percent of Category ratio equals the Past Due and Nonaccrual Loans and Leases/Gross Loans and Leases ratio shown on the Examination Data and Ratios Page.) *Note:* The percent of categories columns should not add to 100 percent unless the entire loan portfolio is past-due or on nonaccrual.

RESTRUCTURED LOANS AND LEASES

Memorandum: Restructured Loans and Leases - Include restructured loans here only if they are past due and accruing or on nonaccrual. These restructured loans are included in the above past-due and nonaccrual totals. Footnote restructured loans that are not past due and accruing or on nonaccrual.

Restructured loans, also known as troubled debt restructurings, are described in ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended by FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"). Such loan restructurings may include, but are not limited to, reductions in principal or accrued interest, reductions in interest rates, and extensions of the maturity date because of deterioration in the borrower's financial position.

The following loans are not considered troubled debt restructurings:

- A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk,
- A loan that was a troubled debt restructuring, which had, subsequent to its restructuring, been assumed by a financially sound, unrelated third party, and
- A loan to purchasers of ORE which, to facilitate disposal, is granted at contract rates lower than market rates for loans of similar risk.

References: ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors
Call Report Instruction Glossary under Troubled Debt Restructurings

FOOTNOTE

Use this area to clarify items in the above sections. Do not use it to detail loan categories. A continuation page may be used if it is necessary to break down loan categories (such as, construction, commercial real estate, 1- to 4-family residential).

RECAPITULATION OF SECTIONS

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PURPOSE

The purpose of this schedule is to analyze the general composition of a bank's investment portfolio, as well as any appreciation or depreciation in securities. Review the institution's internal records, Call Reports, and UBPR to gain a thorough understanding of the composition and quality of the investment portfolio.

GENERAL

Examiners should complete this schedule in accordance with Call Report Instructions-Schedule RC-B and the Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities.

Rounding - Round percentages to the nearest hundredth of a percent.

Trading Account Assets - Do not include trading account assets, other than as a footnote.

SUB-INVESTMENT QUALITY/INVESTMENT QUALITY

This schedule allows examiners to detail investment and sub-investment quality securities for States and Political Subdivisions, Mortgage-backed Securities, Other Debt Securities, and Equity Securities. When applicable, schedule sub-investment quality securities immediately below the appropriate line item. For instance, if an institution has a sub-investment quality other debt security (other domestic debt), add a line item titled Sub-investment Quality Other Domestic Debt Securities directly below Other Domestic Debt Securities. The manually created Sub-investment line items will not appear unless a sub-investment quality security exists.

FAIR VALUE AND ESTIMATED FAIR VALUE

Fair Value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants in the principal, or most advantageous, market of the asset or liability at the measurement date. The value is often referred to as an "exit" price.

An orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities. It is not a forced liquidation or distressed sale.

If using other than quarter-end statements and it is impractical to obtain the fair value for some securities, include the amortized cost of those securities in the Fair Value column. For each line item, footnote the dollar amount of amortized costs included in the Fair Value column.

ASSET-BACKED SECURITIES

Asset-backed securities are backed by assets other than 1- to 4-family residential properties. For example, securities backed by credit card receivables, home equity lines, automobile loans, other consumer loans or commercial and industrial loans. Footnote, if appropriate, the type of assets securitized if other than those previously listed.

References: Call Report Instructions for Schedule RC-B
Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities

Manual Section 3.3, Securities and Derivatives
Capital Markets Handbook
Call Report Glossary, particularly

- Coupon Stripping, Treasury Receipts, and STRIPS
- Marketable Equity Securities
- Participation in Pools of Securities
- Trading Account

ITEMS SUBJECT TO ADVERSE CLASSIFICATION

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PURPOSE

The purpose of this schedule is to detail adversely classified items and when necessary communicate the rationale for adverse classifications via write-ups.

GENERAL

The page heading includes the interagency definitions of Substandard, Doubtful, and Loss.

All types of assets are subject to adverse classification.

ASSET CLASSIFICATION WRITE-UPS

Asset classification write-ups are prepared to support the examiner's conclusions and recommendations to the Board of Directors, senior management, and regulatory authorities (including support for enforcement actions). Write-ups may not be necessary when the Asset Quality (AQ) component is rated 1 or 2. However, <u>when AQ is rated 3 or worse, examiners are to prepare a sufficient number of write-ups</u> to explain individual asset classifications, highlight underwriting deficiencies, and support examination recommendations and ratings.

Examiners should structure their write-ups to present information most effectively. For example, full scope write-ups, addressing the elements discussed under the Loan Write-Ups heading below, may be completed for loans over a certain size or to support specific conclusions or recommendations detailed on the ECC or RMA pages. Less comprehensive write-ups, or write-ups that only include a bulleted list of facts, may be completed for less complex credits. Examiners may also include lists of individual loans, or group homogeneous loans together, if appropriate. The examiner-in-charge has discretion as to the level of detail necessary to support conclusions and satisfactorily convey examination findings.

Regardless of the Asset Quality rating, examiners should consider including loan write-ups when any of the following circumstances are present:

- Significant weaknesses or adverse trends in credit underwriting or administration policies or practices,
- Material Loss classifications,
- Management disagrees with one or more classifications,
- Directors or management are not adequately aware of the impact of significant weaknesses in credit policies, practices, or conditions,
- Adversely classified assets involve institution insiders, or
- Internal credit grading systems are deficient.

REPORT PRESENTATION

General

- In all cases, the dollar amount of adverse classifications must be included in the table at the top of the Examination Data and Ratios (EDR) page.
- If adverse classification write-ups are not prepared, examiners may list individual assets and groups of homogeneous assets on the Items Subject to Adverse Classification page.

- Regardless of ROE presentation, a detailed list of classifications should be left with management before the end of the examination. In this case, a copy of the list, signed by an executive officer (signifying acknowledgement of receipt of the list), should be retained in the workpapers.
- If classified assets are grouped together, include a comment as to the number of assets and basis for classification. For example, "32 Consumer Installment Loans adversely classified based on the Uniform Retail Credit Classification and Account Management Policy."
- The order of adversely classified asset categories should follow the table at the top of the EDR page. Use appropriate subheadings, alphabetize assets within categories, and subtotal each category containing adversely classified items.

LOAN WRITE-UPS

Examiners are encouraged to follow Federal Plain Language Guidelines when completing ROE comments, including loan write-ups. Following the guidelines helps improve the effectiveness of Reports by making comments and recommendations easier for directors and managers to understand. Therefore, examiners should consider the needs of their readers and avoid the overuse of jargon and acronyms. When you are considering whether to use an abbreviation, or how many you can use in a comment, remember that they should make comments easier for your readers to understand. The effectiveness of write-ups is significantly diminished if the overuse of jargon and abbreviations make a document harder for readers to understand by forcing them to refer to the list of approved abbreviations too often.

When full-scope loan write-ups are prepared, comments should address pertinent factors affecting a classified asset.

To the extent necessary, write-ups should address the following elements:

Identification - Indicate the name and occupation or type of business of the borrower. In the case of business loans, identify the business structure (corporation, partnership, sole proprietorship, etc.). Identify signers, cosigners, endorsers, and guarantors.

Description - Concisely describe the make-up of the debt as to the loan type, original and current amounts, and terms. Briefly describe the loan's general history, purpose, and source of repayment.

Collateral - Describe and evaluate any collateral, including its condition and/or marketability. When relevant, identify the appraiser. Also, state if the appraisal or estimate of value is independent or in-house.

Financial Data - Present key balance sheet and income information of the borrower and guarantors. The amount of financial information included in the write up should coincide with its relevance to the classification.

Summarization of the Problem - Explicitly point out the reasons for the adverse classification. Where portions of the line are accorded different classifications or are not subject to adverse classification, state the reasons for the split classifications.

Management's Intentions - Describe management's intention with the debt/borrower. Include any corrective actions contemplated by management, and identify the bank manager who committed to the actions.

Responsibility - Immediately following each loan write-up, identify the originating officer, servicing officer, and the examiner who reviewed the loan.

Consider the following when preparing write-ups:

- The format of write-ups within each asset category should be consistent in presentation, style, and appearance.
- Be concise, but do not omit pertinent information. Assess only relevant factors.
- Write informatively and factually. Do not include extraneous information that may overshadow important weaknesses.

- Round to the nearest thousand (with 000 omitted) in both the heading and adverse classification. In narrative comments, round dollar amounts to the nearest dollar (for example, $24,985) or to the nearest thousand (for example, $25M). Note: Round all dollar amounts in narrative ROE comments the same.
- When participation loans are adversely classified, list each participant and the participant's corresponding ownership percentage (whether or not originated by the institution). This requirement does not apply to Shared National Credits.
- When applicable, discuss contingent liabilities with the related credit relationship. However, do not extend adversely classified contingent liabilities with classified credits. Adversely classified contingent liabilities should be listed under the subheading Contingent Liabilities.
- When applicable, include overdraft amounts in outstanding debt recaps and discuss details on material or chronic overdrafts of borrowers with adversely classified loans in the same general comment.
- If an adversely classified asset has been partially charged off prior to the asset review date, note the date and amount of the charge-off.
- If an asset was adversely classified at prior examinations, indicate the number of times the asset was previously classified.
- If a previously classified and written up asset is again listed for classification, an abbreviated narrative, or a simple listing of name and amount, may be sufficient, <u>if all of the following conditions are met:</u>
  - The fundamental deficiencies have not materially changed,
  - Management agrees with the adverse classification,
  - Management and the board are sufficiently familiar with the deficiencies, and
  - Management and the board are taking feasible steps to improve or collect the asset.
- Indicate if the loan is identified on the institution's internal watch list. If internally identified, indicate the internal rating.
- Indicate the past-due (30 days or more) or nonaccrual status of an asset. Occasionally, it may be pertinent to disclose delinquencies of less than 30 days.
- Indicate if a loan had numerous extensions or rewrites.

Note: It may not be necessary to address credit factors that do not have a significant bearing on a classification. For example, it may be unnecessary to identify the interest rate on a loan that is delinquent because a borrower went out of business and is no longer making payments. However, examiners may need to identify the interest rate on a variable rate loan that is chronically delinquent if the rate is about to increase and further strain the borrower's repayment ability. Additionally, it may be unnecessary to include numerous details on several small loans if a majority of a borrower's debt is centered in one or more large loans. For example, if a borrower has six loans totaling $1 million and the current balance of one of the loans is $950,000, the remaining five loans might be grouped together and described as, "Five related loans totaling $50,000 originating in 2005-2010. Debts classified Substandard due to the troubled financial condition of the borrower and weak overall collateral protection." (Do not group small loans together if detailed descriptions of the credits would provide better support for other examination comments or recommendations.)

MISCELLANEOUS

- When adversely classified loans or other assets involve alleged fraud, embezzlement, or other dishonest conduct, state the facts that support the adverse classification. Do not discuss any possible criminal intent or conduct.
- Clearly distinguish the adversely classified assets of consolidated subsidiaries from institution-only classified assets.

ITEMS LISTED FOR SPECIAL MENTION

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PURPOSE

The purpose of this schedule is to detail assets listed for Special Mention and to communicate the rationale for the criticism.

GENERAL

The page heading includes the definition for Special Mention items.

Do not include smaller items unless they are part of a large grouping listed for related reasons.

WRITE-UPS

Each item listed for Special Mention should be supported by a write-up. However, items that exhibit similar deficient characteristics may be grouped together under a single write-up. The narrative, which generally need not be lengthy, should focus on weaknesses in management's administration, documentation, servicing, and/or collection activities, and on how these deficiencies can reasonably be expected to lead to increased credit risk if not remedied.

ANALYSIS OF LOANS SUBJECT TO ADVERSE CLASSIFICATION

←

PURPOSE

The purpose of this schedule is to provide insight regarding the migration of classified loans from one examination to the next. From the analysis, the examiner will be better able to cite specific areas of change and the causes of these changes. In particular, the schedule may illustrate deterioration in the loan portfolio through the migration of loans previously classified Substandard to more severe classification categories.

WHEN TO COMPLETE

- When institutions have marginal or unsatisfactory loan quality.
- When the volume or composition of adversely classified loans changed significantly from the previous examination.

GENERAL

Classification totals from the previous FDIC examination should normally be the starting point for the schedule. The FDIC does not usually have access to state or other regulatory examination classification workpapers, which makes it difficult to use non-FDIC examinations as the starting point. However, when possible, analyze changes from a previous non-FDIC examination.

Generally, do not include adversely classified consumer loans and overdrafts. If overdrafts or consumer loans are included, they should be footnoted. Examiners also have discretion to exclude other small dollar loan balances from the schedule. Examiners should footnote amounts that are excluded.

Reminder: Reductions pertain only to loans adversely classified at the previous examination.

ADDITIONAL LINE ITEMS

Examiners may add line items when necessary. For example, other line items under Additions may include Previously Classified ORE where disposition did not originally meet the criteria for consummation of a sale (under ASC Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales (formerly FASB Statement No. 66, Accounting for Sales of Real Estate)), but now, subsequent to the transfer of the ORE, meet those requirements.

PAYMENTS VS. RECOVERIES

Nominal recoveries on loans charged off since the previous examination may be handled by: (a) including recoveries in Payments and deducting them from the line item Charged-Off, or (b) making no adjustment. However, when recoveries are significant, examiners should add a line item called Recoveries rather than include recoveries in the line item Payments. The amount included in the line item Recoveries would also be deducted from the line item Charged-Off.

FURTHER ADVANCES - LOANS NOT ADVERSELY CLASSIFIED PREVIOUSLY

Circumstances when this line item may be used include:

- Advances (since the previous examination) on a loan existing at the previous examination, and
- A new loan is granted to borrowers who were indebted to the institution at the previous examination and whose loans were not adversely classified at that time.

Note: For practical purposes, do not research the payment and advance history on a loan that was on the bank's books at the last examination and not adversely classified previously. The amount listed in Further Advances - Loans Not Adversely Classified Previously should be the difference between the current balance and the previous examination balance (assuming the current balance is greater than the previous examination balance).

FURTHER ADVANCES - LOANS ADVERSELY CLASSIFIED PREVIOUSLY

Circumstances when this line item may be used include:

- Advances (since the previous examination) on an adversely classified loan existing at the previous examination, and
- A new loan granted to borrowers who were adversely classified at the previous examination.

CREDITS NEWLY EXTENDED

Include loans to borrowers who were not indebted to the institution at the previous examination.

Note: The aforementioned examples are not all-inclusive.

ANALYSIS OF OTHER REAL ESTATE SUBJECT TO ADVERSE CLASSIFICATION ←

PURPOSE

The purpose of this schedule is to provide analysis of adverse ORE classifications from one examination to the next. From the analysis, examiners will be better able to cite specific areas of change and the causes of the changes. In particular, the schedule may illustrate deterioration in the ORE portfolio through the migration of ORE classified Substandard to more severe classification categories.

WHEN TO COMPLETE

Examiners should consider completing this schedule if the volume of ORE is material or the composition of adversely classified ORE changed significantly since the previous examination.

GENERAL

Generally, the previous FDIC examination should be the starting point for preparing the schedule. The FDIC does not always have access to state or other regulatory examination workpapers, which makes it difficult to use non-FDIC examinations as the starting point. However, if it is possible to analyze changes from the previous non-FDIC examination, examiners may do so.

This schedule is designed to illustrate changes in adverse ORE classifications since the previous FDIC examination. Therefore, only include activity for ORE that was on the books at the last examination and ORE assets on the books at the current examination. (Do not schedule assets that both transferred into and transferred out of ORE between examinations.) If significant activity in the ORE account occurred between examinations, examiners should evaluate the reasons why assets transferred in and how they transferred out (with or without internal financing). Narrative comments may suffice to address this activity. For example, assume the following:

Book value at previous examination: $ 5MM
Book value at current examination: $ 3MM
Book value of ORE acquired and sold between examinations: $12MM

In situations such as this, a separate schedule may be completed for the acquisition and sale of the $12MM. (This schedule may aid in analyzing management practices, asset quality, and loss histories.)

Examiners have the flexibility to exclude some ORE parcels. (That is, when numerous smaller parcels represent only a small portion of the total volume of ORE.) Footnote the schedule to indicate what is excluded.

ADDITIONAL LINE ITEMS

Add line items when necessary.

Examples of other possible line items under Reductions:

- To Premises
- Sales for Cash
- Sales to Insiders
- Now Adversely Classified Loan (This line item may be used when internally financed sales of ORE, which did not originally meet ASC Subtopic 360-20 requirements, now meets those requirements.)

Examples of other possible line items under Additions:

- Capitalized Improvements (This line item may be used when capitalized improvements are substantial as a whole or to a particular parcel. Otherwise, one of the Further Advances line items may be used.)
- Formerly Premises
- Loans to Facilitate the Sale of ORE (sales of ORE that do not meet the criteria for the consummation of a sale under ASC Subtopic 360-20). Use this line item when a significant volume of sales has occurred. Otherwise, sales can go under ORE from Credits Newly Extended.

Reminder: Reductions pertain only to ORE adversely classified at the previous examination.

CHARGED-OFF

This line item may include losses on the sale of ORE, or write-downs on existing ORE, that resulted from re-evaluations or new appraisals.

NOT ADVERSELY CLASSIFIED PREVIOUSLY

This line item may include amounts representing both loans and ORE at the previous examination.

ORE FROM CREDITS NEWLY EXTENDED

This line item may include loans to facilitate ORE sales that do not meet down-payment requirements (that is, loans reported as ORE for Call Report purposes). Additionally, this item may include loans extended since the previous examination that are now adversely classified ORE.

Note: The aforementioned examples are not all-inclusive.

ASSETS WITH CREDIT DATA OR COLLATERAL DOCUMENTATION EXCEPTIONS

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PURPOSE

The purpose of this schedule is to support criticisms of excessive documentation exceptions and highlight specific weaknesses, such as numerous exceptions involving outdated financial information.

WHEN TO INCLUDE

This schedule may be included for support when documentation exceptions are excessive and comments on the ECC page or RMA page are appropriate. Do not include this schedule in the Report when the number of exceptions is not deemed excessive. Instead, leave a detailed list with management.

Note: In certain circumstances, ECC or RMA page comments may be appropriate if excessive deficiencies were outstanding when the examination commenced, but were substantially corrected during the examination and this schedule is not included in the Report.

GENERAL

During the examination, examiners should provide management with a list of documentation deficiencies on specific assets. This procedure is intended to expedite early correction of the deficiencies. Generally, deficiencies corrected during the examination are not included in this ROE schedule. However, examiners may include corrected deficiencies (clearly noted as having been corrected during the examination), to demonstrate reactive, rather than proactive, management practices.

Examiners have the flexibility to add line items in the heading to more accurately describe documentation exceptions encountered at the institution. For example:

- 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 Statement,
- 9 - Livestock Inspection, and
- 10-Crop Inspection.

Include the date of a borrower's financial statement in the Date of Most Recent Financial Statement column only when financial statements are stale or otherwise deficient. Enter "None" when credit files contain no financial statements.

When documentation deficiencies are listed on adversely classified assets, cross-reference the appropriate ROE page.

Use this schedule to detail loan documentation deficiencies, as well as deficiencies in other assets/items (for example, ORE, securities, and letters of credit). Use subheadings to segregate categories and list exceptions in alphabetical order by the borrower's name within each subheading.

CONCENTRATIONS

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PURPOSE

The purpose of this schedule is to identify possible absence of risk diversification within the institution's asset structure. This schedule is informational and all concentrations listed should not automatically be subject to criticism. However, if the intent is to criticize management's diversification policies, carry forward comments to the RMA page or, if warranted, to the ECC page.

As a general rule, list concentrations by category according to their aggregate total as a percentage of Tier 1 Capital.

Use of this schedule is not limited to credit concentrations, but may also include other obligations or types of concentrations where a lack of diversification is cause for regulatory concern (for example, letters of credit, higher risk securities, leases, acceptances, and correspondent bank accounts).

Reminder: When capital is low enough to make a concentration by percentage of Tier 1 Capital meaningless, use percentage of assets as a guideline (generally 2 percent of total assets).

CONCENTRATION CATEGORIES

1) Concentrations aggregating 25 percent or more of Tier 1 Capital should include concentrations by:
   - individual borrower
   - small, interrelated group of individuals
   - single repayment source with normal credit risk or greater
   - individual project

2) Concentrations representing 100 percent or more of Tier 1 Capital should include concentrations by:
   - industry
   - product line
   - type of collateral
   - short-term obligations of one financial institution or affiliated group

Note: List any concentration in the "25 percent" category if elevated risk is evident and/or it supports examination findings.

U.S. GOVERNMENT SECURITIES

Securities issued by the U.S. Treasury, U.S. Government agencies and corporations, and other obligations either backed by the full faith and credit of or fully guaranteed by the U.S. Government (hereafter referred to as "U.S. Government securities") are considered as a practical matter to be riskless. Therefore, these securities, as well as Federal funds transactions, and any other obligations collateralized by these securities, should not be scheduled as concentrations, provided the existence of such collateral has been verified. When Federal funds transactions and any other obligations are only partially collateralized by U.S. Government securities, do not schedule the collateralized portion. However, while other high quality and readily marketable securities may be considered nearly "riskless," such securities and assets collateralized by other than U.S. Government securities should be scheduled as concentrations if equal to, or in excess of, the 25 percent or 100 percent benchmarks.

Note: Refer to Call Report Instructions for details regarding the definition of U.S. Government agencies and corporations. For example, although debt obligations of Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA) are not explicitly guaranteed by the full faith and credit of the U.S. Government, do not list obligations of such agencies and corporations.

OTHER CONSIDERATIONS

In determining whether a group of related obligations comprises a concentration, remember concentrations by their nature are heavily dependent upon a key factor (for example, financial capability, management, source of revenue, industry, or collateral support). If a weakness develops in that factor, it could not only adversely affect the individual obligation(s) in the concentration, but it could also impact the institution's capital position. Nevertheless, treatment of concentrations in the Report is flexible and requires sound reasoning and judgment. For example, if the institution's loan distribution is heavily centered in one general class of borrower, and this condition is inherent in the economy and character of the institution's trade area, it may be appropriate to include these loans.

Out-of-Territory Concentrations - While such obligations may be regarded as a "class of borrower" regardless of the diversification of the group, generally do not list them. Usually, such situations are more of a loan administration issue than a true credit concentration issue.

Correspondent Bank Concentrations - Before making critical comments regarding concentrations in due from balances, review the makeup of the concentration. It may not be practical to maintain smaller due from balances because of the size of incoming cash letters, the amount of collected balances on the correspondent's books, and the need to maintain balances for other services rendered by the correspondent. Even though critical remarks may not be warranted, list such due from accounts for informational purposes.

Purchased Loans and Participation Loans - A heavy volume of loans purchased or participated in from other sources may be listed.

Mutual Funds - Despite their inherent diversification, list an investment in a single mutual fund whose book value represents 25 percent or more of Tier 1 Capital (including those investing exclusively in U.S. Government securities).

EXTENSIONS OF CREDIT TO A FOREIGN GOVERNMENT

Aggregate as a "class of borrower" extensions of credit to a foreign government, its agencies, and majority-owned or controlled entities. If the extensions of credit are equal to or in excess of the 25 percent guideline, schedule them as a concentration. Loans to private sector enterprises may also be included with public sector borrowings if an interrelationship exists in the form of government guarantees, moral commitments, significant subsidies, or other pertinent factors pointing toward reliance on public sector support. Where sizable extensions of credit to related private entities exist and equal or exceed the 25 percent guidelines, list these amounts. The aforementioned procedures are intended to facilitate reporting of concentrations involving borrowers evidencing commonality of commercial credit risk. Follow outstanding instructions when handling transfer risk or country risk, where all public and private sector credits within a country are aggregated and related to the institution's capital structure. The International Banking section of the Manual and the instructions for the International section of the Bank of Anytown contain additional guidelines for concentrations in the area of credit to foreign governments and their entities.

Reference: FIL-104-2006 Commercial Real Estate Lending Joint Guidance
FIL-10-2010 Funding and Liquidity Risk Management Interagency Guidance
FIL-18-2010 Correspondent Concentration Risks Interagency Guidance

CAPITAL CALCULATIONS

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PURPOSE

The purpose of this schedule is to detail regulatory capital calculations, including adjustments resulting from examination findings.

GENERAL

Examiners should prepare this schedule according to Part 325 of the FDIC Rules and Regulations. The date of the financial information should be the same as the Examination as of Date.

For Risk-Based Capital purposes, if Tier 1 Capital is zero or negative, Tier 2 Capital elements will not be recognized when calculating Total Risk-Based Capital. If Total Capital is a negligible or a negative amount, but there are capital components that are not being counted due to the Risk-Based Capital rules, additional line items and footnotes should be added to show that these capital components exist and are available to absorb losses.

COMPUTATION OF TIER 1 CAPITAL

The definition of Tier 1 Capital is the same for both Leverage and Risk-Based Capital standards.

Individual captions are provided for Tier 1 Capital elements and the amounts included are prior to adjustments to Tier 1 Capital.

Adjust Tier 1 Capital after the line item Total Equity Capital. Refer to Schedule RC-R of the Call Report Instructions for line item explanations. In addition to those items, make adjustments for any of the following items identified during the examination process:

Assets Other Than Loans & Leases Classified Loss - This item may include Category I contingent liabilities classified Loss. Refer below for further explanation.

Additional Amount to be Transferred to Tier 2 for Inadequate ALLL - Refer below for explanation.

Other Adjustments to (from) Tier 1 Capital - This item may include:

- <u>Estimated Losses in Contingent Liabilities</u> - This item only pertains to Category II contingent liabilities, such as those that might arise from a trust department or pending litigation.
- <u>Differences in Accounts Which Represent Shortages</u> - This item may include shortages in assets or overages in liability accounts.
- <u>Losses From Apparent Criminal Violations</u> - Material losses attributed to a criminal violation that cannot be addressed by a specific asset classification should be deducted from Tier 1 Capital under the caption Irregular Transaction - Estimated Loss. When the exact amount of the loss has not been determined, the examiner may recommend that the institution engage an outside accountant or legal counsel to conduct an appropriate audit or investigation.

Include the above items only when significant, and add appropriate footnotes.

COMPUTATION OF TIER 2 CAPITAL

Tier 2 Capital is used only for Risk-Based Capital standards. Refer to Schedule RC-R of the Call Report Instructions for line item explanations.

Allowance for Loan and Lease Losses (ALLL)

The line item, *Allowance for Loan & Lease Losses,* is the ALLL (excluding any Allocated Transfer Risk Allowances) reflected on the Comparative Statements of Financial Condition page. If applicable, add any allowances for off-balance sheet credit exposures reflected in RC-G, Other Liabilities. As necessary, deduct the amount of loans and leases classified Loss on the line item *Less: Loans & Leases Classified Loss* and include any adjustments necessary to replenish the ALLL to an adequate level in the line item *Add: Amount Transferred from Tier 1*. The resulting figure is the *Adjusted Allowance for Loan and Lease Losses.*

Eligible ALLL - The eligible amount of the ALLL to be included in Tier 2 Capital is limited to 1.25 percent of gross Risk-Weighted Assets. When the eligible amount is less than the amount shown on the line item *Adjusted Allowance for Loan & Lease Losses*, make the appropriate adjustment on the line item *Ineligible Portion of ALLL.* Do not include Allocated Transfer Risk Allowances.

Other Tier 2 Capital Components **-** Include mandatory convertible debt (e.g. equity contract notes) and any other items required by Part 325 of the FDIC Rules and Regulations.

Maximum Tier 2 Capital - The amount of Tier 2 Capital that may be recognized for Risk-Based Capital purposes is limited to 100 percent of Tier 1 Capital. Deduct any excess amount greater than the limit of 100 percent of Tier 1 Capital before calculating Tier 2 Capital. Include this deduction in the line item *Other Adjustments to (from) Tier 2 Capital.*

TIER 3 CAPITAL ALLOCATED FOR MARKET RISK

Refer to Schedule RC-R of the Call Report Instructions for information regarding financial subsidiaries as defined by the Gramm-Leach-Bliley Act of 1999. The sum of Tier 3 Capital and Tier 2 Capital cannot exceed 100 percent of Tier 1 Capital.

CALCULATION OF TOTAL CAPITAL

The line item *Less: Deductions for Total Risk-Based Capital* should include Investments in Unconsolidated Banking and Finance Subsidiaries. However, these subsidiaries normally are consolidated for Part 325 Capital purposes. Additionally, deduct reciprocal cross-holdings of capital instruments issued by institutions. Further, include any deductions resulting from limitation on the aggregate amount of Tier 3 and Tier 2 Capital detailed above. Other deductions from capital may be required on a case-by-case basis.

DEDUCTIONS FOR LOSS CLASSIFICATIONS AND INADEQUATE ALLL

Part 325 states that on a case-by-case basis and in conjunction with supervisory examinations, other deductions from capital may also be required. These should include any adjustments deemed appropriate for identified losses, including assets other than loans and leases classified Loss and provisions for an inadequate ALLL.

Use the following method to adjust capital for items classified Loss and to adjust for an inadequate ALLL. This method avoids adjustments that may result in a double deduction when Tier 1 Capital already has been effectively reduced through the provision expense in establishing an adequate ALLL. Additionally, this method addresses those situations where certain institutions have overstated the amount of their Tier 1 Capital by failing to take provision expenses necessary to establish and maintain an adequate ALLL.

Method

- Deduct as a separate line item the amount of Loss for items other than loans and leases in the calculation of Tier 1 Capital.
- Deduct as a separate line item the amount of Loss for loans and leases from the ALLL in the calculation of Tier 2 Capital and, if significant, deduct from Tier 1 Capital the provision expenses necessary to replenish the ALLL to an adequate level.

Evaluation of the adequacy of the ALLL includes consideration of the amount of adversely classified loans and leases. If the ALLL is considered inadequate, make an estimate of the amount of provision needed for an adequate ALLL. Make the estimate after the identified losses in the ROE have been deducted from the ALLL. Do not deduct loans and leases classified Doubtful from capital. These items will be included in the evaluation of the ALLL and, if appropriate, will be accounted for by the adjustment for an inadequate ALLL.

Make an adjustment from Tier 1 Capital to Tier 2 Capital for an inadequate ALLL only when the amount is considered significant. The decision as to what is significant is a matter of judgment. As such, consider how much the adjustment would change the Tier 1 Leverage Capital ratio, how much the reader's perception of the institution's capital level will be influenced, and how much the institution's capital category for Prompt Corrective Action will be changed. Where adjustments for an inadequate ALLL may reduce an institution's capital level to a point where Prompt Corrective Action or other restrictions may apply, particular care and attention, including consultation with the appropriate Field Supervisor and Regional Office, should be considered prior to incorporating such adjustments in the Report.

CAPITAL TREATMENT OF OTHER REAL ESTATE (ORE) RESERVES

ORE valuation allowances are not recognized as a component of capital for either Risk-Based Capital or Leverage Capital standards. A valuation allowance is established for each parcel of ORE during the holding period when the real estate’s fair value minus the estimated costs to sell the real estate is less than the real estate’s "cost." Call Report Instructions clarify that valuation allowances must be determined on an asset-by-asset basis. As a result, the individual valuation allowance should be subtracted from the related asset's "cost" to determine the property’s carrying value.

RISK-WEIGHTED ASSETS AND RISK-WEIGHTED OFF-BALANCE SHEET ITEMS

Calculate Risk-Weighted Assets as of the latest Call Report date. Generally make calculations using Call Report and UBPR data. Follow Schedule RC-R of the Call Report Instructions for information to be included or deducted from Risk-Weighted Assets and Off-Balance Sheet Items. Make adjustments for any Risk-Weighted Assets classified Loss and any other Risk-Weighted Asset deductions. Adjust for other items identified during the examination process in the Other Adjustments to (from) Tier 1 Capital line item.

A supplemental workpaper is available to detail the Risk-Weighted Asset structure. Items in this section are derived from the workpaper.

MARKET RISK EQUIVALENT ASSETS

Refer to Schedule RC-R of the Call Report Instructions for information regarding financial subsidiaries as defined by the Gramm-Leach-Bliley Act of 1999.

AVERAGE TOTAL ASSETS

Average Total Assets are as of the latest Call Report date. Refer to Schedules RC-K and RC-R of the Call Report Instructions for detailed information on this figure. Use the amounts deducted from Tier 1 Capital above to adjust *Average Total Assets* and to calculate *Adjusted Average Total Assets. Adjusted Average Total Assets* is based on the definition of Total Assets in Part 325. *Note:* Do not deduct estimated losses in contingent liabilities from total assets.

Reminder: Take Average Total Assets from the latest Call Report date, even if using a month-end financial date throughout the ROE.

MEMORANDA ITEMS

Securities appreciation (depreciation) - The dollar amount of securities appreciation (depreciation), net of Loss classifications, reflected in the HTM and AFS portfolios.

Contingent Liabilities - The first item, Contingent Liabilities, refers to both Category I and Category II contingent liabilities. The second item, Potential Losses, refers only to Category II contingent liabilities. Refer to the *Contingent Liabilities* section of the Manual for a discussion of estimated and potential losses.

References: Part 325 of the FDIC Rules and Regulations
Manual Section 2.1, Capital
Call Report Instructions

ANALYSIS OF EARNINGS

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PURPOSE

This page provides an overview of a bank's earnings and changes in equity accounts. It also summarizes activity in the ALLL and trends in pertinent ratios.

SELECTION OF FINANCIAL PERIODS

Use dates consistently in the Comparative Statement of Income, Reconcilement of Allowance for Loan and Lease Losses, and Other Component Ratios and Trends sections.

Three financial data columns are available, allowing for two calendar years and one interim period (or three calendar years for examinations commencing shortly after the end of a calendar year). The interim period should correspond with the Examination as of Date.

COMPARATIVE STATEMENT OF INCOME

This schedule should reflect data that conforms to Call Report Instructions. Headings correspond to those in the Report of Income, the supplemental Comparative Statements of Income and Changes in Equity Capital Accounts page, and the UBPR (except that the UBPR is completed on a tax-equivalent basis). Genesys automatically populates the data fields; however, examiners should modify the information if necessary (for example, if Call Report changes are required or if information other than quarter end is used). Footnote all changes made.

Total Non-Interest Expense - Total non-interest expense is commonly referred to as overhead expense.

Applicable Income Taxes - Worksheets for calculating Call Report Applicable Income Taxes are included in quarterly Call Report updates. The worksheets can be beneficial in verifying the accuracy of income tax accruals.

Extraordinary Credits (Charges), - Items that qualify for inclusion in this category are rare; refer to Call Report Instructions for details.

Other Increases/Decreases - This title does not correspond to a specific Call Report category but encompasses all categories in the Changes in Equity Capital section (RI-A) that are not included in other line items.

RECONCILEMENT OF ALLOWANCE FOR LOAN AND LEASE LOSSES (ALLL)

Negative Provisions to the ALLL - Negative provisions may be appropriate if clearly supported and applicable accounting guidelines are followed.

Other Increases (Decreases) - Other Increases (Decreases) in the ALLL are rarely encountered; refer to Call Report Instructions for details.

OTHER COMPONENT RATIOS AND TRENDS

Examiners should include additional ratios when they are informative and support ECC page comments.

Note: The Net Income to Average Total Equity Ratio is commonly referred to as the Return on Equity (ROE) ratio.

Noncurrent Loan and Leases to ALLL Ratio - Note the difference in definitions of noncurrent loans and leases and past-due loans and leases. Refer to the User's Guide for the UBPR and Call Report Instructions for these definitions.

COMPARATIVE STATEMENTS OF INCOME AND CHANGES IN EQUITY CAPITAL ACCOUNTS

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PURPOSE

This page provides details of income and expense items and a summary of changes in equity capital accounts. Include this schedule when needed to support ECC page comments.

GENERAL

Complete this schedule according to Call Report Instructions.

Dates used should be consistent with the Analysis of Earnings page.

FOOTNOTES

Only footnotes, not comments, should appear here.

RELATIONSHIPS WITH AFFILIATES AND HOLDING COMPANIES

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PURPOSE

Examiners use this page for detailing information on bank affiliates, their relationships to the bank, and credits extended to affiliated entities. It can also be used to provide a financial overview of the bank's holding company.

GENERAL

Include this schedule, when needed, to support ECC page comments.

Financial Statements - While examiners may obtain financial statements of the holding company (consolidated and parent-only), affiliates, and consolidated and unconsolidated subsidiaries for financial analysis purposes, include the statements in the Report only when necessary to support comments.

Service Corporations and Premises Subsidiaries - Affiliated service corporations and affiliates holding title to premises or ORE for the institution's benefit should be included here.

HOLDING COMPANY RATIOS AND TRENDS

Ratios are included to facilitate holding company financial analysis. All ratios, except This Institution's Assets to Consolidated Holding Company Assets, are available in the Federal Reserve Bank Holding Company Performance Reports (BHCPR). Calculate the referenced ratio from information in Call Reports and the BHCPR. The inclusion of additional BHCPR ratios is encouraged when the ratios contribute to financial analysis or comments.

Note: The type and availability of BHCPRs depend upon the size of a holding company's consolidated assets. No BHCPR is available for companies with assets below $50 million. Only an annual BHCPR with the parent company section is available for companies with assets between $50 and $100 million. Annual BHCPRs are available for companies with assets between $100 and $300 million. Semi-annual BHCPRs are available for companies with assets over $300 million.

EXTENSIONS OF CREDIT TO AFFILIATED ORGANIZATIONS SCHEDULE

Extensions of credit to, and securities issued by, affiliated organizations (when the organizations are related interests of insiders), should be included both here and on the Extensions of Credit to Directors/Trustees, Officers, Principal Shareholders, and Their Related Interests page.

Include extensions of credit to insiders that are collateralized by securities issued by affiliated organizations (as well as on the Extensions of Credit to Directors, Officers, Principal Shareholders and Their Related Interests page). Include these items because they are subject to the provisions of Section 18(j) of the Federal Deposit Insurance Act and Section 23A of the Federal Reserve Act with regard to determining possible violations of extensions of credit to affiliated organizations.

Note: Indirect extensions of credit include borrowings guaranteed by an affiliate.

COMMENTS

Holding Company - Describe holding company relationships here. Generally include the following information:

- Name,
- Location,
- Period of existence,
- Number of shares of the institution's stock owned or controlled by the company, by each subsidiary of the company, and by trustees for the benefit of stockholders or members of the company, and
- A description of holding company trends and their potential impact on the institution. Consider the amount and terms of outstanding debt, lender- or Federal Reserve System-imposed restrictions or covenants, and the dividend payout record. Discuss any adverse trends or conditions on the ECC or RMA page, depending upon their significance.

Include comments on the ECC page when payments from an institution to its holding company are large and do not appear justified based on the services received by the institution. Also, consider compliance with Section 23B of the Federal Reserve Act.

Affiliates/Subsidiaries - Fully describe affiliate relationships in the comments section. The following information should be included:

- Name,
- Location,
- Asset size,
- Net income,
- Nature of affiliation,
- Period of existence,
- Circumstances under which the affiliation arose, and
- Primary business activities of the affiliate.

Include officers or directors when relevant. Additionally, include details regarding the amount and terms of any extensions of credit by the institution to affiliates. This information is important because the provisions of Section 18(j) of the Federal Deposit Insurance Act and Section 23A of the Federal Reserve Act apply insofar as determining possible violations of extensions of credit to affiliated organizations. Generally, comments should be brief pertaining to each extension of credit.

Nonbank Banks - Note when the institution under examination is a grandfathered nonbank bank. List violations of the Competitive Equality Banking Act of 1987 on the Violations of Laws and Regulations page and summarize the violations in a memorandum to the Regional Office. In such cases, include appropriate information on the parent company.

References:
- Related Organizations section of the Manual
- User's Guide for the Bank Holding Company Performance Report
- Section 18(j) of the FDI Act
- Section 23A of the Federal Reserve Act
- Section 23B of the Federal Reserve Act
- Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure
- Federal Reserve Board Regulation W
- Part 362 of the FDIC's Rules and Regulations

EXTENSIONS OF CREDIT TO DIRECTORS, OFFICERS, PRINCIPAL SHAREHOLDERS, AND THEIR RELATED INTERESTS

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PURPOSE

The purpose of this page is to provide details regarding loans extended to bank insiders and their related interests.

WHEN TO INCLUDE

Use this schedule to highlight loans to directors, executive officers, principal shareholders, and their related interests that are subject to criticism due to overall volume, credit quality, or preferential treatment.

GENERAL

Cross-reference here and on the appropriate Report pages extensions of credit subject to adverse classification, violation, or comment. List the current balances of indebtedness in the total column. Footnote charged-off items.

If a director or principal shareholder is also an executive officer, include that person as an executive officer. (Executive officers are subject to the more stringent restrictions of Regulation O.)

DEFINITION OF TERMS

Prepare the schedule in conformance with Regulation O definitions of extension of credit, unimpaired capital and surplus, director, executive officer, principal shareholder, and related interest.

LIST OF INSIDER CREDITS

List insiders alphabetically by description: Group A (Executive Officers and their related interests), and Group B (Directors/Trustees and Principal Shareholders and their related interests). Generally, comments regarding extensions of credit to insiders should be brief and not include detailed descriptions of the credits or related collateral. However, include details on material overdrafts or other unusual items.

Per Regulation O, directors, executive officers, and principal shareholders of the holding company are considered to be directors, executive officers, and principal shareholders, respectively, of the institution. As such, the prior approval, terms, creditworthiness, and lending limit provisions of Regulation O are applicable. List these individuals when appropriate.

In unusual circumstances, examiners may wish to obtain information regarding extensions of credit to non-executive officers and other employees. If such information is listed, do not include the indebtedness in the table at the top of the schedule.

DUPLICATIONS WITH EXTENSIONS OF CREDIT TO AFFILIATES

Extensions of credit to, and securities issued by, affiliated organizations that are related interests of insiders should be reported here and on the Extensions of Credit to Affiliated Organizations schedule of the Relationships with Affiliates and Holding Companies page.

References:

- Federal Reserve Board Regulation O
- Section 337.3 of the FDIC Rules and Regulations
- Manual Section 4.3, Related Organizations

COMPOSITE RATING DEFINITIONS

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PURPOSE

This page provides definitions of the composite CAMELS (UFIRS) and specialty examination ratings detailed in the ROE. Disclosure of composite and component ratings encourages a more complete discussion of examination findings and assists bank directors and managers in making effective risk management decisions.

GENERAL

Examiners should ensure that each composite rating listed on the ECC page is defined on this page. List definitions in the same order as the ratings listed on the ECC page.

References:

- Uniform Interagency Consumer Compliance Rating System - Statement of Policy 11/28/80
- Appendix A to Part 345 of the FDIC's Rules and Regulations
- Uniform Rating System for Information Technology (FIL 12-99 02/05/99)
- Uniform Financial Institutions Rating System (FIL 105-96 12/26/96)
- Uniform Interagency Trust Examination Rating System (FIL 115-98 10/21/98)

All rating definitions are available at www.fdic.gov/regulations/examinations/ratings/.

Note: When using the Genesys application to generate the ROE, the rating definitions should be automatically populated when composite ratings are entered on the ECC page.

SIGNATURES OF DIRECTORS/TRUSTEES

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PURPOSE

This page, when signed and dated by all of the institution's directors, serves as the directors' certification that they each reviewed the Report in its entirety.

This form is the last page in all ROEs forwarded to institutions.

GENERAL

Enter the full name of each director in alphabetical order,. This will facilitate the proper signatures of directors after they reviewed the ROE.

The page will be included in the institution's copy of the ROE. The signed form is to remain attached to the Report and retained in the institution's files for examiner review at subsequent examinations.

OFFICER'S QUESTIONNAIRE

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PURPOSE

The purpose of the Officer's Questionnaire is to obtain information that might not otherwise come to the examiner's attention during the examination.

GENERAL

- Examiners may provide management with an electronic copy of the Questionnaire. The questions are locked in tables and cannot be altered without considerable effort.
- The Questionnaire should be retained for a minimum of five years from the examination start date. The Questionnaire should be retained indefinitely when irregularities are discovered or suspected during the five year retention period.
- The Questionnaire may be submitted with the Report of Examination when appropriate. For example, the Questionnaire should be included if the examiner suspects that an officer knowingly provided incorrect information in the document.
- Most questions should request information since the date of the previous FDIC examination. However, examiners have the discretion to request only information since the previous state examination, if a state ROE is acceptable.
- Examiners may interpret questions to help management complete the Questionnaire. If an EIC believes an officer gave an answer in error due to oversight or misunderstanding, the signing officer may be permitted to correct the answer. The signing officer should initial all corrections.
- The Questionnaire is an official document prepared by the institution. Do not alter it.
- The EIC has flexibility in determining the as-of date of the Questionnaire. The Questionnaire may be completed as of the Examination as of Date or the Examination Start Date. However, the Questionnaire should never be completed as of a date subsequent to the date the institution received the questionnaire.
- The Questionnaire should be completed on a consolidated basis.
- Generally, the chief executive officer should sign the Questionnaire. However, any executive officer, as defined by Regulation O, may sign if significant problems are not anticipated.
- Answers can be listed on continuation pages when adequate space is not provided following a question. Copies of institution documents are acceptable, provided they furnish at least the requested information and contain original signatures. If printouts are voluminous, they may be provided separately from the Officer's Questionnaire. The Questionnaire should state when separate information was given to the EIC, and the information should identify the questions to which it pertains.

QUESTION 1

The purpose of the question is to:

- Determine the extent of interest capitalization.
- Identify loans with potentially poor credit quality.
- Identify credit practices that may distort past-due information.
- Identify practices that may adversely affect the quality of the institution's reported earnings.

Forward affirmative answers to examiners reviewing loans. An excessive number of these loans may distort the institution's financial position by overstating earnings and understating the past-due ratios. If there is a lengthy response to this question, it may be appropriate to include comments regarding the accuracy of the past-due ratios on the RMA page. Excessive use of these practices may warrant an ECC page comment.

QUESTION 2

The purpose of the question is to:

- Assist in determining compliance with the reporting requirements of Section 7(j) of the FDI Act.
- Assist in determining or assessing the extent of interbank activity, and assist in understanding relationships between entities and their management teams.
- Review insider relationships, when applicable.
- Assist in determining or assessing direct or indirect control issues, asset quality, and dividend requirements of other entities.
- Generate information necessary for bank correspondence cross-referencing and verifying the accuracy of information at other institutions.

References: Section 7(j) of the FDI Act
Section 23A of the Federal Reserve Act
Bank Holding Company Act
Banking Act of 1933
Manual Section 4.3, Related Organizations

QUESTION 3

The purpose of the question is to:

- Determine compliance with applicable laws and regulations.
- Assist in reviewing legal lending limits.
- Assist in determining asset quality.
- Assist in determining concentrations.
- Assist in reviewing potential conflicts of interest.
- Identify straw borrowers, also known as bogus or pass-through borrowers. If loan proceeds went to the benefit of a person other than the person named on the note, or otherwise disclosed in bank records, it should be applied to the benefiting parties' aggregate debt for legal lending limit purposes.

References: Federal Reserve Board Regulation O
Part 353 of the FDIC Rules and Regulations
Manual Section 4.5, Violations of Laws and Regulations

QUESTION 4

The purpose of the question is to:

- Determine compliance with applicable laws and regulations.
- Assist in reviewing potential conflicts of interest and preferential treatment.
- Assist in determining the extent of such activities, and assist in better understanding the entities' business relationships with each other.
- Assist in reviewing asset quality.
- Assist in determining concentrations in this type of lending.
- Allow for the appropriate cross-referencing of files and verification of data at other institutions.

Note: In larger institutions, examiners may want to request only executive officers' extensions of credit.

References: Federal Reserve Board Regulation O
Section 106(b)(2) of the Bank Holding Company Act
Part 349 of the FDIC Rules and Regulations (may be violations at other entity)
Part 337 of the FDIC Rules and Regulations

QUESTION 5

The purpose of the question is to:

- Determine the extent, and allow for the review, of insider transactions.
- Assist in determining whether insider transactions harmed the institution.

Transactions may involve equipment leases, leasing of bank premises, or insiders providing institution-related services such as appraisals, IT services, legal services, or insurance.

References: Manual Section 9.1, Fraud and Insider Abuse
Manual Section 4.5, Violations of Laws and Regulations
Manual Section 4.1, Management

QUESTION 6

The purpose of the question is to:

- Assist in reviewing potential conflicts of interest.
- Assist in determining if such transactions have an adverse effect on the institution.
- Assist in reviewing potential misapplication of funds.
- Assist in determining tying arrangements prohibited under Section 106 of the Bank Holding Company Act of 1956.

Reference: Manual Section 4.3, Related Organizations

QUESTION 7

The purpose of the question is to:

- Assist in reviewing potential conflicts of interest.

QUESTION 8

The purpose of the question is to:

- Determine compliance with applicable laws and regulations regarding golden parachute payments.
- Identify poorly designed compensation structures that misalign incentives and induce excessive risk-taking.
- Determine potential abuse resulting from excessive compensation.
- Determine potential adverse effects on profitability.
- Assist in checking the accuracy of accounting issues and financial statements (that is, if the institution has booked appropriate liabilities).

This question looks for potential payments that may meet the definition of a golden parachute payment as defined by Section 18(k) of the FDI Act. Such payments might be prohibited if the institution becomes troubled. Examiners can also use the information provided in the response to review for excessive compensation.

References: Section 18(k) of the FDI Act
Part 325 of the FDIC Rules and Regulations (Prompt Corrective Action)
FIL-66-2010 Guidance on Golden Parachute Applications
Part 364 of the FDIC Rules and Regulations
Manual Section 4.1, Management

QUESTION 9

The purpose of the question is to:

- Assist in identifying undesirable lengths of contracts and potential excessive liabilities.
- Assist in determining any impairment of capital.
- Review for adverse termination clauses.
- Determine impact on the institution's future profitability.

Note: Use the Regulation O definition of equity capital when determining ten percent of equity capital.

This question is intended to identify contracts that may adversely affect the safety and soundness of the institution. Appropriate management review and approval should be recorded for large contracts.

Reference: Section 30 of the FDI Act

QUESTION 10

The purpose of the question is to:

- Determine compliance with applicable state laws and regulations.
- Verify the directors' continued eligibility to serve on the bank's board. Many states require a director to own stock in the institution before becoming a director. Additionally, some states prohibit individuals from being directors if they were indicted or convicted of a criminal offense, or have loans that have been adversely classified. State laws govern the meaning of disqualification for the response to this question. Cross check responses here with responses in question No. 12 for possible tie-ins.

QUESTION 11

The purpose of the question is to:

- Determine compliance with applicable laws and regulations.
- Ensure notification was given to proper authorities.
- Assist in reviewing recovery potential from the bonding company.
- Indicate possible internal routine and control deficiencies.

References: Section 8(e) of the FDI Act
Part 353 of the FDIC Rules and Regulations
Manual Section 4.5, Violations of Laws and Regulations

QUESTION 12

The purpose of the question is to:

- Determine compliance with applicable laws and regulations.

Reference: Sections 8(e), 8(g), and 19 of the FDI Act

QUESTION 13

The purpose of the question is to:

- Assist in ensuring proper internal control and accounting over such items.
- Assist in determining the institution's capital position.
- Assist in determining compliance with key-man life insurance guidance.

This question may encompass a variety of answers. Typical answers include charged-off assets of undetermined value and the cash surrender value of a key-man life insurance policy when the institution is named as beneficiary.

Reference: Manual Section 2.1, Capital

QUESTION 14

The purpose of the question is to:

- Determine the impact of contingent liabilities, the likelihood of contingencies becoming direct liabilities, and the potential impact on capital.

Note: In some instances, institutions incur significant costs in obtaining a formal attorney's letter. As such, examiners should not specifically request or require such a letter as a means of answering this question. Nonetheless, many institutions will obtain an attorney's letter. Normally, a summary should be provided here, and the attorney’s letter(s) should be retained in the examination workpapers. If the letter(s) are being included in the Report (with the Officer's Questionnaire), include the letters on a continuation page.

References: Manual Section 2.1, Capital - Contingent Liabilities

QUESTION 15

The purpose of the question is to:

- Identify affiliated organizations.
- Identify loans to affiliates.
- Reveal trust powers and the extent to which trust powers are exercised.
- Ensure all contingent liabilities are reviewed.

References: Section 303.7 of the FDIC Rules and Regulations
Manual Section 12.1, Applications

CONFIDENTIAL – SUPERVISORY SECTION

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PURPOSE

The purpose of this page is to communicate non-public information to regulatory personnel. Generally, information on this page should not duplicate information in the open section of the Report.

Note: Use descriptive headings to separate topics and improve readability.

MANDATORY COMMENTS

Institution Control and Relationships - Concisely identify the individuals or organizations that control the institution, material subsidiaries, and affiliates. Such information is important in tracking chain bank organizations and updating holding company records.

Examiners should interpret the word "controlled" broadly. Control may exist in an individual or group, through stock ownership, or other means. Depending on the situation, ownership of varying percentages of stock may result in control. In a mutual institution, effective control may exist in the form of a board, committee, or dominant individual. A concentration of decision-making power and a lack of oversight or accountability are keys to determining the level of control.

References: Change in Bank Control - Section 7(j) of the FDI Act
Part 362 - Activities of Insured State Banks and Insured Savings Associations
Statement of Policy on Changes in Control in Insured Nonmember Banks

Director Involvement - Prepare a brief statement summarizing the extent of director participation during the examination process.

Examination Scope - Prepare a post-examination comment addressing any significant deviations between projected and actual hours (greater than 15 percent deviation), examination scope, or examination procedures. If significant variances did not occur, provide a sentence such as, "There were no significant variances between projected and actual examination hours, examination scope, or examination procedures."

Loan Penetration - Include the following:

- Asset review date,
- Number of relationships reviewed,
- Dollar volume of credit extensions reviewed/percent of total credit extensions,
- Dollar volume of non-homogenous credit extensions reviewed/percentage of total non-homogenous credit extensions, and
- Credit review cutoff point (if applicable).

The loan penetration comment may also include a breakdown of scoped loans by major loan type, location, officer, or other information.

Note: This information can be effectively presented in chart form.

Bank Secrecy Act Review Scope - Include the BSA examination number and a brief comment detailing the scope of the BSA review and the procedures performed. Include the time period for which FinCEN CTR/SAR filing data was compared to bank records, and identify the individuals with whom BSA review findings were discussed. If the bank's policy allows for numbered accounts, indicate their existence to ensure these high-risk accounts are reviewed at subsequent examinations.

Office of Foreign Asset Control Scope - Include a brief comment stating the scope of the OFAC review and the procedures performed.

SPECIALTY EXAMINATIONS

Examiners should use this page to communicate information that would be inappropriate or unnecessary to include in the open section of the ROE. Comments should conform to outstanding specialty directives, but in general may include:

- Specialty examination numbers (used for hours tracking),
- A brief scope statement, noting any areas of in-depth review,
- Confidential information supporting examination comments, recommendations, and ratings,
- Confidential information regarding management, strategic plans, offices, products, or services, and
- Recommendations for future examinations.

SITUATION-SPECIFIC COMMENTS

The following topics can be addressed on this page:

- Confidential information supporting the management rating,
- Comments reconciling apparent discrepancies between the assigned rating and recommended supervisory actions (or lack of recommended actions),
- Planned management changes,
- Sensitive or nonpublic information such as merger discussions, and
- Difficulties conducting the examination due to lack of cooperation from management.

CAPITAL ENHANCEMENT SOURCES

When applicable, note potential capital resources, including the perceived capacity and willingness of potential investors to purchase stock. The following items may also be addressed:

- A complete list of present shareholders detailing the amount of stock held and their financial worth (small holdings may be aggregated if a complete listing is impractical),
- Individual director's capacity and willingness to purchase stock,
- A list of prominent customers and depositors who are not shareholders but who may be interested in acquiring stock,
- A list of other individuals or possible sources of support in the community who, because of known wealth or other reasons, might want to subscribe to new stock, and
- Any other information regarding new capital sources, along with the examiner's opinions regarding the most likely prospects for the sale of new equity.

EXPRESS DETERMINATION LETTERS

Include a brief comment if management requests, and is provided or denied, an express determination letter for tax purposes. For additional details, refer to Section 3.2 (Loans), of the Manual.

SUGGESTIONS AND COMMENTS FOR FUTURE EXAMINATIONS

Comments may include the following:

- Name of external IT servicer(s), applications serviced, and contact personnel,
- Personnel needed to start an examination,
- Special personnel requirements, (for example, capital markets experts),
- Name and location of branches to be included in the next examination,
- Locations and business hours for branches, operation centers, or credit offices,
- Records maintained at locations other than the main office,
- Number and working hours of state examiners at joint or concurrent examinations,
- Working space limitations, and
- Any other information that may improve examination efficiencies.

RECOMMENDATIONS FOR ADMINISTRATIVE ACTIONS

Note: Do not reference administrative actions on the Confidential Page. Address, in a separate memorandum, actions such as: (1) imposing or not imposing civil money penalties, (2) terminating insurance, (3) issuing a Cease and Desist Order or other formal action, (4) issuing a Memorandum of Understanding or other informal action (Board Resolution), and (5) releasing an institution from outstanding action.

When administrative action is contemplated, remember that Confidential-Supervisory Section comments may be a matter of record at an administrative hearing. All comments must be accurate, well supported, and able to withstand cross-examination.

DIRECTORS/TRUSTEES AND OFFICERS

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PURPOSE

This confidential page provides information of interest to nonbank users of the ROE. The information assists Case Managers, other field, regional, or Washington Office management, and other regulatory authorities in their case management, applications processing, ROE review, and general bank supervision duties.

List all directors, executive officers, and principal shareholders (as defined in Federal Reserve Regulation O) under those respective subtitles. Other officers or employees (such as officers who head functional areas or the internal auditor) may be included at the discretion of the examiner-in-charge. Generally, detail functional responsibilities, banking experience, and post-secondary education for all officers listed. For directors, include their occupation, banking experience, and any other significant information relating to their contribution to the institution. When relevant, identify the related interests of all directors, executive officers, and principal shareholders.

Include holding company officers or directors who exert significant control over the institution's affairs (for example, when a holding company treasurer manages a subsidiary institution's investment portfolio), even though they are not official officers/directors of the institution.

Note: While inclusion of this page in the ROE is discretionary, the information must be gathered and input into Genesys for transmittal to reviewers. Retain copies of source documents in the workpapers.

OTHER

Net Worth - Directors' net worth should be obtained and included when relevant (for example, when an institution's capital position is inadequate and directors may be a source of additional capital). When estimated net worths are obtained, footnote the Date of Statement column to indicate the source of information (for example, net worths estimated by President Smith).

Attendance at Board Meetings - Board meeting attendance figures shown should be since the previous FDIC or state examination, unless otherwise noted.

Parent Company Ownership - If a holding company owns the institution, note ownership in the holding company. If relevant, examiners may include the percentage of shares owned below the number of shares owned. When informative, total the Number of Shares Owned column. Show the percentage of shares controlled by the directorate as a whole.

Salary and Bonus - Footnote the dates of salary and bonus information if it is not the current annual salary or most recent annual bonus.

Home Addresses of Directors - List the directors' complete home addresses here or on a separate continuation page when the following conditions exist:

- Formal or informal administrative action is contemplated,
- The institution is rated a composite 3, 4, or 5, or
- Civil money penalties may be recommended.

Memoranda - Note the following information:

- Number of board meetings since the previous FDIC or state examination
- Memberships in important committees (particularly audit)
- Directors' fees for board and committee meetings

INTERNATIONAL REPORT PAGES AND WORKPAPERS

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INTERNATIONAL REPORT PAGES -- COUNTRY RISK

Three report schedules are used to reflect examiner analysis of the country risk element in an institution's international operations. Complete these report pages as a Report of Examination section and include them after the schedules of domestic Items Subject to Adverse Classification and domestic Items Listed for Special Mention. The three report schedules include the following:

- Transfer Risks Subject to Classification or Comment
- Analysis of the Country Exposure Management System
- Selected Concentrations of Country Exposure

Instructions for completing these three schedules are on the following pages.

DISCLAIMER: These pages are provided for ILLUSTRATIVE PURPOSES ONLY. They are not intended to correspond with or tie to information in the Bank of Anytown Report of Examination.

INTERNATIONAL REPORT PAGE

TRANSFER RISKS SUBJECT TO CLASSIFICATION OR COMMENT

This page lists assets adversely classified Substandard, Value Impaired, or Loss, designated as Other Transfer Risk Problems, or subject to comment (Moderately Strong or Weak) as a result of transfer risk considerations. Examiners should follow the instructions for the Items Subject to Adverse Classification page as a guideline for including or not including the transfer risk write-ups in the Report of Examination. If transfer risk write-ups are omitted from the ROE, examiners should provide the write-ups to bank management.

Credits will be adversely classified where an interruption in payment has occurred or an interruption in payment is imminent. The decision to adversely classify or to designate as Other Transfer Risk Problem, Weak, or Moderately Strong is made by the Interagency Country Exposure Review Committee. The Committee also prepares the write-up supporting the adverse classification or comment.

The page should contain the details of the composition of the institution's claims subject to transfer risk. The amount extended for adverse classification or comment should be as of the asset review date, if possible, particularly if there has been a change in outstanding exposure balance since the date of the last quarterly Country Exposure Report.

Adverse classifications will be either Substandard, Value Impaired, or Loss, while other designations will be either Other Transfer Risk Problem (OTRP), Weak, or Moderately Strong. Do not schedule exposures designated as strong. Provide a paragraph detailing the composition of the institution's claims subject to transfer risk.

Report exposures alphabetically by country, with a total for each category, either Substandard, Value Impaired, or Loss, OTRP, or exposures subject to special comment appearing on the last page.

Summarize the amount adversely classified due to transfer risk by asset category (for example, securities or loans) and add to the amount adversely classified due to commercial risk, with adjustments made to eliminate any duplication with respect to assets adversely classified for commercial credit weaknesses.

It is entirely possible that a segment of the institution's exposure in a particular country will also be adversely classified because of commercial credit deficiencies. In these circumstances, prepare the customary write-up on the Items Subject to Adverse Classification page. Be careful not to duplicate the adverse classification on the Transfer Risks Subject to Classification or Comment page. Elimination of duplications need not be made at each criticism cited. Rather, a single elimination may be made at the end of the listing of adverse classifications for commercial risk or transfer risk, as explained below. However, the most severe criticism must always prevail.

For example, if an asset in Country A is classified Doubtful for commercial credit risk while the transfer risk is Substandard, make the adjustment for the duplication before calculating a total for adverse classifications due to transfer risk. The same procedure applies if both transfer risk and commercial risk bear the same degree of classification. Refer to the following example:

TRANSFER RISK	SUB STANDARD	VALUE IMPAIRED	LOSS
Subtotal assets classified due to transfer risk 5,000,000 due to transfer risk	5,000,000	0	0
Less-amount classified due to commercial credit risk	500,000		
Total adversely classified assets due to transfer risk	4,500,000		

On the other hand, if the transfer risk is more severe, eliminate the duplication at the location where totals for assets adversely classified due to commercial risk are calculated by using the subscript Less-amount classified due to transfer risk.

ALLOCATED TRANSFER RISK RESERVE

Pursuant to the International Lending Supervision Act (ILSA), the Federal banking agencies require institutions to establish and maintain a special reserve when the value of international loans has been impaired by a protracted inability of the borrowers in a country to make payments on external indebtedness or no definite prospects exist for orderly restoration of debt service (for example, loans classified Value Impaired). Determination of the level of the special reserve, Allocated Transfer Risk Reserve (ATRR), is the responsibility of the Interagency Country Exposure Review Committee (ICERC). The ATRR must be established by a charge to current income and be segregated from the institution's general allowance for possible loan losses. Do not include the ATRR as a part of bank capital. The institution has the option to charge off the required amount rather than set up the ATRR. Examiners should ascertain whether the appropriate percentage ATRR or charge-off of outstandings to Value Impaired exposures has been made. The amount of charge-off or ATRR required is that amount which is equal to the appropriate percentage level on outstandings as illustrated:

	EXPOSURE TO COUNTRY X	**EXPOSURE TO COUNTRY Y**
Outstanding Balance	1,000,000	2,000,000
ATRR (ICERC sets requirement For Country X at 15%	150,000 (ATRR or Charge-off)	
ATRR (ICERC sets requirement For Country Y at 10% AND Increases ATRR requirement for Country X to 20%)	50,000 (ATRR or Charge-off)	200,000

If a charge-off or reserve of the requisite amount has not been established, the amount should be deducted in capital analysis and remind the institution in the Examination Conclusions and Comments page and the Violations of Laws and Regulations page of the regulatory requirement (refer to Part 351 of the FDIC Rules and Regulations) to charge off the amount or create the special reserve.

The requisite ATRR or charge-off is based on the original amount of exposure to a country less payments received. Loans extended after the initial amount, as determined for ATRR purposes, are generally not subject to an ATRR or charge-off if the new money was extended pursuant to economic reforms and if the credits are performing.

Exposures adversely classified due to transfer risk (less duplication adjustment) are included in the Summary of Items Subject to Adverse Classification and Special Mention section of the Examination Data and Ratios page, under a separate line item, Transfer Risk.

Combine credits that have been adversely classified due to transfer risk problems with commercial loan classifications when evaluating an institution's asset quality and other measures of financial soundness, including capital adequacy. Also, report exposures designated as Weak or Moderately Strong Transfer Risks on the Transfer Risks Subject to Classification or Comment page, with the accompanying write-ups. The criteria for determining exposures warranting comments are as follows:

Strong Transfer Risks - Do not comment on exposures to countries in this grouping. Extremely large exposures to these countries may be commented on in the discussion of the exposure management system and/or the Examination Conclusions and Comments page.

Moderately Strong Transfer Risks - Comment on exposures exceeding 15 percent of capital. For exposures between 10 and 15 percent of capital, there is a presumption in favor of commenting if outstandings with a maturity in excess of one year exceed 7.5 percent of capital. If maturities in excess of one year are less than that amount, there will be a presumption against commenting. Do not comment on exposures below 10 percent of capital.

Weak Transfer Risks - Comment on exposures exceeding 10 percent of capital. For exposures between 5 and 10 percent of capital, there is a presumption in favor of commenting if amounts due in excess of one year exceed 5 percent of capital. If amounts maturing in excess of one year are less than 5 percent, the presumption is against commenting. Do not comment on exposures below 5 percent.

Where comment is optional, the examiner will be allowed some flexibility and may determine not to follow the presumptions if other pertinent banking factors weigh more heavily either for or against comment. These factors might include management ability, the nature of the Committee's comment about the country, or the results of a more detailed breakdown of the composition of the portfolio. For example, if the institution's claims on a country were primarily short-term with presumption against commenting, the examiner might comment on the exposure if management was not following developments in the country and the Committee's write-up indicated a deteriorating situation. Similarly, comment might be omitted in spite of a presumption in favor of commenting if the Committee's report indicated a country's near-term outlook was good and a substantial part of the term credit was maturing in the second year.

To determine whether threshold levels of capital funds have been met, include firm commitments to lend additional funds.

It is possible that certain portions of an institution's exposure in a country (for example, trade transactions) will be listed for special comment, while other portions of the institution's exposure in a country (for example, term loans) might warrant adverse classification or designation as OTRP. Report split designations under the proper columns. To insure the uniform treatment of all short-term loans, the Committee has defined short-term loans as loans or loan amortizations maturing within one year from the applicable examination. That portion of long-term loans representing principal amortizations due within one year will not be included when extending long-term loans only. Trade transactions include only those credits covering the actual movement of goods (for example, commercial letters of credit and acceptances). Acceptances past due or extended are considered to be loans. Extend for special comment or adverse classification, as applicable, contingent liabilities subject to transfer risk (including commercial and standby letters of credit as well as loan commitments) that will result in a concomitant increase in institution assets if the contingencies convert into an actual liability. Classify contingent liabilities extended for adverse classification according to the type and tenor of the institution asset, which would result from conversion of the contingency into an actual liability. For example, classify commercial import/export letters of credit the same as trade transactions, and classify commitments to fund long-term project loans the same as long-term loans. In cases where type or tenor is not easily discernible and where exposure is accorded a split classification, the more severe classification should prevail.

Commitments should include only those commitments for which there has been charged a commitment fee or other consideration, or is otherwise a legally binding commitment. In the case of commitments for syndicated loans, extend only the institution's proportional share of the commitment. Similarly, contractual underwriting commitments (for example, revolving underwriting facilities) and other bond underwriting agreements may be shown net of firm commitments from other parties to purchase the assets without recourse within a short period of time. Accordingly, commitments should include the institution's obligations to participate in syndicated loans and underwritings managed by other institutions.

With respect to traditional concentrations of credit to related or affiliated borrowers within the institution's exposure in a particular country, schedule these lines on the Concentrations page in the usual manner.

INTERNATIONAL REPORT PAGE

ANALYSIS OF THE COUNTRY EXPOSURE MANAGEMENT SYSTEM

Present, in narrative form, an analysis of the institution's system for monitoring and controlling country exposure. Guidelines for conducting such analysis, as well as detailed examination procedures, are incorporated in the International Banking section of the Manual. Include the examiner's evaluation of the institution's procedures for measuring exposure, the institution's system for establishing country lending limits, and the institution's capability to analyze countries. Also, include an assessment of adherence to the institution's stated policies in this area.

The evaluation of the institution's international loan portfolio and the institution's country exposure management may warrant including commentary on the Examination Conclusions and Comments page to bring deficiencies to the attention of management and/or the board of directors. Examples might include very excessive concentrations of transfer risk in one or more countries, a pattern of concentrations to certain classes of countries, large amounts of classified assets, or a weak or ineffectual country exposure management system.

INTERNATIONAL REPORT PAGE

SELECTED CONCENTRATIONS OF COUNTRY EXPOSURES

Use this schedule to display transfer risk exposures considered large relative to the institution's capital and/or considered significant in relation to the economic, social, and political circumstances within a country.

List exposures to countries judged to be strong transfer risks on this schedule if the institution's exposure exceeds 25 percent of the institution's Tier 1 Capital. List moderately strong transfer risks at 10 percent of Tier 1 Capital, and list exposures to weak transfer risks equal to or exceeding 5 percent of Tier 1 Capital on this schedule. Also list all exposures to adversely classified countries or countries designated OTRP. Display exposures in alphabetical order.

The schedule is patterned after the Country Exposure Report (FFIEC 009). If the institution is required to prepare the report, obtain the information from the report most recently filed by the reporting institution (data from the most recently filed report is downloaded when available). Compiling the required data as of the examination start date is unnecessary unless the institution's exposure has changed materially since the date of the report. Spot-check the accuracy of the report by sampling the data provided on several countries shown on the report.

Several insured state nonmember banks have significant country exposures but are not required to submit the report because the institution does not meet the foreign branch, foreign subsidiary, or Edge Act or Agreement subsidiary criteria. Institutions with overseas lending activity in excess of $15 million are required to file periodic reports with the U.S. Treasury under the Treasury International Capital Reporting System. These reports may be useful in determining the volume of the institution's foreign lending activity. If the institution has aggregate exposures to foreign residents (any individual or entity) exceeding $30 million, prepare the report schedule Selected Concentrations of Country Exposure. For institutions with exposures to foreign residents of $30 million or less, the schedule may be prepared if it is significant to evaluating the condition of the institution. In any event, exposures to countries adversely classified by the Committee should be classified in the Report.

Terminology used in the schedule includes the following:

Cross-Border/Cross-Currency Claims - Includes all assets of the institution and its foreign offices where the obligor or asset is domiciled outside the U.S., and the asset is denominated in a currency different from the currency of the country where the obligor or asset is located. Claims include interest-bearing balances with institutions, securities, Federal funds sold and securities purchased under agreement to resell, loans (including own acceptances purchased, acceptances of other institutions purchased, discounted trade bills, and other instruments defined as loans in the instructions to the Report of Condition), direct lease financing, investments in unconsolidated subsidiaries and associated companies, and customers' liability on acceptances outstanding.

Amounts Maturing In: Less Than 1 Year - More Than 1 Year - Base the maturity distribution on amortization or final maturity dates, as appropriate, and not interest adjustment dates or roll-over dates. Include loans payable on demand in the less-than-one-year column. Place current maturities of long-term debt in the less-than-one-year column.

Commitments/Contingent Claims - Refers to binding contractual obligations of the institution and includes only the following: fee-paid loan commitments (less any amounts actually disbursed), undisbursed portions of loans contracted where the funds are available at the borrower's request, commercial letters of credit either issued or confirmed, standby letters of credit, and formal and legal guarantees issued. Excluded from this item are commitments that are subject to further institution approval before disbursement of funds and credit authorizations (internal guidance lines).

Subtotal by Location of Borrower - This column is intended to arrive at a gross total of cross-border claims and commitment/contingent items by country in which the primary obligor resides. The subtotal is calculated by adding the maturity and commitment/contingent claims columns.

Adjustments for Guarantees - These columns are intended to reallocate cross-border and contingent claims to the country of any guarantor (the party ultimately responsible for payment of the obligation in the event of default by the primary obligor). For the purposes of this report schedule, guaranteed claims are those claims of the reporting institution for which a third party formally and legally obligates itself to repay the reporting institution's claims on the primary obligor if the latter fails to do so. Documents that do not establish firm legal obligation, such as comfort letters or letters of awareness or intent, are not considered guarantees. The term guaranteed covers collateralized claims if the collateral is (a) tangible, liquid, or readily-marketable (for example, cash, gold, certificates of deposit, or readily-marketable shares of stocks or bonds); and (b) both held and realizable outside of the country of residence of the borrower. In cases involving collateral, the residence of the guaranteeing party is the country in which the collateral is held unless the collateral is a security, in which case it is the country of residence of the party issuing the security. With respect to claims on institutions, reallocate obligations due from a branch or agent of an institution to the country where the institution's head office is located. This procedure takes account of the implicit obligation of the head office to honor claims on its branches. This procedure will be used to reallocate any claims on U.S. branches and agencies of foreign banks. Reallocate any other claims to institutions, including institutions chartered in a foreign country, institutions that are subsidiaries of institutions, U.S. commercial institutions that are majority-owned by foreigners, or New York investment companies, only if these claims are formally guaranteed by a third party in another country.

Net Local Currency Assets of Offices in the Country - This column is used to indicate the excess of local country assets over local country liabilities of bank offices operating in a foreign country. For example, if the institution operates an office in France, show the net amount of French franc assets (loans to French residents denominated in French francs) held in the offices over French franc liabilities (French franc deposits of French residents) of the office in this column. If local country liabilities exceed local country assets, place a zero in this column.

Exposure by Country of Risk - This column is derived by adding the subtotal by location of borrower, adjustments for guarantees, and net local currency assets of offices in the country. The total identifies the true exposure of the institution in the country.

Exposure by Country of Risk as a Percent of Capital - This percentage is derived by dividing the exposure by country of risk by the institution's Tier 1 Capital.

Since this page is largely patterned after the Country Exposure Report, reviewing this reporting document and its instructions is recommended. The following cross-reference table is provided to assist in relating the report schedule to the Country Exposure Report:

CAPTION ON REPORT PAGE	COLUMN NUMBER ON COUNTRY EXPOSURE REPORT
Less than one year	Schedule 1, Column 5 + Schedule 2, Column 4
More than one year	Schedule 1, Column 6 + 7
Commitments/contingent claims	Schedule 1, Column 15
Other credits guaranteed by residents of this country	Schedule 1, Column 11 + 12 + 13 + 17
Credit externally guaranteed	Schedule 1, Column 8 + 9 + 10 + 16
Net local currency assets of offices in the country	Schedule 1, Column 18 - 19 + Schedule 2, Column 6 - 7 (if value is negative, place a zero beneath the caption)

Although the schedule is primarily intended to display large exposures, include exposures to countries subject to adverse classification or Other Transfer Risk Problems on the page regardless of the percentage of Tier 1 Capital. Reflect on the Summary Analysis of Examination Reports on line 55, Concentrations, the total of the selected concentrations of country exposure exceeding 5 percent of Tier 1 Capital. A comment on the Examination Conclusions and Comments page may be warranted if such exposures are excessive.

Note: The examiner may override the downloaded data on this page when the examiner is aware of information that is significantly different from the download or in other circumstances deemed appropriate by the examiner.

INTERNATIONAL WORKPAPERS

The following workpapers are optional and may assist an examiner in forming conclusions about the institution's international activities. Do not include these workpapers in the Report of Examination. Instead, concerns should be addressed in the ROE on the ECC page, the RMA page, or other appropriate report section, depending upon their significance.

- International Loans, Acceptances, and Letters of Credit – Distribution
- International Loans, Acceptances, and Letters of Credit – Questionnaire
- Eurocurrency Operations
- Foreign Exchange Activities
- Position Analysis – Major Currency Positions
- Position Analysis – Other Currencies
- Maturity Distribution (GAP) Analysis
- Revaluation and Income/Loss Analysis
- Income Loss Schedule
- Policy and Procedures
- Audit and Internal Controls – Audit
- Audit and Internal Controls – Internal Controls
- Parallel-Owned Banking Organizations (PBO)

DISCLAIMER: These workpapers are provided for illustrative purposes only. Nothing in them is intended to correspond with or tie to information in the Bank of Anytown Report of Examination.

INTERNATIONAL WORKPAPER

INTERNATIONAL LOANS, ACCEPTANCES, AND LETTER OF CREDIT – DISTRIBUTION

This schedule is intended to help the examiner identify the level of lending, letter of credit, and acceptance financing between the institution and obligors and/or guarantors domiciled outside the United States, its territories, and possessions. The inclusion of obligations guaranteed by foreign domiciled individuals or entities in this definition is based on the concept that ultimate liability for repayment rests with the guarantor. Therefore, the basic objective is to designate those transactions where repayment channels will cross international boundaries. This approach is consistent with the methodology used in the Country Exposure Report (FDIC 6502/03) to reallocate claims to the country of the individual or entity ultimately liable for repayment.

For the purposes of this schedule, guaranteed instruments are those for which a third party formally and legally obligates itself to repay the institution's claim on the direct obligor if the latter fails to do so. Documents such as comfort letters or letters of awareness or intent are not considered guarantees for the purposes of this schedule. The term guaranteed covers collateralized instruments if the collateral meets both these requirements:

- The collateral is tangible, liquid, readily marketable (that is, cash, gold, certificates of deposit, or readily marketable shares of stocks or bonds)
- The collateral is both held and realized outside the United States, its territories, and possessions.

Using the foregoing guidelines, include in the schedule obligations of residents or entities domiciled in the United States bearing a guarantee from a resident or entity in a foreign country. Similarly, exclude from the schedule direct obligations of foreign residents or entities with guarantees from domestically domiciled residents or entities.

Base the distribution of loans in this schedule on the nature of the direct obligor on the indebtedness.

Mortgage loans include liens or deeds of trust on real property, aircraft, or ships. Shipping loans included in this category will be secured by first or second preferred-ship mortgages. Exclude loans collateralized solely by bareboat, time, or consecutive charter, which are more properly shown in the loans to commercial, industrial, and agricultural interests caption.

Include in the caption, Other Loans, credits not properly categorized in the five preceding captions made to obligors with similar characteristics and represent a material percentage of total international loans (approximately 10 percent of international loans is a reasonable criteria).

The caption, Syndication and Consortium Financing, includes the institution's investment in syndicated credits. These loans differ from the customary participation loan as a number of institutions participate at the outset and are known to the borrower. As such, the loan must be structured to meet both the requirements of the participating institutions and the needs of the borrowing entity. The function of packaging the credit to satisfy the needs of parties to the transaction is the responsibility of the syndicate leader.

The caption, Other (Describe), is intended to provide a location for the enumeration of special types of international lending or financing activity deemed worthy of separate enumeration. For example, a separate enumeration of the aggregate volume of syndicated loans originated by the institution as syndicate leader or loans within certain geographic areas may be warranted.

Use the footnote, Does not include loans to U.S. subsidiaries of foreign corporations, to show the aggregate of loans to such borrowers which have not been shown in the categories above in the Distribution schedule.

INTERNATIONAL WORKPAPER

INTERNATIONAL LOANS, ACCEPTANCES, AND LETTERS OF CREDIT – QUESTIONNAIRE

These questions are intended to assist the examiner with identifying risk-management weaknesses in the international area of the bank's operations. Significant concerns should be addressed on the ECC page, the RMA page, or other appropriate Report section (e.g. the Analysis of the Country Exposure Management System page), depending upon their significance.

INTERNATIONAL WORKPAPER

EUROCURRENCY OPERATIONS

These questions are intended to assist the examiner with identifying risk-management weaknesses in the international area of the bank's operations. Significant concerns should be addressed on the ECC page, the RMA page, or other appropriate Report section (e.g. the Analysis of the Country Exposure Management System page), depending upon their significance.

INTERNATIONAL WORKPAPER

FOREIGN EXCHANGE ACTIVITIES

This workpaper should be used in conjunction with other workpapers addressing risks associated with foreign exchange activities. These other workpapers might include Position Analysis – Major Currency Positions, Position Analysis – Other Currencies, Maturity Distribution (GAP) Analysis, Revaluation and Income/Loss Analysis, and the Income/Loss Schedule. Material concerns should be addressed on the RMA or ECC page, as appropriate.

INTERNATIONAL WORKPAPER

POSITION ANALYSIS – MAJOR CURRENCY POSITIONS

This schedule may be useful for determining the extent of the institution's position in various currencies and unrealized profit and/or loss and assessing the policies and risk management practices related to foreign exchange activities. Concerns should be brought forward to the ECC or RMA page, depending upon their significance.

POSITION ANALYSIS

If an institution has assets or liabilities denominated in a foreign currency, or the institution has commitments to purchase or sell foreign exchange with a future delivery date, a net position for each foreign currency must be calculated. This function facilitates an analysis of exposure to fluctuations in exchange rates and aids in determining unrealized profits and/or losses accruing to the institution on the date of examination. Further, the position analysis enables the examiner to ascertain the institution's practice of adjusting U. S. dollar equivalents of foreign currency accounts at periodic intervals.

To prepare the position on each foreign currency, make a trial balance of each asset and liability account denominated in a foreign currency. Asset accounts (long position) include, but are not limited to, foreign currency on hand, due from bank accounts (nostro), demand and time loans, investments, accrued interest receivable, and commitments to purchase exchange on a spot or future basis. Liabilities (short position) include due to accounts (vostro) with other institutions (including nostro overdrafts), demand and time deposits cash collateral, accrued interest payable, accounts payable, and commitments to sell exchange on a spot or future basis. These accounts or subsidiary records will normally contain both the amount of foreign currency and an equivalent amount in U.S. dollars. The examiner's trial balance of foreign currency should prove to the institution's position sheet, and dollar equivalents should correspond to the general ledger. Certain transactions, such as the previous day's spot or future exchange transactions may not have been recorded on the institution's books. Obtain these so called holdover items from the foreign exchange trader, and include them in the calculation of the currency position.

MAJOR CURRENCY POSITION

This schedule is reserved primarily for the currency posing the greatest exposure to the institution's total capital and reserves. If the institution maintains substantial positions in several currencies, the schedule should be completed separately for each currency.

Derive the entries for foreign currency and dollar equivalents for each asset and liability category from the institution's records. DO NOT REVALUE THESE ACCOUNTS AT CURRENT EXCHANGE RATES. Deduct the lesser of long/short position from the larger figure to arrive at the net position in foreign currency and dollar equivalent. The net position - dollar equivalent should be related to capital and reserves.

INTERNATIONAL WORKPAPER

POSITION ANALYSIS – OTHER CURRENCIES

This schedule may be useful for determining the extent of the institution's position in various currencies and unrealized profit and/or loss and assessing the policies and risk management practices related to foreign exchange activities. Concerns should be brought forward to the ECC or RMA page, depending upon their significance.

POSITION ANALYSIS

If an institution has assets or liabilities denominated in a foreign currency, or the institution has commitments to purchase or sell foreign exchange with a future delivery date, a net position for each foreign currency must be calculated. This function facilitates an analysis of exposure to fluctuations in exchange rates and aids in determining unrealized profits and/or losses accruing to the institution on the date of examination. Further, the position analysis enables the examiner to ascertain the institution's practice of adjusting U. S. dollar equivalents of foreign currency accounts at periodic intervals.

To prepare the position on each foreign currency, make a trial balance of each asset and liability account denominated in a foreign currency. Asset accounts (long position) include, but are not limited to, foreign currency on hand, due from bank accounts (nostro), demand and time loans, investments, accrued interest receivable, and commitments to purchase exchange on a spot or future basis. Liabilities (short position) include due to accounts (vostro) with other institutions (including nostro overdrafts), demand and time deposits cash collateral, accrued interest payable, accounts payable, and commitments to sell exchange on a spot or future basis. These accounts or subsidiary records will normally contain both the amount of foreign currency and an equivalent amount in U.S. dollars. The examiner's trial balance of foreign currency should prove to the institution's position sheet, and dollar equivalents should correspond to the general ledger. Certain transactions, such as the previous day's spot or future exchange transactions may not have been recorded on the institution's books. Obtain these so called holdover items from the foreign exchange trader, and include them in the calculation of the currency position.

OTHER CURRENCIES

For each currency, aggregate the assets and purchase commitments (long position) and liabilities and sale commitments (short position), and deduct the smaller figure to arrive at the net position for each currency. The net dollar equivalent should be related to capital and reserves.

Note the net position of the Canadian dollar in the schedule in the Bank of Anytown. If the foreign currency total is net long while the U.S. dollar equivalent is net short, a split position exists. This so-called split position usually results from a heavy volume of activity flowing through the institution's nostro accounts which will subsequently require adjustment to restore balance to the relationship between the foreign currency and U.S. dollar equivalent.

In calculating the aggregate position (U.S.) for all currencies, add all U.S. equivalent figures irrespective of sign (that is, short positions are added to long positions as a positive number).

QUESTIONS 1 (A & B)

These questions help determine whether the institution's net position appears unwarranted, excessive, or speculative. It is difficult to enumerate a benchmark, which would indicate an ill-advised position; however, the following criteria may be used in evaluating the institution's position:

- Competency of the trading and executive officers
- Purpose of the position
- The volatility of the individual currencies
- Volume of business in the county
- Size of the institution

Negative responses to these questions may suggest the need for commentary in the Report.

INTERNATIONAL WORKPAPER

MATURITY DISTRIBUTION (GAP) ANALYSIS

Although an institution has no net open position in a currency (that is, assets and purchases equal liabilities and sales), it may nevertheless be exposed to exchange risk by virtue of unmatched maturing obligations creating periods of uneven foreign currency inflows and outflows. To illustrate, an institution may have a preponderance of maturing foreign currency assets or maturing contracts to purchase foreign currency, vis-à-vis maturing liabilities or obligations, to sell foreign exchange with a particular time interval. As such, the institution will be in a net long position (an excess of foreign currency cash) during the time period, and a decision must be made whether to hold the currency in the due from foreign bank account (nostro account), invest the funds short-term, or to sell the exchange either spot or forward for delivery at the time the gap begins and repurchase either spot or forward for delivery when the gap ends. This situation is referred to as positive gap, which exposes the institution to possible loss of income from holding idle funds where no investment or sale has been arranged or exchange losses if the currency depreciates. Conversely, the institution may be in a negative gap position where maturing liabilities or contracts to sell exchange exceed maturing assets or contracts-to-purchase exchange during a particular time period. This situation has liquidity implications in that the institution must either borrow the currency short term or be in a position to purchase (spot or forward) for delivery at the time the gap begins, and perhaps sell (spot or forward) for delivery at the time the gap ends.

Institutions should have firm policies on the maximum gap exposure permitted in certain currencies. The decision to close a gap when it is created, or to let it remain open for a time, will largely depend on money market interest rates as well as the difference between applicable spot and forward exchange rates (commonly known as the swap rate) or the deviations between two forward exchange rates. Potential movement in the swap rate (for the most part determined by interest rate differentials between the two countries) is the customary measure of profit potential or loss exposure during the period within which the gap exists.

In using this schedule, it is mandatory to complete a maturity distribution only for major currencies outlined in the Major Currency Position segment of this questionnaire. At the discretion of the examiner, currency positions enumerated in the Other Currencies portion of the Position Analysis form may be scheduled, if material. Show each currency on a separate form. Question No. 2 at the bottom of the form applies to all currencies so listed.

In arranging the maturity distribution, it is recommended that at least the first two weeks of activity subsequent to the examination start date be detailed on a daily basis. (In active departments, a daily enumeration for the first month following the examination start date may be appropriate). Thereafter, semi-monthly or monthly intervals may be used depending on the institution's method of pricing forward commitments and the volume of activity. Longer range maturates may be grouped by years.

The preparation of this schedule requires the inclusion of all ledger accounts comprising the currency position. Show ledger accounts not bearing a maturity date in the first day's maturates. Show spot contracts as of the date settlement is expected to occur. The total of assets and purchases (long), liabilities and sales (short), and the net amount of these two columns should correspond to the foreign currency amounts shown in the position sheet. Compare the net gap for each period to limits imposed by institution management. Further, review the cumulative gap position (the addition of gaps for each time interval) for conformance to policy and the incidence of excessive periods of positive or negative gap. Such events may require comment if potential exposure appears ill-advised from the viewpoint of possible losses and/or liquidity concerns.

As to the final three columns at the right hand side of the form, it will normally be unnecessary to complete a profit and loss revaluation on this form. However, if a position results in a material profit or loss, the examiner may wish to complete this portion of the report form. Refer to the example given in the Revaluation and Income/Loss Analysis schedule discussed below. Price future contracts at the given premium or discount rate. Price spot contracts and ledger accounts at the spot. When one or more rates are used to price a position at a point in time, type various in the Spot Rate column. All swap contracts should be removed before valuing the position since the profit/loss is fixed at the time of the transaction and reflected in the return on the asset for which the swap was effected. In any event, the schedule can be used as a workpaper to calculate the future profit/loss adjustment in the revaluation schedule.

INTERNATIONAL WORKPAPER

REVALUATION AND INCOME/LOSS ANALYSIS

The purpose of this schedule is to determine as of the examination as of date the unrealized profit or loss for the institution in connection with positions undertaken in foreign currency. The computation is based on the assumption that the entire position will be liquidated (that is, all long foreign currency positions will be sold and all short positions will be covered).

The primary input to this schedule is the position analysis schedule on this questionnaire. List each currency under the column Monetary Unit. Insert in the Book Value column the institution's net position in the foreign currency amount and U.S. dollar equivalent less any swap contracts included in the position. (Refer to the following paragraph for an explanation of these transactions). Obtain the spot exchange rate from the Wall Street Journal or similar publications containing foreign exchange rates. Express the exchange rates in terms of the U.S. dollar cost per unit of foreign currency (that is, one Deutsche mark sells for $.4938) with the values carried to four decimal places or four-digit level of significance (one Japanese yen equals $.004560). Multiply the net amount of foreign currency by the spot rate to arrive at the current market value of the position. Apply the following rules when determining the spot rate profit or loss on each position:

1. Long foreign currency position combined with long U.S. dollar equivalent. Profit is excess of market value over book value; loss is the excess of book over market.
2. Long foreign currency position combined with short ( ) U.S. dollar equivalent. Profit is the current market value plus the short U.S. dollar book value.
3. Short foreign currency position combined with short ( ) U.S. dollar equivalent. Profit is the excess of book value over current market value; loss is the excess of market value over book value.
4. Short foreign currency position combined with long U.S. dollar equivalent. Loss is the current market value plus the long U.S. dollar book value.

Rules No. 2 and No. 4 refer to split positions previously mentioned in the instructions for calculating the net open position. Note in rule No. 2, the position can only result in profit, while in rule No. 4 the only possibility is a loss.

A financial swap is a combination of a spot purchase or sale of a foreign currency against a forward sale or purchase of the currency. By affecting the arrangement the institution effectively locks in the potential gain or loss from entering into a transaction involving the temporary movement of funds into another currency and back again. For example, the institution has an investment opportunity to lend 1,000,000 pounds sterling for three months. The institution will purchase necessary exchange spot for $1.8660 per pound sterling ($1,866,000) to make the loan. Simultaneously, the institution will enter into a forward exchange contract to sell 1,000,000 pounds sterling at the anticipated maturity date for $1.8690 per pound sterling ($1,869,000). Customarily, the institution will sell forward the expected interest income as well. Accordingly, the institution has realized a $3,000 profit on the transaction at the inception of the loan. Customarily, the profit (or alternatively cost) is applied to the rate of interest on the loan to determine the true yield on the investment. The profit (or loss) is accrued to income and expenses monthly. In these circumstances, it is inappropriate to allocate the profit to the exchange function. A review of the institution's records will facilitate the identification of swap transactions and, as previously stated, these amounts should not be included in the revaluation schedule.

Adjust the spot-rate profit (loss) for discounts or premiums on forward exchange contracts, which are included in the net currency position. A discount is a rate of exchange lower than the spot rate expressed in terms of percentage per annum or points on which a dealer buys or sells foreign exchange for forward delivery. For example, if a dealer quotes $186 and $191 (bid and asked) for spot sterling, and the discounts for six-month forward exchange contracts are .0300 and .0275, the forward quotes would be modified to $183 and $1.8825. In most cases, the discount reflects an interest rate differential in the U.S. vis-à-vis the U.K. although in periods of downward market pressure on a currency a discount may indicate market anticipation of a lower price for the currency. A premium is a rate of exchange higher than the spot rate. Again, interest rate phenomena and possibly upward market pressure will play a role in this situation. The premium situation works exactly opposite discount example. That is, premium quotes are added to the applicable spot rates quoted.

The calculation of future profit (loss) adjustments will require the listing of all contracts by maturity or value dates from near-term to longer-term. Certain contracts are made on an option basis because of uncertainty as to the date when foreign currency will be received or needed. In option contracts involving the purchase of exchange, list contracts with premiums at the earliest date and contracts with discounts as of the latest date. Conversely, show contracts involving the sale of exchange at premiums at the latest date and those at a discount at the earliest date. The format of the maturity distribution will depend on the system used by the institution in providing future rates. A summary of contracts on a monthly basis can be prepared provided the rates supplied by the institution are based on a monthly scale. If rates are on a semi-monthly basis, prepare the summary figures by the first and second halves of the month. To calculate the profit and loss on futures, the following rules apply:

1. A long position at a discount reflects a loss
2. A short position at a discount reflects a profit
3. A long position at a premium reflects a profit
4. A short position at a premium reflects a loss

In the absence of a significant profit or loss from the revaluation of the foreign currencies, it is not necessary to adjust book capital.

QUESTION 3 - SIGNIFICANCE OF PROFIT OR LOSS

In weighing the significance of profit or loss from foreign exchange operations, it is important to consider the amount in relation to the capital account of the institution, the volume of exchange activity, and the institution's history in sustaining profits and/or losses. The criteria enumerated as guidance in responding to questions 1a & b would also warrant consideration.

INTERNATIONAL WORKPAPER

INCOME/LOSS SCHEDULE

This schedule is relatively self-explanatory. Information required to complete the schedule should be readily available from the bank's financial records.

INTERNATIONAL WORKPAPER

POLICIES AND PROCEDURES

These nine questions discuss the institution's policies, reporting mechanisms, and procedures in relation to foreign exchange activities.

INTERNATIONAL WORKPAPER

AUDIT AND INTERNAL CONTROLS – AUDIT

This workpaper and the following one are designed to focus attention on the safeguards implemented by the institution through the audit function and internal controls. The questionnaire is designed for use in an institution with a relatively sophisticated trading operation. Therefore, the examiner must weigh carefully the recommendation of certain control or audit features which are cost ineffective. Nevertheless, the institution should implement protective devices such as separation of duties, test checking of transactions, and firmly established operating procedures to prevent irregularities or departure from accepted norms. In essence, the traditional rules of practice used in preventing undue exposure in domestic departments apply equally to the foreign exchange function. Concerns with the institution's international audit and internal control procedures may be brought forward to the ECC or RMA page, depending upon their significance.

INTERNATIONAL WORKPAPER

AUDIT AND INTERNAL CONTROLS – INTERNAL CONTROLS

This workpaper and the previous one are designed to focus attention on the safeguards implemented by the institution through the audit function and internal controls. The questionnaire is designed for use in an institution with a relatively sophisticated trading operation. Therefore, the examiner must weigh carefully the recommendation of certain control or audit features which are cost ineffective. Nevertheless, the institution should implement protective devices such as separation of duties, test checking of transactions, and firmly established operating procedures to prevent irregularities or departure from accepted norms. In essence, the traditional rules of practice used in preventing undue exposure in domestic departments apply equally to the foreign exchange function. Concerns with the institution's international audit and internal control procedures may be brought forward to the ECC or RMA page, depending upon their significance.

INTERNATIONAL WORKPAPER

PARALLEL-OWNED BANKING ORGANIZATIONS (PBO)

PURPOSE

The purpose of this schedule is to detail all of the information needed to ascertain whether a parallel-owned banking organization (PBO) exists.

WHEN TO COMPLETE

Complete this schedule when an individual, family, or group of persons acting in concert appear to exercise control, as provided in the supervisory definition of control for PBOs as detailed in the International section, of an institution in the United States and have an interest in a bank or bank holding company in a foreign country. Examiners should consider all of the issues detailed in the Parallel-Owned Banking Organizations page to ascertain whether a PBO exists. If the examiner determines that a PBO does not exist, the Parallel-Owned Banking Organizations page should be maintained in the examination workpapers to document the basis of the examiners' conclusion. If the examiner determines that a PBO does exist, the Parallel-Owned Banking Organizations page should be maintained in the examination workpapers unless an adverse trend is noted. The page should be included in the Report of Examination if any adverse trends are noted within the PBO relationship. Upon the examination's completion, the region should forward the Parallel-Owned Banking Organizations page, whether it is included in the Report of Examination or not, with a cover letter to the RMS Associate Director of the International and Large Bank Branch.

GENERAL

The FDIC typically does not request or review information on foreign banks or foreign bank holding companies during the examination process. If a PBO relationship is suspected, the examiner needs to request additional information to understand the ownership/control structure of the foreign entity. The information on the foreign bank and/or foreign bank holding company could include, but is not limited to:

- Shareholder list of the foreign bank and any of the companies that own/control it;
- Minutes of the most recent shareholder meeting;
- Annual Reports;
- Composition of the board of directors and executive management;
- Organizational chart;
- Web site addresses,
- Policies that the bank in the United States has been instructed to follow;
- Products or services that the bank in the United States has been instructed to offer; and
- Cross-border transactions or services.

ADDITIONAL LINE ITEMS

The examiner may add line items when necessary in each section of the page. The examiner should adjust the length of the page by moving the discussion of items 1 through 8 between the pages as needed.

BANK AND/OR BANK HOLDING COMPANY INFORMATION

The first section instructs the examiner to list the bank(s) and/or bank holding company(s) within the PBO. The examiner may need to add a row or rows to this table, copying the information requested for an entity in either the United States or in a foreign country into the new row. If a PBO has multiple banks or bank holding companies in the United States and/or foreign countries, the examiner may decide to limit the list. The examiner should footnote the schedule with the basis of any omissions, such as detailing only those organizations that regularly engage in transactions with the bank in the United States, and provide a list of those entities' names and the city and country in which they are located. The examiner also may want to footnote the schedule for any bank or bank holding companies that are wholly owned subsidiaries.

STOCK OWNERSHIP

Detail the stock ownership of the bank(s) and/or bank holding company(s) in the United States and in the foreign country that provide the primary nexus for the PBO. Since the nexus could contain more than one bank or bank holding company in the United States or in the foreign country, the examiner may need to add a row or rows to this table for additional entities. The examiner should list the name of the entity for which the beneficial owner(s) information is being provided after the space labeled **U.S. Name**: and **Foreign Name:** that is above the Beneficial Owner line. In addition, the examiner can add or delete rows within the table, depending upon the number of beneficial owner(s).

FACTORS CONSIDERED

Provide a response to each of the factors and/or attributes that are listed. If not applicable, so state.

SUMMARIZE THE EXAMINATION'S FINDINGS

Specify whether an affiliate relationship, as defined by the Federal Reserve Act and/or the Federal Reserve Board's Regulation O, exists. Cross-reference any concerns or criticisms here and on the appropriate report page(s), *i.e.*, the ECC; Item 5 (Bank Secrecy Act) and Item 6 on the RMA; Violations of Law and Regulations; and Relationships with Affiliates and Holding Companies. Send a written notification to the RMS Associate Director of the International and Large Bank Section. Refer to the International section of the Manual of Examination Policies for additional information.

FOOTNOTE

The aforementioned examples are for illustrative purposes and are not all-inclusive.

APPENDIX A – ABBREVIATIONS

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The following are the principal abbreviations used in this Report of Examination.

et al And Others
et ux And Spouse
a/k/a Also Known As
AA Average Assets
AGI Adjusted Gross Income
AL Acres of Land
ALLL Allowance for Loan and Lease Losses
AP Accounts Payable
APBO Accounting Principles Board of Opinion
AR Accounts Receivable
ARM Adjustable Rate Mortgage
AV Appraised Value
BHC Bank Holding Company
BSA Bank Secrecy Act
BV Book Value
CA Current Assets
CD Certificate of Deposit
CL Contingent Liabilities
CLOC Commercial Letter of Credit
CPA Certified Public Accountant
CSV Cash Surrender Value
CT Certificate of Title
d/b/a Doing Business As
DPC Debts Previously Contracted
DT Deed of Trust
EDP Electronic Data Processing
End Endorser or Endorsed
EV Estimated Value
F&F Furniture and Fixtures
FA Fixed Assets
FASB Financial Accounting Standards Board
FHA Federal Housing Administration
FHLB Federal Home Loan Bank
FHLMC Federal Home Loan Mortgage Corporation
FNMA Federal National Mortgage Association
FS Financial Statement
GP General Partner
GNMA Government National Mortgage Association
Gty Guarantor or Guaranteed
Inc Incorporated
ISF In-Substance Foreclosure
JM Joint Maker
JV Joint Venture
LOC Line of Credit
LP Limited Partner
LS Livestock
M Thousands
M&E Machinery & Equipment
MBS Mortgage-Backed Security
Mdse Merchandise
MM Millions
MMDA Money Market Deposit Account
Mtge Mortgage
MV Market Value
NI Net Income
NIM Net Interest Margin
NOI Net Operating Income
NOW Negotiable Order of Withdrawal
NP Notes Payable
NR Notes Receivable
NW Net Worth
OA Other Assets
OD Overdraft
OH Overhead
OL Other Liabilities
ORE Other Real Estate
OS Operating Statement
PL Prior Lien
PLLL Provision for Loan and Lease Losses
PORE Potential Other Real Estate
PPD Prepaid
PS Property Statement
PV Par Value
ROA Return on Assets
RBC Risk-Based Capital
REM Real Estate Mortgage
RSA Rate-Sensitive Assets
RSL Rate-Sensitive Liabilities
RE Real Estate
SA Security Agreement
SBA Small Business Administration
SFAS Statement of Financial Accounting Standards
SFR Single-Family Residence
SLOC Standby Letter of Credit
TA Total Assets
TE Tax Equivalent Basis
TL Total Liabilities
UBPR Uniform Bank Performance Report
UCC Uniform Commercial Code
VA Veteran’s Readjustment Act
WC Working Capital

APPENDIX B – GRAMMER AND PUNCTUATION GUIDE

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The general rules and standards contained in this appendix are applicable only to the Report of Examination. The rules and standards cover matters commonly encountered in Report comments and are intended to promote consistency. The general rules are not a substitute for writing and grammar guides. Refer to those resources for formal guidance.

HYPHENATION - ADJECTIVES:

General Rule: Two- and three-word modifiers that express a single thought should be hyphenated when they precede a noun (an out-of-date policy).

Do not use a hyphen if each of the words can modify the noun without the aid of the other modifying word or words (a new digital computer).

Do not hyphenate words that follow the noun they modify (the policy is out of date).

Examples:

A full-scope examination began on June 30.

The loan is secured by a single family residence.

The apartment complex has 50 units.

HYPHENATION - PREFIXES:

General Rule: Words containing prefixes generally do not require hyphens. Include the hyphen after the prefix if not doing so would cause confusion in sound or meaning.

Examples:

nonaccrual nonperforming subtotal

HYPHENATION - COMPOUND VERBS:

General Rule: Compound verbs can be separate, solid, or hyphenated. If you do not find a compound verb in a dictionary, write the components as separate words.

Report standards:

charge off paid off write off/ up/ down

HYPHENATION - COMPOUND NOUNS:

General Rule: Compound nouns may be separate, solid, or hyphenated. If you are not certain whether a compound word should be hyphenated, check a dictionary. If you do not find a compound noun in a dictionary, hyphenate the components.

Report Standards: charge-off pay-off write-off/-up/-down examiner-in-charge

HYPHENATION - SUSPENDING HYPHEN:

General Rule: When a series of hyphenated adjectives has a common basic element, and the element is shown only with the last term, insert a suspending hyphen after each of the incomplete adjectives to indicate a relationship with the last term.

Examples:

long- and short-term securities
private- and public-sector partnerships

CAPITALIZATION:

General Rule: There are numerous exceptions to basic capitalization rules. The most important rule is to be consistent throughout a Report. Examiners may deviate from the following standards as long as they are consistent.

Report Standards: Do not capitalize bank unless it is used with the full name of the institution.

Capitalize Board of Directors, Board, or Directors when referring to a specific board.

Capitalize Call Report, Call Report Instructions, and Consolidated Reports of Condition and Income.

Do not capitalize examiner-in-charge unless it is followed by a specific person's name.

Capitalize account titles (for example, Other Borrowings).

Capitalize only the word Federal in Federal funds sold or purchased (unless referring to an account title).

Capitalize Regional Director and Regional Office.

Capitalize Report of Examination and Report when referring to a specific report.

Do not capitalize the word State unless referring to a specific public agency or the word is being used in the same sentence as Federal (which should always be capitalized).

Capitalize Substandard, Doubtful, Loss, and Special Mention when referring to FDIC asset classification titles.

Capitalize the specific titles of formal institution policies (for example, the Loan Administration Policy vs. the loan policy).

Capitalize the titles of specific institution committees (for example, the Audit Committee).

DATES:

Report Standard:	A comma precedes and follows the year when the month and day precede the year. However, when the date consists only of month and year, commas are not necessary.
Examples:	The examination that began on December 2, 1998, was completed in two weeks. The report is due in January 1999.

NUMBERS:

General Rule:	Write out numbers below 10. Use figures for numbers 10 and above. Regardless of the number's size, use figures if they are followed by a unit of measure. Write out numbers that begin a sentence. Do not begin a sentence with a large number.
Examples:	The bank employs five people. The examiners cited 14 deficiencies. Twenty-six examiners attended the field office meeting.

SPELLING:

Report Standards:	installment	totaling	totaled