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Checklists and illustrative financial statements for banks and savings institutions : a financial accounting and reporting practice aid, December 1995 edition

American Institute of Certified Public Accountants. Technical Information Division

Neil Selden

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**DECEMBER 1995
EDITION**

***Checklists
and Illustrative
Financial Statements
for Banks and
Savings Institutions***

*A Financial Accounting and
Reporting Practice Aid*

AMERICAN

INSTITUTE OF

CERTIFIED

PUBLIC

ACCOUNTANTS

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS IN THE SERIES

Checklists and Illustrative Financial Statements for Corporations

Checklist Supplements and Illustrative Financial Statements

- Checklist Supplement and Illustrative Financial Statements for Construction Contractors*
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- Checklist Supplement and Illustrative Financial Statements for Oil and Gas Producing Companies*
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Industry Checklists and Illustrative Financial Statements

- Checklists and Illustrative Financial Statements for Agricultural Cooperatives*
- Checklists and Illustrative Financial Statements for Banks and Savings Institutions*
- Checklists and Illustrative Financial Statements for Colleges and Universities*
- Checklists and Illustrative Financial Statements for Common Interest Realty Associations*
- Checklists and Illustrative Financial Statements for Credit Unions*
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- Checklists and Illustrative Financial Statements for Life Insurance Companies*
- Checklists and Illustrative Financial Statements for Not-for-Profit Organizations*
- Checklists and Illustrative Financial Statements for Personal Financial Statement Engagements*
- Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies*
- Checklists and Illustrative Financial Statements for State and Local Governmental Units*



DECEMBER 1995
EDITION

Checklists and Illustrative Financial Statements for Banks and Savings Institutions

*A Financial Accounting and
Reporting Practice Aid*

*Edited by
Neil Selden, CPA
Technical Manager, Technical Information Division*

*Checklists and Illustrative Financial Statements for
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FSP Section 6000

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR BANKS AND SAVINGS INSTITUTIONS

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. At the request of certain AICPA members, these checklists are also being made available for purchase by AICPA members subject to their recognition of the following:

- The checklists and illustrative financial statements do not include all disclosures and presentation items required by GAAP; as a result, pronouncements deemed unlikely to be encountered in financial statements of banks and savings institutions are not included.
- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated through SAS No. 74, SSARS No. 7, FASB Statement of Financial Accounting Standards No. 122, FASB Interpretation No. 41, FASB Technical Bulletin No. 94-1, AICPA Statement of Position No. 95-1, AICPA Audit and Accounting Guide, *Banks and Savings Institutions* (Final Draft March 16, 1995)¹ as amended based on the 5/95 letter in preparation for the subsequent meeting, and EITF consensuses adopted up to and including the May 19, 1995, Emerging Issues Task Force meeting. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.

.02 Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

Note: This publication was extracted from sections 6,000 through 6,600 of the AICPA *Financial Statement Preparation Manual* (FSP).

¹ The AICPA has released an exposure draft of a proposed Audit and Accounting Guide, *Banks and Savings Institutions*. The final guide, which is expected to be issued in early 1996, will supersede the AICPA Audit and Accounting Guide, *Audits of Savings Institutions*, the AICPA Industry Guide, *Audits of Banks*, Statement of Position 83-1, *Reporting by Banks of Investment Securities Gains or Losses*, Statement of Position 90-3, *Definition of the Term Substantially the Same for Holders of Debt Instruments, as Used in Certain Audit Guides and a Statement of Position*, Statement of Position 90-5, *Inquiries of Representatives of Financial Institution Regulatory Agencies*, Statement of Position 90-6, *Directors' Examinations of Banks*, Statement of Position 90-11, *Disclosures of Certain Information by Financial Institutions About Debt Securities Held as Assets*, Exhibits C, D, E, G, and H of Practice Bulletin 1, *Purpose and Scope of AcSEC Practice Bulletins and Procedures for Their Issuance*, and the AICPA Auditing Procedure Study, *Auditing the Allowance for Credit Losses of Banks*.

FSP Section 6100

Introduction

.01 The U.S. banking system operates under comprehensive state and Federal rules and regulations. These rules and regulations greatly influence accounting and financial reporting. Banks and savings institutions subject to reporting requirements of the Securities Exchange Act of 1934 administered by the Securities and Exchange Commission, the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision, are subject to extensive additional financial and accounting disclosures.

.02 Banks and savings institutions also are subject to examination by Federal and state bank examiners and periodic examinations by the institution's board of directors.

.03 Common accounting and reporting features of banks include:

- General-purpose financial statements must be prepared in accordance with GAAP. However, financial information provided to governmental agencies may be prepared on another basis to satisfy the specific regulatory objectives.
- Banks and savings institutions usually prepare a nonclassified statement of financial condition.
- Assets of the bank's trust accounts are not recorded in the financial statements.
- Institutions that are members of the FHLB system are required to maintain a specified investment in shares of FHLB stock and be insured.
- Disclosure should be made in the notes to financial statements of the composition of savings accounts by interest rates and maturities.
- Fixed assets are normally shown as a single caption on the balance sheet, net of accumulated depreciation and amortization with disclosure of the components.
- The components of the deposit liability accounts should be disclosed on the statement of financial condition or in the related notes.
- Disclosure should be made in the notes to financial statements of the composition of savings accounts by interest rates and maturities.
- Advances can be obtained from the FHLB. Appropriate note disclosures should be made.
- Subordinated debt is classified as debt and not as capital.
- The income statement is usually reported on a "net interest income" basis. (Interest expense is deducted from interest revenues to arrive at net interest income.)
- Realized gains and losses on investment securities are presented on a separate line, on a pretax basis, in the "other income" section of the income statement.
- Disclosure should include a breakdown by major types of lending activities, with disclosure of information about maturities and loans with fixed and floating rates of interest.

.04 If a bank owns a captive finance company, the accounting provisions of the AICPA Audit and Accounting Guide, *Audits of Finance Companies*, apply.

FSP Section 6200

Checklists—General

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners, as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to a GASB or FASB Statement or Interpretation, an APB Opinion, an AICPA Accounting Research Bulletin, AICPA Statements of Position and EITF Consensuses. Some checklists also include references to FASB Interpretations, the AICPA Audit and Accounting Guides, and Emerging Issues Task Force proceedings. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used herein is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist, while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: “not applicable,” “not material,” “in statements” and “in notes” (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, “disclosed” and “not applicable.” Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

FSP Section 6300

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid. As used in this checklist the term “bank” includes the activities of all banks and savings institutions regardless of charter, unless otherwise indicated. Also for purposes of this checklist, the term “institutions” means banks and savings institutions, but not credit unions (which are the subject of the AICPA *Checklists and Illustrative Financial Statements for Credit Unions*). Icons preceding related disclosures identify whether the disclosure relates only to banks or savings institutions. If you are preparing or reporting on the financial statement of a savings institution, complete all disclosure items denoted with a ♦.

The checklists and illustrative financial statements do not include all disclosures and presentation items required by GAAP; as a result, pronouncements deemed unlikely to be encountered in financial statements of banks and savings institutions are not included.

.02 Explanation of References:

♦ =	Disclosure applicable to savings institutions only
AAG-BNK =	AICPA Audit and Accounting Guide, <i>Banks and Savings Institutions</i> (Final Draft March 16, 1995) ¹ as amended based on the 5/95 letter in preparation for the subsequent meeting.
ARB =	AICPA Accounting Research Bulletin
APB =	AICPA Accounting Principles Board Opinion
SFAS =	FASB Statement of Financial Accounting Standards
SAS =	AICPA Statement of Auditing Standards
FASBI =	FASB Financial Accounting Standards Board Interpretation
FTB =	Technical Bulletin issued by the staff of the FASB ²
AC =	Reference to section number in FASB <i>Accounting Standards—Current Text</i>
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
AIN =	AICPA Accounting Interpretations
PB =	AICPA Accounting Standards Division Practice Bulletin
SOP =	AICPA Statement of Position
EITF =	Emerging Issues Task Force Consensus

¹ The AICPA has released an exposure draft of a proposed Audit and Accounting Guide, *Banks and Savings Institutions*. The final guide, which is expected to be issued in early 1996, will supersede the AICPA Audit and Accounting Guide, *Audits of Savings Institutions*, the AICPA Industry Guide, *Audits of Banks*, Statement of Position 83-1, *Reporting by Banks of Investment Securities Gains or Losses*, Statement of Position 90-3, *Definition of the Term Substantially the Same for Holders of Debt Instruments, as Used in Certain Audit Guides and a Statement of Position*, Statement of Position 90-5, *Inquiries of Representatives of Financial Institution Regulatory Agencies*, Statement of Position 90-6, *Directors' Examinations of Banks*, Statement of Position 90-11, *Disclosures of Certain Information by Financial Institutions About Debt Securities Held as Assets*, Exhibits C, D, E, G, and H of Practice Bulletin 1, *Purpose and Scope of AcSEC Practice Bulletins and Procedures for Their Issuance*, and the AICPA Auditing Procedure Study, *Auditing the Allowance for Credit Losses of Banks*.

² The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

S-X = SEC Regulation S-X

Some questions in this checklist do not cite a specific authoritative reference but indicate that the disclosure is generally accepted. Most organizations disclose that information even though a requirement to do so in the authoritative literature cannot be identified.

.03 Checklist Questionnaire

This checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the bank or savings institution. Place a check mark by the topics or sections considered not applicable; these sections need not be completed. For example, if an entity did not enter into any business combinations during the year, place a check by General, Section E, "Business Combinations," and skip this section when completing the checklist.

*Place ✓ by
Sections Not Applicable*

● General

- A. Titles and References _____
- B. Disclosure of Accounting Policies _____
- C. Accounting Changes _____
- D. Comparative Financial Statements _____
- E. Business Combinations _____
- F. Consolidations _____
- G. Related-Party Transactions and Economic Dependency _____
- H. Financial Instruments _____
 - I. Derivatives _____
 - J. Futures Contracts _____
 - K. Foreign Currency _____
 - L. Contingencies and Commitments _____
- M. Subsequent Events _____
- N. Pension and Employee Stock Ownership Plans _____
- O. Postretirement Health Care and Life Insurance Benefits _____
- P. Other Matters _____
- Q. Lessee Leases _____
- R. Nonmonetary Transactions _____
- S. Risk and Uncertainties _____
- T. Costs to Exit an Activity _____
- U. Regulatory Matters _____

● Statement of Condition

- A. General _____
- B. Cash and Due From Banks _____
- C. Federal Funds and Repurchase Agreements _____
- D. Investment Securities _____
- E. Mortgage Loans and Mortgage-Backed Securities Servicing Rights _____
- F. Loans Receivable _____
- G. Loans—Lease Finance _____
- H. Allowance for Loan Losses _____
 - I. Real Estate Acquired in Settlement of Loans _____
 - J. Premises and Equipment _____
- K. Other Assets _____
- L. Deposits _____
- M. Income Taxes _____
- N. Debt _____
- O. Other Liabilities _____
- P. Capital Stock _____
- Q. Additional Paid-In Capital _____
- R. Retained Earnings _____
- S. Other Stockholders' Equity Accounts _____

- Income Statement
 - A. Interest Income _____
 - B. Interest Expense _____
 - C. Other Income _____
 - D. Other Expenses _____
 - E. Income Taxes _____
 - F. Discontinued Operations _____
 - G. Extraordinary Items _____
 - H. Other _____

- Statement of Changes in Shareholders' Equity _____

- Statement of Cash Flows _____

- Auditor's Report Checklist _____

- Supplemental Checklists for Banks and Savings Institutions that are SEC Registrants
 - A. Business Combinations _____
 - B. Cash and Due from Banks _____
 - C. Investment Securities _____
 - D. Loans Receivable _____
 - E. Other Assets _____
 - F. Securities Sold Under Purchase Agreement or Reverse Repurchase Agreements _____
 - G. Short-Term Borrowing _____
 - H. Other Liabilities _____
 - I. Stockholders' Equity _____
 - J. Interest Income _____
 - K. Income Statement Captions _____
 - L. Other Income _____
 - M. Other Expenses _____
 - N. Income Taxes _____
 - O. Condensed Financial Information of Parent Company Only _____
 - P. Foreign Activities _____
 - Q. Financial Guarantees _____
 - R. Quarterly Information _____
 - S. Other SEC Related Disclosures _____

Yes No N/A

General

A. Titles and References

1. Are the financial statements suitably titled?
[SAS 62, par. 7 (AU 623.07)] _____
2. Does each statement include a general reference to the notes that are an integral part of the financial statement presentation?
[Generally Accepted] _____

B. Disclosure of Accounting Policies

1. Is a description of all significant accounting policies of the bank presented as an integral part of the financial statements?
[APB 22, par. 8 (AC A10.102)] _____
2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods?
[APB 22, par. 12 (AC A10.105)] _____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the financial statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
4. Does the disclosure of significant accounting policies include an explanation of the accounting policy for debt securities held, including the basis for classification into balance-sheet captions, such as held-to-maturity, available-for-sale, or trading? [SOP 90-11, par. 8]	_____	_____	_____
C. Accounting Changes			
1. For an accounting change, does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change including a clear explanation of why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on income before extraordinary items and net income? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
d. Effect on related per-share amounts?	_____	_____	_____
2. For all changes in accounting principles, except those concerning a change in entity:			
a. Are financial statements for prior periods, included for comparative purposes, presented as previously reported?	_____	_____	_____
b. Is the effect of the new accounting principle on income before extraordinary items and on net income and the related earnings-per-share amounts disclosed in the period of the change?	_____	_____	_____
c. Are income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected? [APB 20, pars. 19—21 and 25 (AC A06.115—.117 and .121)]	_____	_____	_____
3. If appropriate, is the cumulative effect of a change in accounting principle shown separately between the captions "extraordinary items" and "net income"? [APB 20, pars. 18—26 (AC A06.114—.112 and E09.104)]	_____	_____	_____
4. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on income before extraordinary items, net income, and related per-share amounts? [APB 20, pars. 36—37 (AC A35.105); SFAS 109, par. 288(n) (AC A35.103)]	_____	_____	_____
5. Is the reason for not reporting the cumulative effect of the change and not disclosing the pro forma amounts for prior years disclosed if it is impossible to determine such effect? [APB 20, pars. 25 and 26 (AC A06.121 and .122)]	_____	_____	_____
D. Comparative Financial Statements			
1. Are comparative statements considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]	_____	_____	_____
2. Are the disclosures included in the prior years' financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
E. Business Combinations			
1. If a business combination occurred during the period and met the specified conditions for a pooling of interests, do the statements and notes include the names and descriptions of companies involved; number of shares of stock issued; details of operations for the part of the year before the pooling; adjustments to adopt common accounting principles; effect on prior net income; details of equity changes if fiscal year change; and reconciliation of revenue and net income previously reported to amounts now reported? [APB 16, pars. 61—65 (AC B50.122—.124)]	_____	_____	_____
2. If a business combination does not meet the specified conditions for a pooling of interests:			
a. Do the statements and notes include the name and description of purchased company; time period for which post-purchase results are included in income; cost, number of shares issued or issuable, and amounts assigned to such shares; method and period for amortizing goodwill; contingent payments or commitments? [APB 16, par. 95 (AC B50.164)]	_____	_____	_____
b. In connection with the acquisition of a banking or thrift institution, are the nature and amounts of any regulatory financial assistance disclosed? [SFAS 72, par. 11 (AC B50.158F)]	_____	_____	_____
3. Is any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill and other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36 of SFAS 109, AC section I27.129 and .135) disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
4. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired, are the method and period of amortization disclosed? [APB 17, par. 30 (AC I60.111)]	_____	_____	_____
5. Where the bank has purchased an enterprise and applied guidance outlined in EITF 87-11 regarding the intended disposition of a subsidiary in accounting for the purchase, and the subsidiary has not yet been disposed of, are the following disclosed:			
a. A description of the operations held for sale, the method used to assign amounts to those assets, the method used to account for those assets, and the expected disposal date?	_____	_____	_____
b. The operation's profit or loss that has been excluded from the consolidated income statement and a schedule reconciling that amount to the earnings received or losses funded by the parent that are accounted for as an adjustment to the carrying amount of the assets (the amount of allocated interest cost should be separately identified)?	_____	_____	_____
c. Any gain or loss on the ultimate disposition that is treated as an adjustment of the original purchase price allocation? [EITF 90-6]	_____	_____	_____
d. Consideration that is issued or issuable at the end of the contingency period or that is held in escrow? [APB 16, par. 78 (AC B50.136)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. If applicable, the purchase price allocation that is tentative or preliminary? [EITF 90-6]	_____	_____	_____
6. If, after the end of the holding period as defined, a decision not to sell a line of business or a portion of a line of business is made, does disclosure include:			
a. The reason for the decision not to sell?	_____	_____	_____
b. An explanation of the adjustment including:			
(1) The carrying amount of the operations held for sale that will be allocated to the current fair values of its identifiable assets and liabilities (the explanation should include the amount of operating profit or losses and interest capitalized in obtaining the current fair value)?	_____	_____	_____
(2) The effect on comparability of the reporting periods? [EITF 90-6]	_____	_____	_____
7. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired, are the method and period of amortization disclosed? [FASBI 9, par. 8 (AC I60.131); APB 17, par.30 (AC I60.111)]	_____	_____	_____
8. If financial statements for prior years are restated, are all purchase business combinations that were consummated in those prior years remeasured in accordance with the requirements of SFAS No. 109? [SFAS 109, par. 53]	_____	_____	_____
9. If a financial institution was acquired pursuant to an assistance agreement between the acquiror and a government agency, are the following considered:			
a. If part of the governmental agency assistance involved a note receivable from the agency, is a portion of the note receivable, equal to the fair value of the equity securities sold to the governmental agency, offset against the equity securities (unless it can be demonstrated that the equity security is economically separable, as defined, from the note)? (See EITF No. 88-19 for conditions that would determine economic separability.)	_____	_____	_____
b. If all or a portion of the note receivable from the governmental agency is offset against the equity from the securities issued to the agency, are subsequent dividend payments to the governmental agency on the equity securities netted against cash receipts from the governmental agency for interest payments on the note, and the net amount recorded as regulatory assistance? [EITF 88-19; AAG-BNK, pars.16.13 and 16.19]	_____	_____	_____
10. If a material liability is recognized by the combined company for costs incurred to (1) exit an activity, (2) involuntarily terminate employees of an acquired company, or (3) relocate employees of an acquired company, are disclosures made in accordance with EITF 95-3, <i>Recognition of Liabilities in Connection with a Purchase Business Combination</i> , in addition to the disclosures required by paragraphs 95 and 96 in APB Opinion No. 16, <i>Business Combinations</i> ? [EITF 95-3]	_____	_____	_____
F. Consolidations			
1. If consolidated statements are presented:			
a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
b. Are material intercompany balances and transactions eliminated? [ARB 51, par. 6 (AC C51.109)]	_____	_____	_____
c. If the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations recognized? [ARB 51, par. 4 (AC C51.107); FASBI 13, pars. 5 and 6 (AC I89.120—122)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are the accounts of majority-owned subsidiaries consolidated? [SFAS 94, par. 13 (AC C51.103)]	_____	_____	_____
3. If the bank owns a captive finance company, are the provisions of the AICPA Audit and Accounting Guide, <i>Audits of Finance Companies</i> , applied?	_____	_____	_____
4. Are combined financial statements considered for entities under common control? [ARB 51, pars. 22—23 (AC C51.121—.122)]	_____	_____	_____
G. Related-Party Transactions and Economic Dependency			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to understand the effects of the transactions on the financial statements?	_____	_____	_____
c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104)]	_____	_____	_____
2. If the bank is part of a group that files a consolidated tax return, is the amount of current and deferred tax expense disclosed for each of the periods for which income statements are presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented? [SFAS 109, par. 49 (AC C51.108A)]	_____	_____	_____
3. Are the principal provisions of the method in which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which income statements are presented? [SFAS 109, par. 49 (AC C51.108A)]	_____	_____	_____
4. Is information about economic dependency disclosed when necessary for a fair presentation? [SFAS 21, par. 9]	_____	_____	_____
5. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting bank and one or more other enterprises are under common ownership or management control, and the existence of the control could result in operating results or financial position of the reporting bank being significantly different from those that would have been obtained if the bank was autonomous? [SFAS 57, par. 4 (AC R36.104)]	_____	_____	_____
6. Was a review made of selected related-party loans to determine if any representation in the financial statement that related-party loans are on normal terms can be substantiated as required by GAAP? [SFAS 57, par. 3 (AC R36.103)]	_____	_____	_____

H. Financial Instruments

In October 1994, the FASB issued SFAS No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*³, which expands the disclosure requirements for entities that hold or issue derivative financial instruments. It also amends certain disclosure requirements of SFAS No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, and SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*. This section has been updated to reflect SFAS No. 119's amendments to SFAS No. 105 and 107. For entities that have *not* adopted SFAS No. 119, guidance is provided in certain footnotes in this section of the checklist for applying the disclosure requirements of SFAS No. 105 and 107 prior to adoption of SFAS No. 119.

Only institutions that have adopted SFAS No. 119 should complete Section I., "Derivatives."

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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| <p>1. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS No. 105), are the following disclosed either in the body of the financial statements or in the notes by category of financial instrument:⁴</p> <p style="margin-left: 20px;">a. The face or contract amount (or notional principal amount if there is no face or contract amount)?</p> <p style="margin-left: 20px;">b. The nature and terms, including, at a minimum, a discussion of:</p> <p style="margin-left: 40px;">(1) The credit and market risk of those instruments?</p> <p style="margin-left: 40px;">(2) The cash requirements of those instruments?</p> <p style="margin-left: 40px;">(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, <i>Disclosure of Accounting Policies</i>?
[SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)]</p> <p>2. Do the disclosures in steps 1a. and b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading?⁵
[SFAS 105, par.17, as amended by SFAS 119, par. 14 (AC F25.112)]</p> <p>3. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS No. 105), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial instrument:⁶</p> <p style="margin-left: 20px;">a. The amount of accounting loss the bank would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the bank?</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |
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³ SFAS No. 119 is effective for fiscal years ending after December 15, 1994. For entities with less than \$150 million in total assets in the current statement of financial condition, the effective date is for fiscal years ending after December 15, 1995. However, earlier application is encouraged.

⁴ *Category of financial instrument* refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If aggregation of financial instruments is other than by class, the entity also should describe for each category the classes of financial instruments included in that category. Practices for grouping and separately identifying similar financial instruments into *classes* in statements of financial condition, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS No. 105 [AC F25], "class of financial instrument" refers to those classifications. If the organization has not adopted SFAS No. 119, the disclosures in steps 1.a.-b. should be made by *class* of financial instrument, rather than by *category*.

⁵ Not applicable to entities that have not adopted SFAS 119.

⁶ See footnote 5. If the entity has not adopted SFAS 119, the disclosures in Step 3 should be made by *class* of financial instrument rather than by *category*.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The bank's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the bank's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18, as amended by SFAS 119, par. 14 (AC F25.113)]	_____	_____	_____
4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether off-balance-sheet risk or from individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase contracts and pension obligations), include:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the institution would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and if the collateral or other security, if any, for the amount due proved to be of no value to the institution?	_____	_____	_____
c. The institution's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the institution's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
NOTE: For financial institutions with less than \$150 million in total assets in the current statement of financial position, the effective date for SFAS No. 107 disclosures is for financial statements issued for fiscal years ending after December 15, 1995.			
5. Is the fair value of financial instruments, for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS No. 107), disclosed, together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial condition? ^{7, 8} [SFAS 107, par.10 as amended by SFAS 119, par.15 (AC F25.115C)]	_____	_____	_____
6. Do the disclosures in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? ⁹ [SFAS 107, par. 10 as amended by SFAS 119, par. 15, (AC F25.115C)]	_____	_____	_____
7. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
8. If it is not practicable to estimate the fair market value of a financial instrument, do the disclosures include:			
a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.115G)]	_____	_____	_____

⁷ If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS No. 107, as amended.

⁸ Not applicable to entities that have not adopted SFAS No. 119.

⁹ See footnote 8.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASB Interpretation No. 39, <i>Offsetting of Amounts Related to Certain Contracts</i> , does the institution, in disclosing the fair value of a derivative financial instrument, not: ¹⁰			
a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?	_____	_____	_____
b. Net the fair value with the fair value of other derivative financial instruments? [SFAS 107, par. 13 as amended by SFAS 119, par. 15 (AC F25.115)]	_____	_____	_____
10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a statement of financial position is presented for comparative purposes? [SFAS 107, par.17]	_____	_____	_____
I. Derivatives			
SFAS No. 119 is effective for financial statements issued for fiscal years ending after December 15, 1994, except for entities with less than \$150 million in total assets. For those entities, the Statement is effective for financial statements issued for fiscal years ending after December 15, 1995.			
1. For options held and other derivative financial instruments not within the scope of SFAS No. 105 that do not have off-balance-sheet risk, are the following disclosures made by category of financial instrument:			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including a discussion of:			
(1) Credit and market risk?	_____	_____	_____
(2) Cash requirements?	_____	_____	_____
(3) Related accounting policy as required by APB Opinion No. 22?	_____	_____	_____
c. Do disclosures in Steps 1.a. and b. above distinguish between financial instruments held or issued for:			
(1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?	_____	_____	_____
(2) Purposes other than trading? [SFAS 119, pars. 8 and 9]	_____	_____	_____
2. Does the institution that holds or issues derivative financial instruments for trading purposes disclose:			
a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?	_____	_____	_____
b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement?			
(1) If the disaggregation is other than by class, did the bank also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?	_____	_____	_____
c. The average fair value for assets and liabilities from the trading of other types of financial instruments or non financial assets? (This disclosure is encouraged but not required.) [SFAS 119, par.10]	_____	_____	_____

¹⁰ See footnote 8.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Does an institution that holds or issues derivative financial instruments for purposes other than trading disclose:			
a. A description of:			
(1) The objectives for holding or issuing?	_____	_____	_____
(2) The context needed to understand those objectives?	_____	_____	_____
(3) The strategies for achieving those objectives?	_____	_____	_____
(4) The classes of derivative financial instruments used?	_____	_____	_____
b. A description of how each class of derivative financial instrument is reported in the financial statements, including:			
(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?	_____	_____	_____
(2) When recognized, where the instruments and related gains and losses are reported?	_____	_____	_____
c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:			
(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?	_____	_____	_____
(2) A description of the classes of derivative financial instruments used to hedge?	_____	_____	_____
(3) The amount of explicitly deferred hedging gains and losses?	_____	_____	_____
(4) A description of the transaction or events that result in recognition in earnings of the deferred gains or losses? [SFAS 119, par.11]	_____	_____	_____
4. Are the following encouraged, but not required, quantitative disclosures made:			
a. Interest rate?	_____	_____	_____
b. Foreign exchange?	_____	_____	_____
c. Commodity price?	_____	_____	_____
d. Other market risks consistent with management's strategies?	_____	_____	_____
e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments? ¹¹ [SFAS 119, pars. 12 and 13]	_____	_____	_____
J. Futures Contracts			
1. If a futures contract is accounted for as a hedge, does the disclosure include:			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	_____	_____	_____

¹¹ Suggested methods of disclosure of the above include:

- a. Additional details about current positions and period activity.
- b. Hypothetical effects on equity or on annual income due to several possible changes in market prices.
- c. Gap analysis of interest rate repricing or maturity dates.
- d. Duration of financial instruments.
- e. The entity's value at risk from derivative financial instruments and other positions at period end and the average value at risk during the year.
- f. Any other helpful informative disclosures.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The method of accounting for the futures contract including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts? [SFAS 80, par. 12 (AC F80.112)]	_____	_____	_____
K. Foreign Currency			
1. Is the aggregate transaction gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)]	_____	_____	_____
2. Does the analysis of changes during the period in the separate component of equity for cumulative translation adjustments disclose:			
a. Beginning and ending amount of cumulative translation adjustments?	_____	_____	_____
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? [SFAS 52, par. 32 (AC F60.142)]	_____	_____	_____
4. Are any foreign earnings reported in addition to amounts received in the U.S. disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	_____	_____	_____
5. Are the following disclosures made for hedging foreign currency risks with complex options and similar transactions:			
a. The method of accounting for currency options, option combinations, and similar instruments including a description of the events or transactions that result in recognition in income of changes in value?	_____	_____	_____
b. The nature of the anticipated transactions for which there is no firm commitment that are hedged with currency options, option combinations, or similar instruments?	_____	_____	_____
c. The maximum number of years over which anticipated, but not firmly committed, foreign currency transactions are hedged?	_____	_____	_____
d. The combined realized and unrealized net gain or loss deferred as of each balance-sheet date on currency options, option combinations, or similar instruments that are designated as hedges of anticipated transactions for which there is no firm commitment? [EITF 91-4]	_____	_____	_____
6. If the bank entered into a foreign currency swap contract to replace foreign currency debt with reporting currency debt, is the contract accounted for separately and not netted against the foreign currency debt (they are two separate legal transactions and do not have the right of setoff, except as expanded below)?	_____	_____	_____
a. A right of setoff exists only when all of the following conditions are met:			
(1) Each of two parties owes the other determinable amounts?	_____	_____	_____
(2) The reporting party has the right to set off the amount owed with the amount owed by the other party?	_____	_____	_____
(3) The reporting party intends to set off?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) The right of setoff is enforceable at law? [FASBI 39, par. 5 (AC B10.101)]	_____	_____	_____
7. Are foreign currency translation disclosures encouraged (but not required) to be supplemented with an analysis and discussion of the effects of rate changes on reported results of operations? [SFAS 52, par. 144 (AC F60.143)]	_____	_____	_____
L. Contingencies and Commitments			
1. Are the nature and amount of accrued loss contingencies, including those related to environmental matters, litigation, claims, and assessments, disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]	_____	_____	_____
2. For loss contingencies not accrued including environmental matters, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and .111)]	_____	_____	_____
3. Are the nature and amount of guarantees disclosed (e.g., obligations under standby letters of credit, guarantees to repurchase loans that have been sold and commitments to originate loans)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2—3 (AC C59.114)]	_____	_____	_____
4. Are gain contingencies adequately disclosed and misleading implications about likelihood of realization avoided? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, unused letters of credit, and for funding of loans? [SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80); AAG-BNK, par. 3.46]	_____	_____	_____
6. Is disclosure made if a subsidiary bank has guaranteed parent company debt? [SFAS 57, par. 1 (AC R36.101)]	_____	_____	_____
7. If the bank as guarantor “lends” its credit worthiness to another party (borrower) for a fee, is the guarantee disclosed in a note, if material? [EITF 85-20]	_____	_____	_____
8. If an obligation for postemployment benefits is not accrued in accordance with SFAS 5 or 43 only because the amount cannot be reasonably estimated, is that fact disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]	_____	_____	_____
9. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]	_____	_____	_____
M. Subsequent Events			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SFAS 5, par. 8 (AC C59.115); SAS 1, secs. 560.03, .04 and .07 (AU 560.03, .04, .07 and 561.01-.10)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05—.07, .09 (AU 560.05—.07, .09)]	_____	_____	_____

Yes No N/A

N. Pension and Employee Stock Ownership Plans

(For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe 5).

1. If there is a defined benefit plan, do disclosures include:

- | | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|-------|
| <p>a. A description of the plan, including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?
[SFAS 87, par. 54a (AC P16.150a)]</p> | _____ | _____ | _____ |
| <p>b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?¹²
[SFAS 87, par. 54b (AC P16.150b)]</p> | _____ | _____ | _____ |
| <p>c. Measurement of plan assets and obligations within three months of the balance-sheet date using a consistent date from year to year (estimates may be necessary)?
[SFAS 87, par. 52 (AC P16.148)]</p> | _____ | _____ | _____ |
| <p>d. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of condition, showing separately:</p> | | | |
| <p>(1) The fair value of plan assets?</p> | _____ | _____ | _____ |
| <p>(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?</p> | _____ | _____ | _____ |
| <p>(3) The amount of unrecognized prior service cost?</p> | _____ | _____ | _____ |
| <p>(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?</p> | _____ | _____ | _____ |
| <p>(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87, paragraph 36 (AC P16.130)?</p> | _____ | _____ | _____ |
| <p>(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?</p> | _____ | _____ | _____ |
| <p>(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 (AC P16.129—.130) (which is the net result of combining the preceding six items)?
[SFAS 87, par. 54c (AC P16.150c)]</p> | _____ | _____ | _____ |
| <p>e. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?
[SFAS 87, par. 54d (AC P16.150d)]</p> | _____ | _____ | _____ |
| <p>f. If applicable, the amounts and types of securities of the employer and related parties included in plan assets and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?
[SFAS 87, par. 54e (AC P16.150e)]</p> | _____ | _____ | _____ |

¹² The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS No. 87 (AC P16). That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).
- b. Amortization of the net gain or loss from earlier periods.
- c. Amortization of unrecognized prior service cost.
- d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
g. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 (AC P16.120 and .127), and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 (AC P16.135)? [SFAS 87, par. 54e (AC P16.150e)]	_____	_____	_____
h. If more than one defined benefit plan exists:			
(1) Are the disclosures required by Step 1 above aggregated for all of the employer's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?	_____	_____	_____
(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?	_____	_____	_____
(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]	_____	_____	_____
2. If there is a defined contribution plan, do disclosures include:			
a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
3. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
a. Is the substance of the plan to provide a defined benefit?	_____	_____	_____
b. If answer is yes, are disclosures required for a defined benefit plan made? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
4. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that is either probable or reasonably possible, are the provisions of SFAS 5 (AC C59) applied? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____
5. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such a plan, do disclosures include:			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
6. If the bank terminates a defined benefit plan and (1) contributes the assets withdrawn to either a defined contribution plan or an ESOP, (2) the amount contributed is in excess of the employer's required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, are the following disclosures considered:			
For a defined contribution plan:			
a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Is the unallocated amount treated as if it were part of the employer's investments portfolio and recorded as an asset?	_____	_____	_____
(1) Is the income attributed to such securities including dividends, interest and realized gains and losses reported in a manner consistent with the employer's reporting of similar items?	_____	_____	_____
c. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?	_____	_____	_____
d. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements?	_____	_____	_____
[EITF 86-27]	_____	_____	_____
For an ESOP:			
a. If the excess contribution is not allocated to individual participants, are the unallocated shares of the employer's own common stock reported as a reduction of stockholders' equity, as if they were treasury stock?	_____	_____	_____
b. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?	_____	_____	_____
c. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements?	_____	_____	_____
[EITF 86-27]	_____	_____	_____
7. If an employer sponsors an ESOP, do the employer's disclosures include:			
a. A description of the plan, the basis for determining contributions, including the employee groups covered, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
(1) For leveraged ESOP's and pension reversion ESOP's, does the description include the basis for releasing shares and how dividends on allocated and unallocated shares are used?	_____	_____	_____
b. A description of the accounting policies followed for ESOP transactions, including the method of measuring compensation, the classification of dividends on ESOP shares, and the treatment of ESOP shares for EPS computations?	_____	_____	_____
(1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, are the accounting policies for both blocks of shares disclosed?	_____	_____	_____
c. The amount of compensation cost recognized during the period?	_____	_____	_____
d. The number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date?	_____	_____	_____
(1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, is the above disclosure made separately for both blocks of shares?	_____	_____	_____
e. The fair value of unearned ESOP shares at the balance-sheet date, for shares accounted for under SOP 93-6? ¹³	_____	_____	_____
f. The existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance-sheet date, which are subject to a repurchase obligation? ¹⁴	_____	_____	_____
[SOP 93-6, par. 53]	_____	_____	_____

¹³ This disclosure need not be made for old ESOP shares for which the entity does not apply the guidance in SOP 93-6.

¹⁴ Employers may wish to disclose additional information about the obligation, particularly information about the timing of payments.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. Are all the items listed in Step 7 above disclosed even if the bank does not adopt SOP 93-6 for shares held by the ESOP on December 31, 1992? [SOP 93-6, par. 55]	_____	_____	_____
9. For leveraged ESOPs and for nonleveraged ESOPs where the assets from a terminated defined benefit pension plan are used by the ESOP to purchase shares, when the employer reports the issuance of shares or the sale of treasury shares to the ESOP is the charge to unearned ESOP shares presented as a separate item in the balance sheet as a contra-asset account? [SOP 93-6, pars. 13 and 46]	_____	_____	_____
10. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and is the receivable from the ESOP not reported as an asset on the employer's balance sheet? [SOP 93-6, par.26]	_____	_____	_____
11. If the employer sponsors an ESOP with an employer loan, is the ESOP's note payable and the employer's note receivable from the ESOP not reported in the employer's balance sheet? [SOP 93-6, par. 27]	_____	_____	_____

O. Postretirement Health Care and Life Insurance Benefits

1. If there are one or more defined benefit postretirement plans, do disclosures include:

- | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|-------|
| a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan, employee groups covered, types of benefits provided, funding policy, types of assets held and significant nonbenefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture? | _____ | _____ | _____ |
| b. The amount of net periodic postretirement benefit cost showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components? ¹⁵ | _____ | _____ | _____ |
| c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately: | | | |
| (1) The fair value of plan assets? | _____ | _____ | _____ |
| (2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants? | _____ | _____ | _____ |
| (3) The amount of unrecognized prior-service cost? | _____ | _____ | _____ |
| (4) The amount of unrecognized net gain or loss, including plan asset gains and losses not yet reflected in market-related value? | _____ | _____ | _____ |
| (5) The amount of any remaining unrecognized transition obligation or transition asset? | _____ | _____ | _____ |

¹⁵ The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS No. 106. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).
- b. Amortization of unrecognized prior-service cost.
- c. Amortization of the net gain or loss from earlier periods.
- d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61 of SFAS No. 106).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(6) The amount of net postretirement benefit asset or liability recognized in the statement of condition, which is the net result of combining the preceding five items?	_____	_____	_____
d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible changes) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s), and when the rate(s) is expected to be achieved?	_____	_____	_____
e. The weighted average of the assumed discount rate(s) and rate(s) of the compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted average of the expected long-term rate(s) of return on plan assets and, for plans whose income is segregated from the employer's investment income for tax purposes, the estimated income tax rate(s) included in the rate of return?	_____	_____	_____
f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:			
(1) The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost?	_____	_____	_____
(2) The accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions shall be held constant and the effects shall be measured based on the substantive plan that is the basis for the accounting)?	_____	_____	_____
g. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?	_____	_____	_____
h. Any alternative amortization method used pursuant to paragraph 53 or 60 of [SFAS 106 (AC P40.148 or .155)]?	_____	_____	_____
i. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event(s)?	_____	_____	_____
j. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)? [SFAS 106, par. 74a—j (AC P40.169a—j)]	_____	_____	_____
k. If applicable, the transition provisions required under SFAS 106? [SFAS 106, pars. 108—113 (AC App. C, pgs. 13-15)]	_____	_____	_____
2. If more than one defined benefit postretirement plan exists:			
a. Are the disclosures required by Step 1 above aggregated for all of an employer's single-employer defined benefit postretirement plans or disaggregated in groups so as to provide the most useful information (except for purposes of the disclosures required by Step 1.c. above, the aggregate plan assets and the aggregate accumulated postretirement benefit obligation of the underfunded plans shall be separately disclosed)? [SFAS 106, par. 77 (AC P40.172)]	_____	_____	_____
b. Are plans that provide primarily postretirement health care benefits and plans that provide primarily other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all the plans?	_____	_____	_____
c. Are plans inside the U.S. and plans outside the U.S. separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans? [SFAS 106, par. 78 (AC P40.173)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16.a.iii. (AC L10.112a(3))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16.a.iv. (AC L10.112a(4))]	_____	_____	_____
e. Separate identification of:			
(1) Assets recorded under capital leases?	_____	_____	_____
(2) Accumulated amortization of capital leases?	_____	_____	_____
(3) Obligations under capital leases?	_____	_____	_____
(4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
b. The total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. Basis for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase and options or escalation clauses?	_____	_____	_____
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d)]	_____	_____	_____
5. If the conditions of EITF 90-15 are met, does the lessee consolidate special-purpose entities established for both the construction and subsequent lease of an asset and does consolidation occur at the inception of the lease rather than at the beginning of the lease term? [EITF 90-15]	_____	_____	_____
R. Nonmonetary Transactions			
1. Are the following disclosures for nonmonetary transactions made:			
a. Nature of transactions?	_____	_____	_____
b. Basis of accounting?	_____	_____	_____
c. Gain or loss recognized on the transfer? [APB 29, par. 28, fn. 7 (AC C11.102, AC N35.120); FASBI 30 (AC N35.114—.119)]	_____	_____	_____
S. Risks and Uncertainties (SOP No. 94-6, <i>Disclosure of Certain Significant Risks and Uncertainties</i> , is effective for financial statements issued for fiscal years ending after December 15, 1995, and for interim periods in fiscal years subsequent to the year for which this SOP is first applied.)			
1. Is a description of the major products and services the institution sells or provides and the principal markets, including the location of those markets, disclosed? [SOP 94-6, par. 10]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. If the institution operates in more than one business, are the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed? [SOP 94-6, par. 10]	_____	_____	_____
3. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statements? [SOP 94-6, par. 11]	_____	_____	_____
4. Is the disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that both of the following criteria have been met:			
a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.	_____	_____	_____
b. The effect of the change will be material. [SOP 94-6, par. 13]	_____	_____	_____
5. Does the disclosure in Step 4 above indicate the nature of the uncertainty and include an indication that it is reasonably possible that a change in estimate will occur in the near term? ¹⁶	_____	_____	_____
6. If the estimate in Step 4 above involves a loss contingency covered by SFAS No. 5, <i>Accounting for Contingencies</i> , do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made? ¹⁷ [SOP 94-6, pars. 13-14]	_____	_____	_____
7. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 of SOP 94-6 are met? [SOP 94-6, pars. 21-22]	_____	_____	_____
8. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside of the entity's home country that meet the criteria of paragraph 21 of SOP 94-6, are the following specific items disclosed:			
a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year?	_____	_____	_____
b. The carrying amounts of net assets and the geographic areas in which they are located for operations located outside the entity's home country? [SOP 94-6, par. 24]	_____	_____	_____
9. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered? [SOP 94-6, par. 10]	_____	_____	_____
T. Costs to Exit an Activity			
1. If a material liability is recognized for certain employee termination benefits in accordance with section A of EITF Issue No. 94-3, <i>Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)</i> , are the following disclosures made in all periods until the plan of termination is completed:			
a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement?	_____	_____	_____

¹⁶ If risk reduction techniques are used to mitigate losses to the entity that may result from certain events, these disclosures are encouraged but not required.

¹⁷ See footnote 16.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The number of employees to be terminated?	_____	_____	_____
c. A description of the employee group(s) to be terminated?	_____	_____	_____
d. The amount of actual termination benefits paid and charged against the liability and the number of employees actually terminated as a result of the plan to terminate employees?	_____	_____	_____
e. The amount of any adjustment(s) to the liability?	_____	_____	_____
2. If management commits to an exit plan that meets the criteria in Section B of EITF 94-3, are the following reporting requirements followed:			
a. Reporting the income statement effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the income statement net of taxes?	_____	_____	_____
b. No disclosure made on the face of the income statement for earnings per share effect?	_____	_____	_____
c. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income? [EITF 94-3, Section B]	_____	_____	_____
3. If the activities that will not be continued are significant to the enterprise's revenue or operating results, or if the exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:			
a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?	_____	_____	_____
b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the income statement?	_____	_____	_____
c. A description of the type and amount of exit costs paid and charged against the liability?	_____	_____	_____
d. The amount of any adjustment(s) to the liability?	_____	_____	_____
e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations? [EITF 94-3, Section B]	_____	_____	_____
U. Regulatory Matters			
The disclosure requirements that follow should be presented for holding companies and all significant subsidiaries.			
1. Have the following disclosures relating to Federal regulatory capital requirements been included in the financial statements:			
a. A description of regulatory capital requirements for capital adequacy purposes and established by the prompt corrective action provisions of Section 38 of the Federal Deposit Insurance Act?	_____	_____	_____
b. The actual or possible material effects of noncompliance with such requirements?	_____	_____	_____
c. Whether the institution is in compliance with the regulatory capital requirements, including the following with respect to quantitative measures: ¹⁸			
(1) The institution's required and actual ratios and amounts of Tier I leverage, Tier I risk-based, and total risk-based capital and (for savings institutions) tangible capital?	_____	_____	_____

¹⁸ These amounts may be presented in either narrative or tabular form.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Factors that may significantly affect capital adequacy such as potentially volatile components of capital, qualitative factors, and regulatory mandates?	_____	_____	_____
d. As of each balance sheet presented, the prompt corrective action category in which the institution was classified as of its most recent notification?	_____	_____	_____
e. As of the most recent balance sheet date, whether management believes any conditions or events since notification have changed the institution's category? [AAG-BNK, par. 2.50]	_____	_____	_____
2. If, as of the most recent balance sheet presented, the institution is either not in compliance with capital adequacy requirements, or considered less than adequately capitalized under prompt corrective action provisions or both, are the possible material effects of such conditions and events on amounts and disclosures in the financial statements disclosed? [AAG-BNK, par. 2.50]	_____	_____	_____
3. When one or more of the institution's actual ratios are nearing noncompliance, has the institution made the disclosures required in Step 2 above?	_____	_____	_____
4. Has the institution disclosed the following information in situations where there is substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time:			
a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time?	_____	_____	_____
b. The possible effect of such conditions and events?	_____	_____	_____
c. Management's evaluation of the significance of those conditions and events and any mitigating factors?	_____	_____	_____
d. Possible discontinuance of operations?	_____	_____	_____
e. Management's plans (including relevant prospective financial information)?	_____	_____	_____
f. Information about the recoverability or classification of recorded asset amounts or classification of liabilities? [AAG-BNK, par. 2.51]	_____	_____	_____
5. If other regulatory limitations exist, are the following disclosures made:			
a. Noncompliance with laws and regulations?	_____	_____	_____
b. Supervisory actions or regulatory changes that place limitations or restrictions on operating activities?	_____	_____	_____
c. Classification of the institution under prompt corrective action provisions of the F.D.I. Act?	_____	_____	_____
d. The continued existence of conditions that brought about previous regulatory actions or restrictions?	_____	_____	_____
e. Effects of scheduled increases in deposit insurance premiums?	_____	_____	_____
f. Failure to meet regulatory capital requirements?	_____	_____	_____
g. Limitations on availability of borrowings through the Federal Reserve Bank window?	_____	_____	_____
h. Exposure to the institution posed by transactions with correspondent banks and related limitations on interbank liabilities? [AAG-BNK, pars. 2.79 and 2.80]	_____	_____	_____
6. Has the bank included notification of any planned rapid growth in filing of regulatory financial reports? [AAG-BNK, par. 13.23]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Statement of Condition			
A. General			
1. Are trust assets excluded from the financial statements? [AAG-BNK, par. 17.12]	_____	_____	_____
B. Cash and Due From Banks			
1. Does cash and due from banks include cash on hand, clearing and exchange, cash items and due from banks? [AAG-BNK, par. 4.1]	_____	_____	_____
2. Have interest-bearing deposits with other depository institutions (domestic and foreign) been disclosed separately on the statement of financial condition? [AAG-BNK, par. 4.6]	_____	_____	_____
3. Are overdrafts and other demand deposits that represent borrowings rather than outstanding drafts reclassified as liabilities? [AAG-BNK, par. 4.7]	_____	_____	_____
4. Are reciprocal "due to/from" balances offset for balance sheet presentation? [AAG-BNK, par. 4.7]	_____	_____	_____
5. Are any withdrawal and usage restrictions or compensating balance arrangements with other financial institutions disclosed? [S-X Rule 9-03.1(a)]	_____	_____	_____
C. Federal Funds and Repurchase Agreements			
1. Are federal funds and repurchase agreements presented gross, except where a right of offset exists and the conditions described in FASB Interpretation No. 41, <i>Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements</i> , have been met? [AAG-BNK, par. 12.22]	_____	_____	_____
a. Are federal funds sold and securities purchased under agreements to resell disclosed after interest bearing deposits with banks on the balance sheet? [AAG-BNK, par. 19.9]	_____	_____	_____
b. Are federal funds purchased and securities sold under agreements to repurchase disclosed after deposits on the balance sheet? [AAG-BNK, par. 19.9]	_____	_____	_____
2. Are the following disclosures for repos during the period included in the financial statements:			
a. The maximum amount of outstanding agreements at any month-end during the period?	_____	_____	_____
b. The average amount of outstanding agreements for the period and the basis for averaging (that is, whether the amounts averaged were monthly or daily amounts)?	_____	_____	_____
c. A statement of whether the securities underlying the agreements were under the institution's control? [AAG-BNK, par. 12.33b]	_____	_____	_____
D. Investment Securities			
1. Is an explanation of the institution's accounting policies for securities, including the basis for classification, included in the notes to financial statements? [AAG-BNK, par. 5.86]	_____	_____	_____
2. Are debt and equity securities classified as (a) held-to-maturity, (b) available-for-sale, or (c) trading? [SFAS 115, par. 6 (AC I80.103)]	_____	_____	_____
3. Is Federal Home Loan Bank Stock classified as a restricted security, carried at cost, and evaluated for impairment? [AAG-BNK, par. 5.82]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
◆ 4. At the time of acquisition, all corporate debt acquired or held was rated in one of the four highest rating categories by at least one nationally recognized statistical rating organization? [AAG-BNK, par. 5.48]	_____	_____	_____
5. For securities classified as available-for-sale or held-to-maturity, are the following disclosures made, by major-security type, for each statement of financial condition presented:			
a. Aggregate fair value?	_____	_____	_____
b. Gross unrealized holding gains and losses?	_____	_____	_____
c. Amortized cost basis?	_____	_____	_____
d. Disclosure of major-security types including:			
(1) Equity securities?	_____	_____	_____
(2) Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?	_____	_____	_____
(3) Debt securities issued by the states of the U.S. and political subdivisions of the states?	_____	_____	_____
(4) Debt securities issued by foreign governments?	_____	_____	_____
(5) Corporate debt securities?	_____	_____	_____
(6) Mortgage-backed securities?	_____	_____	_____
(7) Other debt securities?	_____	_____	_____
[SFAS 115, par. 19 (AC I80.118); AAG-BNK, par. 5.87]			
6. For investments in debt securities classified as available-for-sale or held-to-maturity, is:			
a. Is disclosure made about their contractual maturities as of the date of the latest statement of financial condition date presented (maturity information may be combined in appropriate groupings)?	_____	_____	_____
b. Is disclosure made of the fair value and the amortized cost of debt securities in at least four maturity groupings:			
(1) Within one year?	_____	_____	_____
(2) After one year through 5 years?	_____	_____	_____
(3) After five years through 10 years?	_____	_____	_____
(4) After 10 years?	_____	_____	_____
c. Are securities not due at a single date disclosed separately rather than allocated over several maturity groupings unless the basis for allocation is also disclosed? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
7. For each period for which an income statement is presented, are the following disclosures made:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses those sales?	_____	_____	_____
b. The basis on which cost was determined in computing realized gain or loss (i.e., specified identification, average cost, or other method used)?	_____	_____	_____
c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?	_____	_____	_____
d. The change in net unrealized holding gain or loss on available-for-sale securities that has been included in the separate component of shareholders' equity during the period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. The change in net unrealized holding gain or loss on trading securities that has been included in earnings during the period? [SFAS 115, par. 21 (AC I80.120; AAG-BNK, par. 5.88)]	_____	_____	_____
8. For any sales of, or transfers from, securities classified as held-to-maturity, is disclosure made of the following for each period an earnings statement is presented:			
a. Amortized cost amount of the sold or transferred security?	_____	_____	_____
b. Related realized or unrealized gain or loss?	_____	_____	_____
c. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121; AAG-BNK, par. 5.88)]	_____	_____	_____
9. If investments in high-risk CMOs are significant, are the following disclosures made in the annual financial statements:			
a. The effective yield, calculated as if the reporting date, for either each CMO or for the CMO portfolio (this yield would be used to accrue income in the following period)?	_____	_____	_____
b. The carrying amount and fair value of investments in high-risk CMOs?	_____	_____	_____
c. If market quotations are not available, are estimates of fair value made? [EITF 89-4]	_____	_____	_____
10. Are concentrations of securities of a particular issuer disclosed? [SFAS 105, par. 20 (AC F25.115); AAG-BNK, par. 5.29]	_____	_____	_____
11. Are the carrying amount and market value of pledged securities disclosed? [AAG-BNK, par. 5.31]	_____	_____	_____
E. Mortgage Loans and Mortgage-Backed Securities Servicing Rights			
1. For loans held for investment:			
a. Are mortgage loans held for investment reported separately in the statement of financial condition? [SFAS 65, par. 28 (AC Mo4.129)]	_____	_____	_____
b. Are the fair value and the method(s) and significant assumptions used to estimate the fair value disclosed? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
2. For loans held for sale:			
a. Are mortgage loans held-for-sale reported separately in the statement of financial condition at the lower of cost or market value? [SFAS 65, par. 4 and 28 (AC Mo4.105 and 129); AAG-BNK, par.6.46]	_____	_____	_____
(1) Is the method used in determining lower of cost or market value disclosed (i.e. individual vs. aggregate method)? [SFAS 65, par. 29 (AC Mo4.130); AAG-BNK, par. 8.29]	_____	_____	_____
b. For the right to service mortgage loans, do disclosures include: ¹⁹			
(1) The amount capitalized during the period in connection with purchasing or originating the right to service mortgage loans?	_____	_____	_____
(2) The method of amortizing the capitalized servicing rights?	_____	_____	_____
(3) Amount of amortization for the period? [SFAS 65, par. 30, as amended by SFAS 122, par. 3h (AC Mo4.131)]	_____	_____	_____
(4) The amount of the servicing portfolio maintained by the institution, if material?	_____	_____	_____

¹⁹ For banks that have not adopted SFAS 122, Steps b. (1)-(9) apply only to purchased loans.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(5) A roll-forward of deferred loan sale premium or discount activity (scheduled amortization, amortization due to changes in prepayment assumptions, and changes due to loan sale activity, if material) for each year of operations presented?	_____	_____	_____
(6) The nature and extent of any recourse provisions caused by, for example, the borrower's default, or by technical underwriting exceptions associated with both the institutions, servicing portfolio and loans that the institution may have subsequently sold?	_____	_____	_____
(7) The amount of aggregate gains on sales of servicing included in operations?	_____	_____	_____
(8) A roll-forward of purchased servicing activity (purchases, sales and amortization, etc.) for each year of operations presented?	_____	_____	_____
(9) The nature and extent of off-balance-sheet escrow accounts? [AAG-BNK, par. 8.29]	_____	_____	_____

In May 1995, the FASB issued SFAS 122, *Accounting for Mortgage Servicing Rights*, which amends SFAS 65, *Accounting for Certain Mortgage Banking Activities*. SFAS 122 expands the disclosure requirements as to mortgage servicing rights. The effective date of SFAS 122 is for fiscal years beginning after December 15, 1995. The additional disclosure requirements are as follows:

(10) The fair value of capitalized mortgage servicing rights and the methods and significant assumptions used to estimate that fair value?	_____	_____	_____
(11) The reasons why it is not practicable to estimate the fair values of the mortgage servicing rights and mortgage loans (without the mortgage servicing rights), if no cost is allocated to the mortgage servicing rights? [SFAS 122, par.3i (AC Mo4.133)]	_____	_____	_____
(12) The risk characteristics of the underlying loans used to stratify capitalized mortgage servicing rights for the purposes of measuring impairment? [SFAS 122, par. 3i (AC Mo 4.133)]	_____	_____	_____
(13) For each period for which an income statement is presented, the activity in the valuation allowances for capitalized mortgage servicing rights:			
(a) Opening balance?	_____	_____	_____
(b) Additions charged and reductions credited to operations?	_____	_____	_____
(c) Direct write-downs charged against the allowances?	_____	_____	_____
(d) Ending balance?	_____	_____	_____
[SFAS 122, par.3i (AC Mo4.134)]			

F. Loans Receivable

1. Are the following disclosed in the summary of significant accounting policies:			
a. The basis of accounting for loans and lease financings, both held in a portfolio and held for sale?	_____	_____	_____
b. The method of determining carrying amounts of loans held for sale?	_____	_____	_____
c. The method and significant assumptions used to estimate the fair value of loans?	_____	_____	_____
d. The method of estimating credit losses?	_____	_____	_____
e. The method of recognizing interest income on loans, including a statement about the institution's policy for the treatment of loan fees and costs, including the method of amortizing net deferred fees or costs? ⁷	_____	_____	_____
[AAG-BNK, par. 6.70]			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are loans held for sale disclosed separately on the statement of financial condition? [AAG-BNK, par. 6.71]	_____	_____	_____
a. Have loans held for sale been reported at the lower of cost or market? [AAG-BNK, par. 6.46]	_____	_____	_____
3. Are the following disclosed separately either in the statement of financial condition or in the notes to the financial statements:			
a. Major categories of loans?	_____	_____	_____
b. The allowance for credit losses, unearned income, unamortized premiums and discounts, and net unamortized deferred fees and costs?	_____	_____	_____
c. Undisbursed portion of loans receivable (loans in process)?	_____	_____	_____
d. Loans that have been restructured in a troubled debt restructuring? [AAG-BNK, par. 6.71]	_____	_____	_____
4. Is the total carrying value of loans pledged disclosed? [AAG-BNK, par. 6.72]	_____	_____	_____
5. Are loans to related parties disclosed? [AAG-BNK, par. 6.77; SFAS 57, par.2 (AC R36.102)]	_____	_____	_____
6. Have commitments to originate loans been disclosed? [AAG-BNK, par. 6.67]	_____	_____	_____
7. Have outstanding loans whose terms have been modified in trouble debt restructurings been accounted for in accordance with FASB No. 114, as amended by FASB No. 118? [AAG-BNK, par. 6.74]	_____	_____	_____
8. Is the unamortized balance of loan commitments, originations and other fees and costs including purchase premiums or discounts that are being recognized as yield adjustments being reported as part of the loan balance to which they relate? [SFAS 91, par. 21 (AC L20.120); AAG-BNK par. 7.49]	_____	_____	_____
G. Loans—Lease Finance			
1. Have leases been accounted for in accordance with FASB No. 13, <i>Accounting for Leases</i> , as amended by FASB No. 98, <i>Accounting for Leases: Sales-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, Initial Direct Costs of Direct Financing Leases</i> ? [AAG-BNK, par.6.62]	_____	_____	_____
2. Are the following disclosed in the financial statements:			
a. The following components of the net investment in leases disclosed as of the date of each balance sheet presented:			
(1) Future minimum lease payments to be received, with separate disclosures for:			
(a) Executory costs, including any profit thereon?	_____	_____	_____
(b) The accumulated allowance for uncollectible minimum lease payments receivable?	_____	_____	_____
(2) Unguaranteed residual values accruing to the benefit of the lessor?	_____	_____	_____
(3) For direct financing leases only, initial direct costs?	_____	_____	_____
(4) Unearned income?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23a as amended by SFAS 91 par. 25d (AC L10.119a)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Is the method of amortizing deferred investment credits retained on lease transactions disclosed? [AAG-BNK, par. 14.30]	_____	_____	_____
4. Are leasing arrangements described? [SFAS 13, par. 23c (AC L10.119c)]	_____	_____	_____
5. Are the following disclosures made for leveraged leases:			
a. The deferred taxes related to the investment in a leveraged lease shall be presented separately from the remainder of the net investment?	_____	_____	_____
b. Pretax income from leveraged leases?	_____	_____	_____
c. Tax effect of pretax income?	_____	_____	_____
d. Amount of investment tax credit recognized as income during the period, if any? [SFAS 13, par. 47 (AC L10.149)]	_____	_____	_____
6. If leveraged leases are significant, the following additional disclosure should be made as to the investment in leveraged leases:			
a. Rental receivable?	_____	_____	_____
b. A receivable for the amount of investment tax credit to be realized on the transaction?	_____	_____	_____
c. Estimated residual value of the leased asset?	_____	_____	_____
d. Unearned and deferred income? [SFAS 13, pars. 43 and 47 (AC L10.149)]	_____	_____	_____
H. Allowance for Loan Losses			
1. Is the allowance deducted from the related assets? [APB 12, par.3 (ACV18.102)]	_____	_____	_____
2. Is a description of the accounting policies and the method used to estimate its allowance or liability and related provisions for loan or other credit losses included in the notes to the financial statements? [AAG-BNK, par. 7.33]	_____	_____	_____
3. Is the following information disclosed, either in the body of the financial statements or in the accompanying notes for impaired loans: ²⁰			
a. As of the date of each statement of financial condition presented:			
(1) Total recorded investment in the impaired loans at the end of each period and the amount of the recorded investment for which there is a related allowance for loan losses?	_____	_____	_____
(2) The amount of the allowance?	_____	_____	_____
(3) The amount of the recorded investment for which no allowance for loan losses was recorded?	_____	_____	_____
(4) The institution's policy for recognizing interest on impaired loans, including how cash receipts are recorded?	_____	_____	_____
b. For each period for which an income statement is presented:			
(1) Average recorded investments?	_____	_____	_____
(2) Related amount of interest income recognized using the cash basis method of accounting during the time within the period the loans were impaired?	_____	_____	_____
(3) If practicable, the amount of interest income recognized using cash basis method of accounting during the time within the period the loans were impaired?	_____	_____	_____

²⁰ In certain circumstances, information about an impaired loan that has been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures in Steps 3.a. and 3.b.(1)-(3).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) The activity in the allowance for loan losses related to impaired loans including the following:			
(a) Opening balance?	_____	_____	_____
(b) Additions charged to operations?	_____	_____	_____
(c) Direct write-down charged against the allowance?	_____	_____	_____
(d) Recovery of amounts previously charged off?	_____	_____	_____
(e) Ending balance?	_____	_____	_____
[SFAS 118, par. 6 (AC 108.118 and 118A)]			
I. Real Estate Acquired in Settlement of Loans			
1. Is real estate acquired in settlement of loans (e.g., foreclosed real estate) disclosed as a separate balance-sheet amount or included in other assets in the balance sheet, and disclosed in the notes? [AAG-BNK, par. 9.13]	_____	_____	_____
2. Are foreclosed assets held for sale valued and disclosed at the lower of fair value minus estimated costs to sell or cost? [AAG-BNK, par. 9.9; SOP 92-3, par. 12]	_____	_____	_____
3. If the fair value of the asset minus the cost to sell the asset is less than the cost of the asset, has the deficiency been recognized as a valuation allowance? [SOP 92-3, par. 12]	_____	_____	_____
4. Are changes in the valuation allowance based upon fluctuations in the fair value of the asset minus the estimated cost to sell the asset? [AAG-BNK, par. 9.9; SOP 92-3, par. 12]	_____	_____	_____
5. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired other than through foreclosure? [AAG-BNK, par. 9.9; SOP 92-3, par. 5]	_____	_____	_____
6. If foreclosed assets originally classified as held-for-sale are reclassified to be held for production of income, is the net effect of such change reported in income from continuing operations in the period in which the decision not to sell the asset was made? [AAG-BNK, par. 9.12; SOP 92-3, par. 12]	_____	_____	_____
7. For collateral that has been in-substance foreclosed (e.g., the institution receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place in full satisfaction of a receivable), is the loan receivable reclassified to the category or categories of the collateral in accordance with SFAS No. 15, <i>Accounting by Debtors and Creditors for Troubled Debt Restructurings</i> ? [SFAS 114, par.22. d. (AC D22.142); SFAS 15, par. 28 (AC D22.124)]	_____	_____	_____
8. For collateral that has been in-substance foreclosed but the institution has not taken physical possession of the asset(s), is the classification of loans receivable unchanged? [SFAS 114, par.71]	_____	_____	_____
J. Premises and Equipment			
1. Are fixed assets shown on the balance sheet net of accumulated depreciation? [AAG-BNK, par. 10.13]	_____	_____	_____
2. Is the carrying basis disclosed? [AAG-BNK, par. 10.09]	_____	_____	_____
3. Are the balances of major classes of depreciable assets disclosed? [APB 12, par. 5b (AC D40.105b); AAG-BNK, par. 10.13]	_____	_____	_____
4. Is accumulated depreciation, either by major classes of assets or in total, disclosed? [APB 12, par. 5c (AC D40.105c)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Is depreciation expense for the period disclosed? [APB 12, par. 5 (AC D40.105a)]	_____	_____	_____
6. Has accumulated depreciation, either by major classes of assets or in total, been disclosed at the balance-sheet date? [APB 12, par. 5 (AC D40.105a)]	_____	_____	_____
7. Is the amount of interest cost incurred and charged to expense during the period disclosed for an accounting period in which no interest cost is capitalized? [SFAS 34, par. 21.a. (AC I67.118)]	_____	_____	_____
8. Is the amount of interest cost incurred during the period and the amount that has been capitalized disclosed for an accounting period in which some interest cost is capitalized? [SFAS 34, par. 21.a. (AC I67.118)]	_____	_____	_____
9. If purchased computer software is to be used as a long-term asset, has the cost been capitalized and depreciated over its estimated useful life? [AAG-BNK, par. 10.12]	_____	_____	_____
10. Are material commitments for property expenditures disclosed? [SFAS 5, pars. 18-19 (AC C59.120)]	_____	_____	_____
11. For an existing property with an asbestos problem, are the costs incurred to treat the problem, if charged to expense, not classified as an extraordinary item? [EITF 89-13]	_____	_____	_____
<p>SFAS 121, <i>Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of</i>, established accounting standards for the impairment of long-lived assets, and goodwill related to assets held and used or disposed of. This standard is effective for fiscal years beginning after December 15, 1995, however earlier application is encouraged. Restatement of previously issued financial statements is not permitted.</p>			
12. If an impairment loss is recognized for assets to be held or used, are the following disclosures made in financial statements that include the period of impairment write-down:			
a. A description of the impaired assets and the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment and how fair value was determined?	_____	_____	_____
c. The caption in the income statement in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____
d. The business segment(s) affected, if applicable? [SFAS 121, par.14]	_____	_____	_____
13. If assets to be disposed of are accounted for in accordance with paragraphs 15-17 of SFAS 121, are all of the following disclosed in financial statements that include a period which those assets are held:			
a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?	_____	_____	_____
b. The business segment(s) in which assets to be disposed of are held, if applicable?	_____	_____	_____
c. The loss resulting from the application of paragraph 15 of SFAS No. 121?	_____	_____	_____
d. The gain or loss, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS No. 121?	_____	_____	_____
e. The caption in the income statement in which the gains or losses in steps c. and d. are aggregated if those gains have not been presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>f. The results of operations for assets to be disposed of to the extent that those results are included in the entity's results of operations for the period and can be identified? [SFAS 121, par, 19]</p>	_____	_____	_____
<p>14. If an impairment loss is recognized, is it reported as a component of income from continuing operations? [SFAS 121, pars. 13 and 18]</p>	_____	_____	_____
K. Other Assets			
<p>1. If material, are amounts disclosed separately for:</p>			
a. Accrued interest receivable?	_____	_____	_____
b. Premises and equipment?	_____	_____	_____
c. Other real estate, such as foreclosed assets?	_____	_____	_____
d. Identifiable intangible assets, such as core deposit intangibles, purchased mortgage servicing rights, and purchased credit card relationships?	_____	_____	_____
e. Goodwill?	_____	_____	_____
f. Customers' liabilities on acceptances?	_____	_____	_____
g. Deferred tax assets? [AAG-BNK, par. 10.01]	_____	_____	_____
<p>2. Are the periods and methods of amortization for identified intangible assets and unidentifiable intangible assets in accordance with SFAS No. 72, <i>Accounting for Certain Acquisitions of Banking or Thrift Institutions</i>?</p>	_____	_____	_____
<p>3. Are the following items disclosed for an unidentifiable intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identifiable intangible assets acquired in a combination initiated after September 30, 1982:</p>			
a. The method and period of amortization? [APB 17, par.30 (ACI60.111)]	_____	_____	_____
b. If the receipt of the assistance by regulatory authority was not probable or the amount was not reasonably estimable:			
(1) Has any assistance received subsequently been recognized in the financial statements and reported as a reduction in the unidentifiable intangible asset?	_____	_____	_____
(2) Has subsequent amortization been adjusted proportionally?	_____	_____	_____
(3) Has assistance received in excess of goodwill been reported as income? [SFAS 72, par. 9(AC B50.158D)]	_____	_____	_____
<p>4. Are investments in life insurance reported at amounts that can be realized as of the balance-sheet date? [TB 85-4, par. 2 (AC I50.508)]</p>	_____	_____	_____
L. Deposits			
<p>1. Is the institution's liability for deposits recognized at the time deposits are received, rather than when the institution collects the funds? [AAG-BNK, par. 11.30]</p>	_____	_____	_____
<p>2. Are overdrawn checking accounts:</p>			
a. Reclassified as loans?	_____	_____	_____
b. Evaluated for collectibility as part of the evaluation of credit loss allowance? [AAG-BNK, par. 11.30]	_____	_____	_____
<p>3. Are checks deposited by customers that are in the process of collection and are not available for withdrawal recorded as assets and liabilities? [AAG-BNK, par. 11.31]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Are the following disclosures included in the financial statements:			
a. The aggregate amount of time deposit accounts (including CDs) exceeding \$100,000 at the balance-sheet date?	_____	_____	_____
b. For deposits payable on demand or with no defined maturities, has the fair value been disclosed as the amount payable on demand at the reporting date?	_____	_____	_____
c. Securities, mortgage loans, or other financial instruments pledged as collateral for deposits?	_____	_____	_____
d. For time deposits having a remaining term of more than one year, the aggregate amount of maturities for each of the five years following the balance sheet date (in conformity with paragraph 10b of SFAS No. 47, <i>Disclosures of Long-Term Obligations</i>)?	_____	_____	_____
e. The aggregate amount of any demand deposits that have been reclassified as loan balances at the balance-sheet date?	_____	_____	_____
f. The amount of deposits of related parties at the balance-sheet date (in conformity with SFAS No. 57, <i>Related Party Disclosures</i>)?	_____	_____	_____
g. Deposits that are received on terms other than those available in the normal course of business?	_____	_____	_____
h. The fair values of deposits (in conformity with SFAS No. 107, <i>Disclosures about Fair Value of Financial Instruments</i>)? [AAG-BNK, par. 11.32]	_____	_____	_____
M. Income Taxes			
1. Are deferred tax assets determined for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction presented separately? [SFAS 109, par. 17 (AC I27.116)]	_____	_____	_____
2. Are the components of the total of net deferred tax liability or asset recognized in the statement of condition disclosed?			
a. The total of all deferred tax liabilities?	_____	_____	_____
b. The total of all deferred tax assets?	_____	_____	_____
c. The total valuation allowance for deferred tax assets? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
N. Debt			
1. Are significant categories of borrowings disclosed as separate line items in the liability section of the balance sheet? [AAG-BNK, par. 13.27]	_____	_____	_____
2. Do the notes disclose the principal terms of the respective agreements including, but not limited to, the following:			
a. The title or nature of the agreement, or both?	_____	_____	_____
b. The interest rate (and whether it is fixed or floats)?	_____	_____	_____
c. The payment terms and maturity date(s)?	_____	_____	_____
d. Collateral?	_____	_____	_____
e. Conversion or redemption features?	_____	_____	_____
f. Whether borrowings are senior or subordinate?	_____	_____	_____
g. Restrictive covenants (such as dividend restrictions), if any?	_____	_____	_____
h. Maturities and sinking-fund requirements for each of the next five years?	_____	_____	_____
i. If the debt is considered in-substance defeased, a general description of the transaction and the amount of the debt that is considered extinguished at the end of the period as long as the debt remains outstanding? [AAG-BNK, par. 13.27]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Are costs related to the issuance of debentures or other debt deferred and amortized to interest expense using the effective interest method? [AAG-BNK, par. 13.28]	_____	_____	_____
4. For loans receivable with recourse that are not recognized as a sale in accordance with SFAS No. 77, <i>Reporting by Transferors for Transfers of Receivables with Recourse</i> , par. 5. is the amount of proceeds from the transfer of receivables reported as borrowings? [SFAS 77, par. 8 (AC R20.108)]	_____	_____	_____
5. For transfers of receivables with recourse reported as sales, is disclosure made of the proceeds during each period for which an income statement is presented? [SFAS 77, par. 9 (AC R20.108)]	_____	_____	_____
6. For troubled debt restructurings occurring during the period for which financial statements are presented do disclosures include:			
a. For each restructuring, a description of the principal changes in terms?	_____	_____	_____
b. Aggregate gain on restructuring of payables and the related income tax effect?	_____	_____	_____
c. Aggregate net gain or loss on transfers of assets recognized during the period?	_____	_____	_____
d. Per-share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par.25 (AC D22.121)]	_____	_____	_____
7. For the period after a troubled debt restructuring, do disclosures include:			
a. The extent to which amounts contingently payable are included in the carrying amount of restructured payables?	_____	_____	_____
b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par.26 (AC D22.122)]	_____	_____	_____
8. If there is an extinguishment of debt, including prepayment of FHLB advances and conversions, is the difference between reacquisition price and carrying amount identified:			
a. As income in the period of extinguishment as gain or loss? [APB 26, pars. 20-21 (AC D14.103-.104)]	_____	_____	_____
b. As a separate or extraordinary item, as appropriate? [SFAS 4, par.8, as amended by SFAS 64, par. 4 (AC D14.105)]	_____	_____	_____
9. Do disclosures for extinguishments of debt described in Step 6. above include:			
a. A description of the extinguishment transactions, including the sources of any funds used to extinguish debt if it is practicable to identify the sources?	_____	_____	_____
b. Income tax effect in the period of extinguishment?	_____	_____	_____
c. The per-share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC D14.107)]	_____	_____	_____
10. If the bank issued debt securities convertible into a fixed number of common shares, and upon conversion the bank either is requested or has the option to satisfy all or part of the obligation in cash, is the conversion feature and debt obligation presented on the balance sheet as one amount? [ETIF 90-19]	_____	_____	_____
11. When default under a credit agreement occurs any time prior to the date of the accountants' report are the following disclosed: ²¹			
a. The nature and amount of the default?	_____	_____	_____
b. The period for which the violation has been waived? [EITF 86-20]	_____	_____	_____

²¹ If a valid waiver is obtained for only a stated period of time, disclosure is required.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. If a long term obligation is or will be callable because of a loan covenant violation is included as a long term (or is classified as a long-term liability in the disclosures for an unclassified balance sheet) because it is probable the violation will be cured within a specified grace period, are the circumstances disclosed? [SFAS 78, par. 5]	_____	_____	_____
O. Other Liabilities			
1. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 88, par. 15 (AC P16.185)]	_____	_____	_____
2. For loans transferred with recourse that are not reported as sales, is the amount of proceeds from the transfer reported as a liability? [SFAS 77, par. 8 (AC R20.108)]	_____	_____	_____
3. Are short sale proceeds:			
a. Reported as a liability?	_____	_____	_____
b. Adjusted to fair value through the income statement at each reporting date? [AAG-BNK, par. 5.77]	_____	_____	_____
P. Capital Stock			
1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share and changes therein? [APB 12, par. 10 (AC C8.102)]	_____	_____	_____
2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, (i.e., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, or unusual voting rights)? [APB 15, par. 19 (AC E09.110)]	_____	_____	_____
3. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10 (AC C32.105)]	_____	_____	_____
4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate, either parenthetically or "in short"? [APB 10, par. 10 (AC C16.101)]	_____	_____	_____
5. For preferred stock, do disclosures include:			
a. The aggregate or per share amounts at which shares may be called or are subject to redemption?	_____	_____	_____
b. The aggregate and per share amounts of arrearages in cumulative preferred dividends? [APB 10, par. 11 and APB 15, par. 50, fn. 16 (AC C16.102)]	_____	_____	_____
6. For stock option and stock purchase plans, do disclosures include:			
a. The number of shares under option?	_____	_____	_____
b. The option price?	_____	_____	_____
c. The number of shares as to which options are exercisable?	_____	_____	_____
d. For shares exercised, the number of shares exercised and option price? [APB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____
7. Are the carrying basis, the cost and the number of shares disclosed for treasury stock? [APB 6, pars. 12b (AC C23.103)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. Does disclosure of the following aspects of capital instruments include:			
a. Bases for calculation of dividends?	_____	_____	_____
b. Redemption provisions?	_____	_____	_____
c. Liquidation accounts for converted institutions?	_____	_____	_____
d. Cumulative dividends in arrears?	_____	_____	_____
e. Dividend restrictions?	_____	_____	_____
f. Changes in control provisions?	_____	_____	_____
g. Other matters necessary for a clear understanding of the institutions financial condition? [APB10, par.11 (AC C16.102) ; APB 15. Par. 50, fn 16; SFAS 5, par.18 (AC C59.120)]	_____	_____	_____
Q. Additional Paid-in Capital			
1. Is the amount shown separately on the balance sheet? [AAG-BNK, par. 19.9]	_____	_____	_____
R. Retained Earnings			
1. Is the amount of retained earnings shown separately on the balance sheet? [AAG-BNK, par. 19.9]	_____	_____	_____
2. Are significant restrictions on the use of retained earnings for payment of dividends disclosed? [SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____
3. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC C59.117)]	_____	_____	_____
4. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 and ARB 46, par. 2 (AC Q15.111)]	_____	_____	_____
5. Are stock dividends/splits through the issue date of financial statements disclosed and, if appropriate, are all presented earnings per share restated? [APB 15, par. 48 (AC E09.139)]	_____	_____	_____
6. Are appropriated and unappropriated retained earnings shown separately? [SFAS 5, par. 15 (AC C59.117 and AC R70.103)]	_____	_____	_____
7. Are the nature and extent to which retained earnings is restricted indicated? [APB 6, par. 13 (AC C23.104)]	_____	_____	_____
S. Other Stockholders' Equity Accounts			
1. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed? [TB 85-6, pars. 1—3 (AC C23.501—.503)]	_____	_____	_____
2. Are receivables taken in exchange for capital presented as a contra equity account? [EITF 85-1]	_____	_____	_____
3. Are unrealized holding gains and losses for available-for-sale securities, including those classified as current assets, reported as a net amount in a separate component of shareholders' equity until realized? [SFAS 115, par. 13, (AC I80.110)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Income Statement			
A. Interest Income			
1. For interest income from loans:			
a. Is interest income reported using the interest method? [AAG-BNK, par. 6.47]	_____	_____	_____
b. Is the method of recognizing interest income on loans, including a statement about the institution's policy for the treatment of loan fees and costs, and the method of amortizing net deferred fees or costs, disclosed? [AAG-BNK, par. 6.70]	_____	_____	_____
2. Are amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield reported as part of interest income? [SFAS 91, par. 22 (AC C20.120)]	_____	_____	_____
B. Interest Expense			
1. If significant, is interest on short positions disclosed? [AAG-BNK, par. 5.76]	_____	_____	_____
2. If no interest is capitalized during the period, are the amount of interest cost and charge to expense disclosed? [SFAS 34, par. 21 (AC I67.118a)]	_____	_____	_____
C. Other Income			
1. For investment securities gains/losses:			
a. For each period for which results of operations are presented, are the realized gains and losses for securities classified as either available-for-sale or held-to-maturity reported in earnings?	_____	_____	_____
b. Are such gains/losses presented separately on a pretax basis and classified as "Other Income"? [SOP 83-1, par. 16]	_____	_____	_____
2. Is amortization of loan origination, commitment and other fees and costs recognized as an adjustment of yield being amortized on the straight-line basis over the commitment period as an adjustment of income or included in income when the commitment expires, reported as other income? [SFAS 91, par. 22 (AC L20.121)]	_____	_____	_____
3. Are gains/losses on pension plan settlements or curtailments or termination benefits disclosed, including a description of the nature of the event(s)? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
D. Other Expenses			
1. Salaries:			
a. If there is a compensatory stock issuance plan, are the following disclosures made:			
(1) Status of the option plan at the end of the period, including the number of shares under option, the option price and the number of shares as to which options are exercisable?	_____	_____	_____
(2) The number of shares involved and the option price for the options exercised during the period? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____
2. Is depreciation expense for each period disclosed, accompanied by a general description of the method used for the major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
3. Are the accounting policy, the net amount capitalized at the balance sheet date, and the amortization period(s) with respect to credit card fees and costs for both purchased and originated credit cards disclosed? [EITF 92-5]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Do disclosures for advertising costs include:			
a. The accounting policy selected from the two alternatives in paragraph 26 of SOP 93-7, <i>Reporting on Advertising Costs</i> , for reporting advertising, indicating whether such costs are expensed as incurred or the first time the advertising takes place?	_____	_____	_____
b. A description of the direct-response advertising reported as assets (if any), the accounting policy, and the amortization period?	_____	_____	_____
c. The total amount charged to advertising expense for each income statement presented, with separate disclosure of amounts, if any, representing a write-down to net realizable value and the reasons for such a write-down?	_____	_____	_____
d. The total amount of advertising reported as assets in each balance sheet? [SOP 93-7, par. 49]	_____	_____	_____
E. Income Taxes			
1. Are the types of significant temporary differences and carryforwards disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____
d. The benefits of operating loss carryforwards?	_____	_____	_____
e. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets, of an acquired entity?	_____	_____	_____
f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise?	_____	_____	_____
g. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years?	_____	_____	_____
h. Amounts and expiration dates of operating losses and tax carryforwards for tax purposes?	_____	_____	_____
i. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital? [SFAS 109, pars. 45 and 48 (AC I27.144 and .147)]	_____	_____	_____
3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35—39 of SFAS No. 109 (AC I27.134—.138)) disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145)]	_____	_____	_____
4. a. Is the nature of significant items for public enterprises disclosed by the use of percentages or dollars for (i) the reported amount of income tax expense attributable to continuing operations for the year to date and (ii) the amount of income tax expense that would result from applying domestic federal statutory notes to pretax income from operations?	_____	_____	_____
b. Is the nature of significant reconciling items (omission of numerical reconciliation is permitted) for a non-public enterprise disclosed?	_____	_____	_____
c. If not otherwise evident, are the nature and effect of any other significant matters affecting comparability of information for all periods present? [SFAS 109, par. 46 (AC I27.145)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
6. If the bank is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:			
a. The aggregate amount of current and deferred tax expense for each statement of income presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of condition presented?	_____	_____	_____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in a. above are presented? [SFAS 109, par. 49a—b (AC I27.148a—b)]	_____	_____	_____
7. Are the amounts of income taxes applicable to the results of discontinued operations disclosed on the income statement or in related notes? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
8. Are the income taxes applicable to extraordinary events disclosed on the face of the statement of operations or in related notes? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
F. Discontinued Operations			
1. Are operations of a segment that is discontinued or is the subject of a formal plan for disposition:			
a. Reported separately from income from continuing operations for the current and prior period and as a component (including applicable income taxes) of income before extraordinary items?	_____	_____	_____
b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, pars. 8, 13 and 18 (AC I13.105—.106 and .108—.109)]	_____	_____	_____
2. a. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items or in related notes? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
b. If an institution has accounted for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment writedown of the individual assets classified in continuing operations? [EITF 90-16]	_____	_____	_____
c. If the institution plans to dispose of two segments of a business, and a net gain is expected (one has a net gain and the other a net loss), is that gain shown net? [EITF 85-36]	_____	_____	_____
3. Are the revenues applicable to the discontinued operations disclosed in the notes to the financial statements? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
4. For the period encompassing the measurement date, do notes to financial statements disclose:			
a. Identity of the segment discontinued?	_____	_____	_____
b. Expected disposal date, if known?	_____	_____	_____
c. Expected manner of disposal?	_____	_____	_____
d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date?	_____	_____	_____
f. The fact that the loss on disposal cannot be estimated within reasonable limits, if applicable? [APB 30, par. 18 and par. 18, fn. 7 (AC I13.108—.109)]	_____	_____	_____
5. For periods after measurement date and including the period of disposal, do notes to financial statements disclose the information in Steps 3.a.—e. above compared with the prior estimates? [APB 30, par. 18 (AC I13.108)]	_____	_____	_____
6. For discontinued operations or sale of a portion of a line of business that is not a segment of a business, is the gain or loss from disposal reported as a separate component of income from continuing operations, and is it not reduced for income taxes (information similar to that in Steps 3.a.—f. above should be disclosed, and disclosure for revenues and related costs and expenses included in the income statement that relate to the disposed portion of the line of business for the period prior to the measurement date is encouraged)? [AIN—APB 30, par. 1 (AC I22.502)]	_____	_____	_____
G. Extraordinary Items			
1. Do extraordinary items meet both criteria of (1) unusual nature and (2) infrequency of occurrence? [APB 30, par. 20 (AC I17.107)]	_____	_____	_____
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement, if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Do disclosures include descriptions of an extraordinary event or transaction and the principal items entering into determination of an extraordinary gain or loss? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
5. Is each adjustment in the current period of an element of an extraordinary item that was reported in a prior period separately disclosed as to year of origin, nature, and amount and classified separately in the current period as an extraordinary item? [SFAS 16, par. 16(e) (AC I17.119)]	_____	_____	_____
6. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____
b. Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101)]	_____	_____	_____
7. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:			
a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?	_____	_____	_____
b. Income tax effect in the period of extinguishment? [SFAS 4, par. 9 (AC I17.104)]	_____	_____	_____
8. For nonpublic banks, if there is a restructuring charge, is it reflected using the most meaningful income statement presentation within the framework of APB 30? [EITF 87-4]	_____	_____	_____

Yes No N/A

H. Other

1. Are the following excluded from determination of net income or results of operations under all circumstances:
 - a. Adjustments or charges or credits resulting from transactions in the bank's own capital stock? _____
 - b. Transfers to and from accounts properly designated as appropriated retained earnings? _____
 - c. Adjustments made pursuant to a quasi-reorganization?
[APB 9, par. 28 (AC C08.101)] _____
2. Is earnings-per-share information for public companies presented on the face of the statement of operations accompanied by appropriate disclosure that includes the basis of the calculation?
[APB 15, par. 12 (AC E09.103); SFAS 21 par.15 (AC E09.102)] _____

Statement of Changes in Stockholders' Equity

- A. Are changes in separate component accounts of stockholders' equity disclosed?
[APB 12, par. 10 (AC C08.102)] _____
- B. Are changes in the number of shares of equity securities disclosed?
[APB 12, par. 10 (AC C08.102)] _____
- C. Are prior-period adjustments limited to correction of an error in financial statements of prior periods?
[SFAS 109, par. 288m (AC A35.103)] _____
- D. Are prior-period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed?
[APB 9, par. 26 (AC A35.107)] _____
- E. For a correction of an error, is the nature of the error disclosed in the period in which the error was discovered and corrected?
 1. Nature of the error in previously issued financial statements? _____
 2. Effect of its correction on income before extraordinary items, net income, and related per-share amounts, if applicable?
[APB 20, par. 37 (AC A35.105)] _____

Statement of Cash Flows

- A. Is a statement of cash flows presented as a basic financial statement in a presentation in which reports on both financial position and results of operations for each period for which a statement of income is presented?
[SFAS 95, par. 3 (AC C25.101)] _____
- B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows?
[SFAS 95, pars. 27—28 (AC C25.125—.126)] _____
- C.
 1. Are cash receipts and payments resulting from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows?
[SFAS 102, par. 8 (AC C25.122A)] _____
 2. Are cash receipts and payments resulting from acquisitions and sales of loans if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market classified as operating cash flows?
[SFAS 102, par. 9 (AC C25.122B)] _____
- D. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:
 1. Interest received on loans? _____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Insurance proceeds except those directly related to investing or financing activities?	_____	_____	_____
3. Interest paid to creditors?	_____	_____	_____
4. Payments to suppliers and employees?	_____	_____	_____
5. Payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
6. Payments to settle lawsuits?	_____	_____	_____
7. Contributions to charities?	_____	_____	_____
8. Cash flows from purchases, sales, and maturities of trading securities? [SFAS 95, par. 22—23 (AC C25.120—.121)]	_____	_____	_____
E. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
F. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
1. Net change in interest-bearing deposits with banks?	_____	_____	_____
2. Net change in federal funds sold and securities purchased under agreements to resell?	_____	_____	_____
3. Net change in loans?	_____	_____	_____
4. Purchases of and proceeds from sales of available-for-sale securities?	_____	_____	_____
5. Proceeds from maturities of available for sale and held-to-maturity securities?	_____	_____	_____
6. Purchases of held-to-maturity securities?	_____	_____	_____
7. Purchase of property and equipment? [AAG-BNK, 19.12; SFAS 95, pars. 12-13 and 31 (AC C25.110-111 and .129); SFAS 115, pars. 18 (AC I80.117)]	_____	_____	_____
G. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
H. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
1. Net change in noninterest-bearing, demand, savings, and NOW deposit accounts?	_____	_____	_____
2. Net change in time deposits?	_____	_____	_____
3. Net change in borrowed funds?	_____	_____	_____
4. Net change in acceptances outstanding?	_____	_____	_____
5. Issuance and repayment of long-term debt?	_____	_____	_____
6. Dividend paid? [AAG-BNK, 19.12]	_____	_____	_____
I. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately? [SFAS 95, par. 25 (AC C25.123)]	_____	_____	_____
J. Is the change in cash and due from banks shown in the statement of cash flows? [AAG-BNK, 19.12; SFAS 95, par. 26 (AC C25.124)]	_____	_____	_____
K. Is policy for defining a cash equivalent disclosed? [AAG-BNK, 19.13; SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
L. Is a reconciliation of net income to net cash flow from operating activities presented, either within the statement of cash flows or in a separate schedule? [SFAS 95, pars. 29—30 (AC C25.127—.128)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
M. Are noncash investing and financing activities (i.e., converting debt to equity) summarized either in narrative or a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____
N. If the indirect method of reporting operating cash flows is used, are the amounts of interest paid (net of amounts capitalized) and income taxes paid disclosed in a separate schedule or footnote for each year presented (the reconciliation of net income to net cash provided by or used in operating activities, which can be presented in the statement or in a separate schedule or footnote, should separately report all major reconciling items, including at a minimum, changes in receivables, inventory, and payables pertaining to operating activities)? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
O. Are the following classes of operating cash receipts and payments for banks using the direct method, at a minimum, separately disclosed:			
1. Cash collected from customers, including lessees, licensees, and the like?	_____	_____	_____
2. Interest and dividends received?	_____	_____	_____
3. Other operating cash receipts, if any?	_____	_____	_____
4. Cash paid to employees and other suppliers of goods or services, including suppliers of insurance, advertising, and the like?	_____	_____	_____
5. Interest paid?	_____	_____	_____
6. Income taxes paid?	_____	_____	_____
7. Other operating cash payments, if any? [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____

APPENDIX

The Financial Statement Disclosure Checklist incorporates disclosure requirements from the proposed draft of the new Audit and Accounting Guide, *Banks and Savings Institutions*. The new Guide is expected to be finalized in early 1996. Until the new Guide is issued, users also should comply with the following disclosure requirements, which are taken from the AICPA Audit and Accounting Guide, *Audits of Savings Institutions* and the Audit and Accounting Guide, *Audits of Banks*.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Exhibit A—Savings Institutions			
GENERAL			
A. Consolidations			
1. Are supplementary consolidating statements of financial condition and operations presented for majority-owned subsidiaries and joint ventures of an insured institution? [AAG-SAV, pars. 1.59 and 19.02]	_____	_____	_____
B. Options, Interest Rate Futures Contracts, and Similar Instruments			
1. If an interest rate futures contract is accounted for as a hedge, do disclosures include:			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	_____	_____	_____
b. The method of accounting for the futures contracts, including a description of the events or transactions that result in income recognition of the changes in value of the futures contracts? [AAG-SAV, par. 16.81]	_____	_____	_____
2. Are the following disclosures (in addition to SFAS 105 disclosures) made for options:			
a. The market value of options purchased and written, and the value of option premiums paid or received?	_____	_____	_____
b. For options accounted for as hedges, the nature of the assets or liabilities that are being hedged? [AAG-SAV, par. 16.84]	_____	_____	_____
3. Are the following disclosures (in addition to SFAS 105 disclosures) made for interest rate swaps:			
a. The notional amount(s) and nature and purpose of the swap, including a determination of whether the swap is speculative or is intended to hedge or modify the terms of an existing asset or liability?	_____	_____	_____
b. The treatment of any fees received or paid?	_____	_____	_____
c. Interest rates on the swap at the balance-sheet date, including disclosure of whether the institution pays or receives a fixed or variable rate?	_____	_____	_____
d. The original and remaining term to maturity of the swap?	_____	_____	_____
e. Swap terminations, including the amount and method of accounting for gains and losses on swap terminations?	_____	_____	_____
f. The nature of any other commitments made by the institution, such as the commitment to take delivery of mortgage-backed securities at a specified price on a mortgage swap? [AAG-SAV, par. 16.84]	_____	_____	_____
4. Is disclosure of the number of futures contracts open and unrecognized gains and losses on open and closed futures contracts at the balance-sheet date considered? [AAG-SAV, par. 16.82d]	_____	_____	_____

Yes No N/A

STATEMENT OF FINANCIAL CONDITION

A. Repurchase Agreements

1. Is the following end of period information disclosed:
 - a. A description of the securities underlying the agreements? _____
 - b. The cost of the agreements, including accrued interest? _____
 - c. The market value of the securities underlying any agreement if less than the cost of that agreement? _____
 - d. The maturity of the agreements? _____
 - e. The dollar amount of agreements to resell the same securities? _____
 - f. The dollar amount of agreements to resell substantially identical securities? _____
 - g. Any material concentrations at the end of the period?
 - (1) If any material concentrations exist at the end of the period, is disclosure made of the institution's control of the securities underlying the agreements? _____
 - (2) If concentrations at the end of the period vary from those during the period, is consideration given to disclosing this information? _____
 - h. Gross repos (assets) and gross reverse repos (liabilities)?
[AAG-SAV, par. 3.23a] _____

B. Mortgage Loans and Mortgage-Backed Servicing Rights

1. For loans held for investment:
 - a. Is the amount of aggregate gains or losses on sales of loans presented on the face of the statement of operation?
[AAG-SAV, par. 8.25] _____

C. Loans Receivable

1. Is the aggregate amount of loans presented separately in the balance sheet?
[AAG-SAV, par. 6.72] _____

D. Federal Home Loan Bank Stock

1. Is consideration given to having Federal Home Loan Bank Stock shown separately on the statement of financial condition at cost after considering the ultimate recoverability of the par value?
[AAG-SAV, par. 3.07] _____
2. If used as collateral for advances from the Federal Home Loan Bank, is this fact disclosed?
[AAG-SAV, par. 3.09] _____

E. Accrued Interest Receivable

1. Is consideration given to showing accrued interest receivable separately, by major categories of assets on the statement of financial condition, if material?
[AAG-SAV, pars. 19.15 and 19.19] _____

F. Savings Accounts

1. Is the following information disclosed:
 - a. Major types of interest-bearing and noninterest-bearing deposits by interest rate ranges (typical categories include NOW accounts, MMDA accounts, savings deposits, and time deposits)? _____
 - b. The rates at which the institution paid interest on deposit accounts and the related deposit balances at year end (typically, this information is broken out by type of deposit)? _____

	Yes	No	N/A
c. The aggregate amount of contractual maturities of time deposits for each of the five years following the date of the latest balance sheet presented (in accordance with SFAS 47 (AC C32))?	_____	_____	_____
d. The weighted-average interest rate of year-end deposit balances?	_____	_____	_____
e. Securities or mortgage loans pledged as collateral for certain deposits?	_____	_____	_____
f. Income from early-withdrawal penalties?	_____	_____	_____
g. Overdrawn balances of demand accounts that are included in loan balances?	_____	_____	_____
h. Deposits received from related parties, if material?	_____	_____	_____
i. Separate disclosure of accounts over \$100,000?	_____	_____	_____
j. Interest expense by type of account? [AAG-SAV, par. 13.26]	_____	_____	_____
G. Advances From Federal Home Loan Bank			
1. Is consideration given to disclosing the following:			
a. Maturity dates due after one year? [AAG-SAV, par. 19.19]	_____	_____	_____
b. Assets pledged as collateral? [SFAS 5, par. 18 (AC C59.120); AAG-SAV, par. 19.19]	_____	_____	_____
H. Reverse Repurchase and Dollar Reverse Repurchase Agreements			
1. Is the following end of period information disclosed:			
a. A description of the securities underlying the agreements?	_____	_____	_____
b. The book value, including accrued interest, of the securities underlying the agreements?	_____	_____	_____
c. The market value of the securities underlying the agreements?	_____	_____	_____
d. The maturity of the agreements?	_____	_____	_____
e. The weighted-average interest rate of the agreements?	_____	_____	_____
f. The dollar amount of agreements to repurchase the same securities?	_____	_____	_____
g. The dollar amount of agreements to repurchase substantially identical securities?	_____	_____	_____
h. With regard to any material concentrations at the end of the period:			
(1) Is disclosure made of the institution's control of the securities underlying the agreements?	_____	_____	_____
(2) If the concentrations at the end of the period vary from those during the period, is consideration given disclosing this information?	_____	_____	_____
i. Financial investments with off-balance-sheet risk? [AAG-SAV, par. 11.29a]	_____	_____	_____
2. Disclosures for reverse repos and dollar reverse repos during the period should include the following:			
a. The maximum amount of outstanding agreements at any month-end during the period.	_____	_____	_____
b. The average amount of outstanding agreements for the period.	_____	_____	_____
c. A statement of whether the securities underlying the agreements are under the institution's control. [AAG-SAV, par. 11.29b]	_____	_____	_____
I. Advances From Borrowers for Taxes and Insurance			
1. Is consideration given to showing the amount separately on the statement of financial condition? [AAG-SAV, par. 19.15]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. If required to establish special funds, is separate disclosure of the special funds and related liability considered? [AAG-SAV, par. 10.09]	_____	_____	_____

J. Capital Stock

1. Is consideration given to the classification of preferred stock instruments as excluded or included from equity? [AAG-SAV, par. 14.09]	_____	_____	_____
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K. Retained Earnings

1. If significant restrictions exist, does the caption for retained earnings indicate that retained earnings are "substantially restricted?" [AAG-SAV, pars. 14.07 and 19.15]	_____	_____	_____
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L. Regulatory Capital

1. Is a reconciliation of GAAP capital to regulatory capital presented?	_____	_____	_____
2. Is the following information disclosed for regulatory capital requirements:			
a. The minimum amount required?	_____	_____	_____
b. The institution is or is not in compliance?	_____	_____	_____
c. The amount by which the institution exceeds or fails to meet requirements?	_____	_____	_____
d. Significant sanctions and actions taken by regulatory authorities if not in compliance?	_____	_____	_____
e. The general provisions of FIRREA and FDICIA and the effects on the institution's business? [AAG-SAV, pars. 14.11 and 18.20—.29]	_____	_____	_____
3. When an institution is failing or is in danger of failing to satisfy its current or projected regulatory capital requirements, are the following disclosures considered:			
a. Reasons why the institution is failing or is in danger of failing to satisfy its current or projected requirements?	_____	_____	_____
b. Possible or probable effects on the institution and its stockholders?	_____	_____	_____
c. Description of management's plan to satisfy the current and projected requirements and the viability of such plans? [AAG-SAV, pars. 14.12, 14.18, and 18.25—18.26]	_____	_____	_____

STATEMENT OF OPERATIONS

A. Interest on Loans

1. Is consideration given to showing interest on loans separately on the statement of operations? [AAG-SAV, par. 19.16]	_____	_____	_____
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B. Interest/Dividends on Investments

1. Is consideration given to showing the amount for investment income separately on the statement of operations? [AAG-SAV, par. 19.16]	_____	_____	_____
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C. Gain/Loss on Sales of Investments

1. Is the market value of securities required to complete a short sale adjusted to market value as of the date of the report? [AAG-SAV, pars. 3.13 and 19.16]	_____	_____	_____
2. Is consideration given a separate disclosure if significant interest has accrued on the short position? [AAG-SAV, pars. 3.13 and 19.16]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
D. Interest on Savings Accounts			
1. Is the amount shown separately on the statement of operations or otherwise disclosed by type of account? [AAG-SAV, pars. 13.26 and 19.16]	_____	_____	_____
2. Is the interest penalty for early withdrawals reported as income from early withdrawal penalties? [AAG-SAV, par. 13.26]	_____	_____	_____
E. Interest on Advances and Other Borrowings			
1. Is the amount shown separately on the statement of operations? [AAG-SAV, pars. 12.30 and 19.16]	_____	_____	_____
F. Loss Provisions on Loans and Real Estate			
1. Is consideration given to showing the loss provision for real estate separately on the statement of operations or in a footnote?	_____	_____	_____
2. Is consideration given to disclosing the policy which provides valuation allowances for estimated losses on loans and real estate? [AAG-SAV, par. 19.19]	_____	_____	_____
STATEMENT OF CASH FLOWS			
A. Are cash receipts and cash payments for the following transactions classified as cash flow from investing activities:			
1. Net change in customers' liability on acceptance outstanding? [AAG-SAV, par. 19.18]	_____	_____	_____
Exhibit B—Banks			
GENERAL			
A. Consolidations			
1. In consolidated Bank holding company financial statements, is goodwill written off by bank subsidiaries reinstated by an adjustment in consolidation? [AAG-BNK, par. 20.04]	_____	_____	_____
B. Foreign Currency			
1. Is disclosure of principal amounts of spot and forward exchange contracts considered? [AAG-BNK, par. 22.26; SFAS 80 (AC F80)]	_____	_____	_____
C. Contingencies and Commitments			
1. Are unused commercial letters of credit reported as commitments and not as liabilities? [AAG-BNK, par. 22.23]	_____	_____	_____
STATEMENT OF CONDITION			
A. General			
1. Is the tax equivalent basis of reporting in the primary financial statements of income from tax-exempt securities avoided? [AAG-BNK, par. 5.28]	_____	_____	_____
2. If the bank's liquidity is not sufficient to meet prospective needs and there is evidence that the bank may have to dispose of certain assets to obtain liquidity, is the propriety of the accounting basis for any assets that may be sold considered? [AAG-BNK, par. 2.16]	_____	_____	_____
B. Cash and Due From Banks			
1. For financial statement purposes, are cash items and debits reclassified to the account of ultimate disposition? [AAG-BNK, par. 4.03]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are "due from" credit balances reclassified to short-term borrowings? [AAG-BNK, par. 4.12]	_____	_____	_____
3. Are "due to" debit balances reclassified to loans? [AAG-BNK, par. 4.12]	_____	_____	_____
C. Loans—General			
1. Are maturities and sinking fund requirements for each category considered for disclosure? [AAG-BNK, par. 7.43]	_____	_____	_____
2. Is the amount of loans at fixed interest rates considered for disclosure? [AAG-BNK, par. 7.43]	_____	_____	_____
3. Is the amount of loans at variable interest rates considered for disclosure? [AAG-BNK, par. 7.43]	_____	_____	_____
4. If at the end of an accounting period it is apparent that the bank intends to sell certain loans and the anticipated sale will result in a loss, is an allowance for losses established and deducted from the related asset in the balance sheet? [AAG-BNK, par. 19.17]	_____	_____	_____
5. Is the amount of loans on a nonaccrual basis (including loans accruing at a reduced rate) and the income effect of nonaccrual loans disclosed? [AAG-BNK, par. 7.45]	_____	_____	_____
6. Are federal funds transactions with maturities exceeding one business day classified as loans? [AAG-BNK, par. 9.09]	_____	_____	_____
D. Loans—Lease Finance			
1. Is aggregate of lease payments receivable plus estimated residual value, less the amount of unearned income and applicable allowance for losses, classified as loans on the balance sheet or set forth in a separate caption? [AAG-BNK, par. 7.48]	_____	_____	_____
E. Premises and Equipment			
1. Is property acquired but not used in operations and presented as other assets, such as repossessed collateral, classified within other assets? [AAG-BNK, par. 10.08]	_____	_____	_____
2. If properties were previously written down to nominal values, are material amounts of property still in use reinstated at original cost less accumulated depreciation to the beginning of the earliest year's financial statements presented with a corresponding credit to retained earnings at the beginning of the year? [AAG-BNK, par. 10.05]	_____	_____	_____
3. Do fixed assets include all costs related to the acquisition of the property, including transportation costs and all costs connected with installation? a. If the property is constructed, do costs include all direct construction costs together with architects' fees, costs of excavations, and supervision of construction? [AAG-BNK, par. 10.06]	_____	_____	_____
4. Are all costs and expenses identified with or directly allowable to the maintenance and operations of the bank premises included as net occupancy expense, including salaries and wages, payroll taxes, insurance, depreciation, rent expense and real estate taxes less rentals from tenants and other income, related to the premises? [AAG-BNK, par. 10.09]	_____	_____	_____
F. Other Assets			
1. If material, are amounts disclosed separately for: a. Investments in subsidiaries that are not consolidated? b. Investments in 50 percent-and-less-owned companies?	_____	_____	_____
	_____	_____	_____

	Yes	No	N/A
c. Other nonmarketable investments?	_____	_____	_____
d. Accrued income receivable?	_____	_____	_____
e. Accounts receivable (deposits for special purposes, advances to trusts, etc.)?	_____	_____	_____
f. Prepaid expenses and deferred charges (insurance, taxes, FDIC assessments, debt issuance cost, etc.)?	_____	_____	_____
g. Suspense accounts (items recorded and held subject to clarification and transfer to the proper account, such as loan account and branch clearing transactions)? [AAG-BNK, par. 11.01]	_____	_____	_____
2. Are other assets presented as the last item or items on the balance sheet? [AAG-BNK, par. 11.01]	_____	_____	_____
3. Are the following disclosures, as to foreclosed assets, made, if material:			
a. If it is later determined that the cost of the property cannot be recovered through sale or use, is the additional loss immediately recognized by a charge to income with a corresponding writedown of the asset or by a credit to an allowance for losses on real estate owned?	_____	_____	_____
b. If the property is in a condition for use or sale at the time of foreclosure, are any subsequent holding costs included in expense as incurred?	_____	_____	_____
c. If a property is not in a condition for sale or use at the time of foreclosure, are completion and holding costs, including such items as real estate taxes, maintenance, and insurance capitalized?	_____	_____	_____
d. Are legal fees and other direct costs incurred in a foreclosure included in expenses when they are incurred?	_____	_____	_____
G. Deposits			
1. Are amounts disclosed separately for:			
a. Domestic demand deposits?	_____	_____	_____
b. Domestic time deposits?	_____	_____	_____
c. Foreign demand deposits?	_____	_____	_____
d. Foreign time deposits?	_____	_____	_____
e. Certificates of deposit of \$100,000 or more?	_____	_____	_____
f. NOW accounts? [AAG-BNK, par. 12.18]	_____	_____	_____
2. Is disclosure made as to deposits received on unusual terms or from related parties? [AAG-BNK, par. 12.18]	_____	_____	_____
H. Borrowed Funds			
1. If funds are transferred from the Treasury tax and loan remittance option account to the Treasury tax and loan note option account, are they included in the financial statements as other borrowed funds? [AAG-BNK, par. 13.04]	_____	_____	_____
2. Are borrowings from the Federal Reserve Bank grouped with promissory notes, such as commercial paper, reported as other borrowed funds? [AAG-BNK, par. 13.07]	_____	_____	_____
3. Are federal funds purchased and securities sold under repurchase agreements included as other borrowings? [AAG-BNK, par. 9.09]	_____	_____	_____
4. Are notes payable, including mortgage notes, debentures, subordinated notes and capital notes reported separately? [AAG-BNK, pars. 13.08-.09]	_____	_____	_____

Yes No N/A

I. Other Liabilities

1. If material, are amounts disclosed separately for:

- a. Acceptances outstanding?
- b. Accrued payrolls?
- c. Accrued income taxes?
- d. Deferred income taxes?
- e. Undistributed payroll deductions?
- f. Accounts payable?
- g. Cash dividends declared but unpaid?
- h. Suspense accounts?
- i. Accrued vacation pay that is vested or may be carried forward?
[AAG-BNK, par. 14.01]

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

2. For loan participations sold to other banks for which risk is retained, are such loans reported as assets and proceeds reported as borrowings?
[AAG-BNK, par. 7.43]

3. For loans sold with recourse, is disclosure made for each period for which an income statement is presented, of the amount of proceeds?
[SFAS 77, par. 9 (AC R20.109)]

J. Retained Earnings

1. If stock dividends are recorded at less than fair value, is the difference between recorded amount and fair value disclosed in the year of issuance?
[AAG-BNK, par. 15.05, fn. 2]

2. If a portion of initial paid-in capital has been transferred to retained earnings, is the amount of paid-in capital included in retained earnings disclosed?
[AAG-BNK, par. 15.10]

3. If an amount has been transferred by subsidiaries from retained earnings, are such transfers not recognized in consolidation?
[AAG-BNK, par. 15.02]

4. Are stock dividends accounted for using the fair value of the shares issued in connection with the dividend?
a. Is there disclosure of the remaining amount of retained earnings available for future stock dividends?
[AAG-BNK, par. 15.05]

5. If there has been an assumption of a subsidiary bank's debt by its parent company, is it reported as a capital contribution in the bank's separate financial statements with disclosure of the bank's contingent liability for such debt?
[AAG-BNK, par. 15.06]

INCOME STATEMENT

A. Other Expenses

1. Are net occupancy expenses or net occupancy income classified as an operating item in the statement of income?
[AAG-BNK, par. 10.09]

STATEMENT OF CASH FLOWS

1. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:
a. Net change in customers' liability on acceptances outstanding?
[AAG-BNK, App. A]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
a. Issuance of stock? [AAG-BNK, App. A]	_____	_____	_____

TRUSTEED AFFILIATES

A. Is one of the following accounting treatments appropriately used:			
1. Consolidated financial statements?	_____	_____	_____
2. Combined financial statements?	_____	_____	_____
3. Equity method? [AAG-BNK, par. 20.13]	_____	_____	_____
B. If material, is summarized information presented for:			
1. Assets?	_____	_____	_____
2. Liabilities?	_____	_____	_____
3. Results of operations? [AAG-BNK, par. 20.13]	_____	_____	_____
C. If a separate auditor's report is issued on the financial statements, is the relationship of the trustee affiliate to the parent disclosed? [AAG-BNK, par. 20.15]	_____	_____	_____

FSP Section 6400

Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

- SAS = AICPA Statement of Auditing Standards
- AU = Reference to section number in AICPA *Professional Standards* (vol. 1)
- SSARS = AICPA Statement on Standards for Accounting and Review Services
- AR = Reference to section number in AICPA *Professional Standards* (vol. 2)
- AAG-BNK = AICPA Audit and Accounting Guide, *Banks and Savings Institutions* (Final Draft March 16, 1995) as amended based on the 5/95 letter in preparation for the subsequent meeting
- SSAE = AICPA Statement on Standards for Attestation Engagements
- AT = Reference to section number in AICPA *Professional Standards* (vol. 1)

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
b. Date (or dual dates) of the report? [SAS 1, sec. 530.05 (AU 530.05)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
2. If the auditor is not independent, is a compilation report the highest level of service performed? [SAS 26, par. 10 (AU 504.10; SSARS 1, pars. 22 and 38 (AR 100.22 and .38))]	_____	_____	_____
3. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period?	_____	_____	_____
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
4. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 47—48 (508.47—48)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14—17 (AU 504.14—17)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:			
a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report? ¹ [SAS 58, pars. 16—33 (508.16—.33)] Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Uncertainties" for additional references to specific types of uncertainties.	_____	_____	_____
b. There is substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern"? [SAS 64, par. 1 (AU 341.12—.13)]	_____	_____	_____
c. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
d. In an update report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed? [SAS 58, pars. 77—78 and 81—82 (AU 508.77—.78 and 81—.82)]	_____	_____	_____
e. The prior period financial statements are audited by a predecessor auditor whose report is not presented? [SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
f. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____
g. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
i. The auditor decides to emphasize a matter in the report? [SAS 58, par. 37 (AU 508.37); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
j. The auditor's assessment of the bank's ability to achieve its reported plan in connection with capital requirements of federal regulations?	_____	_____	_____
6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances? [SAS 58, pars. 40—45 (AU 508.40—.45); SAS 31, par. 23 (AU 326.23); SAS 19, par. 12 (AU 333.12)] Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.	_____	_____	_____
7. Is a qualified opinion or adverse opinion expressed:			
a. If a lack of conformity with GAAP (including inadequate disclosure) is present? [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 32, par. 3 (AU 431.03)]	_____	_____	_____
b. Alternative procedures are not practicable for confirmation requests returned undelivered by postal authorities? [AAG-BNK, par. 11.43; SAS 58, par. 40 (AU 508.38a)]	_____	_____	_____

¹ In July 1995 the AICPA Auditing Standards Board released an exposure draft of a proposed amendment to SAS No. 58 that would eliminate the requirement to include an explanatory paragraph in the auditor's report for certain uncertainties.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. There is no evidence to support carrying amount of investment securities and an allowance to write down to market is not established? [SAS 58, par. 40 (AU 508.38a)]	_____	_____	_____
d. Financial statements reflect regulatory practice of immediate write-off of goodwill or other regulatory practices that differ from GAAP and the resulting difference is material? [SAS 1, AC 544.02 (AU 544.02)] Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Departures from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.	_____	_____	_____
8. Is a qualified or adverse opinion expressed if the entity specifically requests the auditor to report on prior-period financial statements that are incomplete (e.g., prior-period totals only)? [SAS 58, fn. 27 (AU 508, fn. 27)]	_____	_____	_____
9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified? [SAS 58, pars. 39, 68—69 and 71 (AU 508.39, .68—.69, and .71)]	_____	_____	_____
10. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, does the report on the accompanying information:			
a. State that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identify the accompanying information?	_____	_____	_____
c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. State whether the accompanying information is subject to the auditing procedures applied in the audit of the basic financial statements and the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____
11. Is the reporting form and content of SAS 60, paragraphs 9—19, followed when communicating internal control structure related matters noted in an audit? ² [SAS 60, pars. 9—19 (AU 325.09—.19)]	_____	_____	_____
12. Is an explanatory paragraph added to the auditor's report to disclose matters, such as regulatory violations, enforcement actions, litigation or failure to follow other governmental regulations and does the paragraph indicate that the outcome cannot presently be determined? [SAS 58, pars. 31—32 and 37 (AU 508.31—.32 and .37)]	_____	_____	_____
13. If a formal enforcement order is received from a governmental regulatory agency to cease and desist from unsafe and unsound practices, is that fact disclosed?	_____	_____	_____
14. Are material weaknesses in internal controls resulting in governmental regulatory agency enforcement actions reported?	_____	_____	_____
15. Does the auditor determine the bank's compliance with regulatory capital requirements in considering appropriate disclosures to be made and the opinion to be rendered?	_____	_____	_____
16. Does the report conform to SSAE 2 if reporting was on agreed-upon procedures applied to part of an institution's existing or proposed internal control structure, when management does not present a written assertion? [SSAE 2, par. 9 (AT 400.09)]	_____	_____	_____

² Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing to senior management and the board of directors or its audit committee. [SAS 60]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
17. If a report is issued on the effectiveness of the institution's internal control structure, does it state that no reportable conditions were noted? [SSAE 2, par. 45 (AT 400.46)]	_____	_____	_____
18. Does the report conform to SSAE 2 if management presents its assertion in a separate report that will accompany the practitioner's report on the effectiveness of the institution's internal control structure? [SSAE 2, pars. 50-51 (AT 400.51)]	_____	_____	_____
19. If management does not present a written assertion that accompanies the practitioner's report, is the report appropriately modified? [SSAE 2, pars. 53-54 (AT 400.52)]	_____	_____	_____
20. Is the report properly modified if any of the conditions in SSAE 2, paragraph 55, exist? [SSAE 2, pars. 55-79 (AT 400.52-82)]	_____	_____	_____
21. Does the auditor's report include appropriate explanatory language for the auditor's assessment of the institution's inability to achieve its capital plan in connection with regulatory capital requirements? [AAG-BNK, par.18.7]	_____	_____	_____

FSP Section 6500

Supplemental Checklist for Banks and Savings Institutions That Are Security Exchange Commission (SEC) Registrants

.01 This supplemental checklist contains additional disclosures required in financial statements of banks and savings institutions that are SEC registrants. References in this supplement are from SEC rules and regulations, specifically Regulation S-X, since there is no specific counterpart under GAAP. This checklist covers only SEC disclosures for banks and not general SEC disclosures and does not repeat SEC required disclosures if such disclosures are generally required and included in the Financial Statements and Notes Checklists. Many of these disclosures are routinely made by banks and savings institutions even though they are not covered under the Securities Exchange Act of 1934.

.02 Explanation of References

SAB = SEC Staff Accounting Bulletin

FRR = Financial Reporting Release

S-X Rule = SEC Regulation S-X

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
A. Business Combinations			
1. For significant acquisitions (acquired assets 10 percent of consolidated assets), are aggregate interest-bearing assets and liabilities recorded at fair market value?	_____	_____	_____
2. Are related discounts or premiums described and the following information disclosed in the period in which the acquisition occurs:			
a. Amounts of discounts or premiums?	_____	_____	_____
b. Method of amortization or accretion?	_____	_____	_____
c. Estimated remaining lives?	_____	_____	_____
d. Effect on income before taxes of amortization and accretion of discounts, premiums, and intangible assets? [SAB 42 and 42A]	_____	_____	_____
3. If financial assistance is received from a federal regulatory agency in conjunction with either an acquisition of a troubled financial institution, transfer of nonperforming assets to a newly-formed entity, or other reorganization, are the disclosures required by Staff Accounting Bulletin 42 made?	_____	_____	_____
4. If appropriate, was SAB 61 considered relative to adjustments to the allowance for loan losses?	_____	_____	_____
5. Is the maximum period for amortization of goodwill for SEC registrants less than 25 years? [SAB 42 and 42A]	_____	_____	_____
B. Cash and Due From Banks			
1. Is cash and due from banks (including all noninterest-bearing deposits with other banks) stated separately? [S-X Rule 9-03.1]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are any withdrawal and usage restrictions (including average reserve balances maintained with the Federal Reserve) or compensating balance requirements disclosed? [S-X Rule 9-03.1(a)]	_____	_____	_____
3. If a bank is not in compliance with compensating balance requirements:			
a. Is this fact disclosed?	_____	_____	_____
b. Are possible or pending material sanctions for noncompliance disclosed? [FRR 203.02b]	_____	_____	_____
4. Are interest-bearing deposits in other banks shown separately on the statement of financial condition? [S-X Rule 9-03.01]	_____	_____	_____
C. Investment Securities			
1. Is the carrying value and market value of each of the following categories of securities disclosed [exclusive of borrowed securities and securities purchased under resale agreements or similar arrangements (consider disclosure on face of balance sheet)]:			
a. U.S. Treasury and other U.S. Government agencies and corporations?	_____	_____	_____
b. States of the U.S. and political subdivisions?	_____	_____	_____
c. Other? [S-X Rule 9-03.6]	_____	_____	_____
2. Is disclosure made regarding the nature and extent of registrants' repurchase and reverse repurchase agreements and the degree of risk involved in these transactions? [FRR 24, Reg. S-X Disclosure Amendment]	_____	_____	_____
D. Loans Receivable			
1. Is each of the following loan categories stated separately: [S-X Rule 9-03.7(a) and (b)]			
a. Commercial, financial and agricultural?	_____	_____	_____
b. Real estate—construction?	_____	_____	_____
c. Real estate—mortgage?	_____	_____	_____
d. Installment loans to individuals?	_____	_____	_____
e. Lease financing?	_____	_____	_____
f. Foreign?	_____	_____	_____
g. Other (if necessary to reflect any unusual risk concentration regardless of size)? [S-X Rule 9-03.7(a)]	_____	_____	_____
2. If more appropriate, are other categories used? [S-X Rule 9-03.7(b)]	_____	_____	_____
3. If related-party-loan disclosures are made, is an analysis of such loans for the latest fiscal year also provided (e.g., beginning balance, new loans, repayments, other charges and ending balance)? ¹ [S-X Rule 9-03.7(e)]	_____	_____	_____
4. Are significant nonaccrual, past due, restructured, and potential problem loans disclosed with such other information necessary to an understanding of the effects of the transactions on the financial statements? [S-X Rule 9-03.7(e)]	_____	_____	_____

¹ For SEC purposes, related party loans made by the registrant or any of its subsidiaries to directors, executive officers, principal holders of equity securities or associates of such persons of the registrant or any of its significant subsidiaries (1-02). See S-X Rule 9-03.7(e) for definition of "associate." Loans to any related party that do not exceed \$60,000 (in aggregate) during the latest year may be excluded. [S-X Rule 9-03.7(e)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Are unearned income on installment loans and unamortized discounts on purchased loans shown separately and deducted from total loans? [S-X Rule 9-03.7]	_____	_____	_____
6. For each period for which a statement of operations is presented, do notes to financial statements include a schedule of changes in allowance for loan losses showing beginning and ending balances, provision charged to income, recoveries of amounts previously charged off, and losses charged to the allowance? [S-X Rule 9-03.7(d)]	_____	_____	_____
E. Other Assets			
1. Are the following assets or any other asset, the amount of which exceeds 30 percent of stockholders' equity, disclosed separately on the balance sheet or in a note (the remaining assets may be shown as one amount):			
a. Excess of cost over tangible and identifiable intangible assets acquired (net of amortization)?	_____	_____	_____
b. Other intangible assets (net of amortization)?	_____	_____	_____
c. Investments in and indebtedness of affiliates and other persons?	_____	_____	_____
d. Other real estate, including the:			
(1) Carrying basis disclosed?	_____	_____	_____
(2) Allowance for losses deducted therefrom?	_____	_____	_____
(3) Summary of changes in allowance for losses (including beginning balance, provision charged to income, losses charged to the allowance, and ending balance)? [S-X Rule 9-03.10]	_____	_____	_____
2. Are the carrying value and market value of each of the following categories of securities disclosed (exclusive of borrowed securities and securities purchased under resale agreements or similar arrangements) and is consideration given to disclosure on the balance sheet:			
a. U.S. Treasury and other U.S. Government agencies and corporations?	_____	_____	_____
b. States of the U.S. and political subdivisions?	_____	_____	_____
c. Other? [S-X Rule 9-03.6(a)]	_____	_____	_____
3. Are the amounts of noninterest-bearing and interest-bearing deposits stated separately? [S-X Rule 9-03.12]	_____	_____	_____
4. Are foreign amounts stated separately? [S-X Rule 9-03.12]	_____	_____	_____
5. For real estate other than bank premises:			
a. Is carrying basis disclosed?	_____	_____	_____
b. Is allowance for losses deducted therefrom?	_____	_____	_____
c. Is a summary of changes in allowance for losses presented?	_____	_____	_____
d. Does summary show beginning balance, provision charged to income, losses charged to the allowance, and ending balance? [S-X Rule 9-03.10(4a)]	_____	_____	_____
F. Securities Sold Under Purchase Agreements or Reverse Repurchase Agreements			
1. If the higher of the aggregate carrying value or market value of repurchase agreements exceeds 10 percent of total assets, is the following disclosed:			
a. The carrying value and market value of securities, including accrued interest plus any cash or other assets on deposit under the repurchase agreements and this should be broken out in categories as follows:			
(1) Overnight?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Up to 30 days?	_____	_____	_____
(3) 30-90 days?	_____	_____	_____
(4) Over 90 days?	_____	_____	_____
(5) On demand?	_____	_____	_____
b. The repurchase liability associated with such transactions and the interest rates thereon and this should be broken out in categories as follows:			
(1) Overnight?	_____	_____	_____
(2) Up to 30 days?	_____	_____	_____
(3) 30-90 days?	_____	_____	_____
(4) Over 90 days?	_____	_____	_____
(5) On demand?	_____	_____	_____
2. If the "amount at risk" of the securities sold under repurchase agreements with any individual counterpart exceeds 10 percent of stockholder's equity, is the following disclosed:			
a. The name of the counterpart?	_____	_____	_____
b. The amount at risk with each counterpart?	_____	_____	_____
c. The weighted average maturity of the repurchase agreements with each counterpart? [S-X Rule 4-08(m)]	_____	_____	_____
G. Debt			
1. Are the following separately disclosed:			
a. Federal funds purchased and securities sold under agreements to repurchase?	_____	_____	_____
b. Commercial paper?	_____	_____	_____
c. Other short-term borrowings?	_____	_____	_____
d. Unused lines of credit for short-term financing? [S-X Rule 9-03.13]	_____	_____	_____
H. Other Liabilities			
1. Is the amount of indebtedness to directors, executive officers, and principal holders of equity securities ² of the registrant or any of its significant subsidiaries (S-X Rule 1-02), if the aggregate amount exceeds 5% of shareholders' equity, disclosed? [S-X Rule 9-03.15]	_____	_____	_____
2. Are the following liabilities in excess of 30% of shareholder's equity disclosed separately:			
a. Income taxes payable?	_____	_____	_____
b. Deferred income taxes?	_____	_____	_____
c. Indebtedness to affiliates and other persons, the investments in which are accounted for by the equity method? [S-X Rule 9-03.15]	_____	_____	_____
3. Are the following deferred credits stated separately:			
a. Deferred income taxes?	_____	_____	_____
b. Deferred tax credits?	_____	_____	_____
c. Material items of deferred income? [S-X Rule 5-02.26]	_____	_____	_____

² See S-X Rule 9-03.7(e) for disclosures of related-party terms.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
I. Stockholders' Equity			
1. For preferred stock subject to mandatory redemption requirements or whose redemption is outside the control of the issuer:			
a. Are carrying amount and redemption amount shown in the statement of financial condition?	_____	_____	_____
b. If carrying and redemption amounts differ, is the accounting treatment for the difference disclosed?	_____	_____	_____
c. Is a general description of each issue shown? [S-X Rule 5-02.28]	_____	_____	_____
2. If common stock is convertible, is this fact disclosed on the face of the statement of financial condition? [S-X Rule 5-02.30]	_____	_____	_____
3. Does the statement of financial condition show separate captions for:			
a. Additional paid-in-capital?	_____	_____	_____
b. Other additional capital?	_____	_____	_____
c. Appropriated retained earnings?	_____	_____	_____
d. Unappropriated retained earnings? [S-X Rule 5-02.31]	_____	_____	_____
J. Income Statement Captions			
1. Are the following captions in the income statement stated separately: [S-X Rule 9-04]			
a. Trading account interest?	_____	_____	_____
b. Other interest income?	_____	_____	_____
c. Total interest income (including a and b above)?	_____	_____	_____
d. Interest on deposits?	_____	_____	_____
e. Interest on short-term borrowings?	_____	_____	_____
f. Interest on long-term debt?	_____	_____	_____
g. Total interest expense (d through f)?	_____	_____	_____
h. Net interest income (line c, less line g)?	_____	_____	_____
i. Provision for loan losses?	_____	_____	_____
j. Net interest income after provision for loan losses?	_____	_____	_____
k. Other income?	_____	_____	_____
l. Other expense?	_____	_____	_____
m. Income or loss before income tax expense?	_____	_____	_____
n. Income tax expense?	_____	_____	_____
o. Income or loss before extraordinary items and cumulative effects of changes in accounting principles?	_____	_____	_____
p. Extraordinary items, less applicable taxes?	_____	_____	_____
q. Cumulative effects of changes in accounting principles?	_____	_____	_____
r. Net income or loss?	_____	_____	_____
s. Earning per share data?	_____	_____	_____
K. Interest Income			
1. Does the income statement show separately:			
a. Interest and fees on loans? [S-X Rule 9-04(1)]	_____	_____	_____
b. Taxable interest, nontaxable interest and dividends? [S-X Rule 9-04(2)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Trading account interest? [S-X Rule 9-04(3)]	_____	_____	_____
d. Other interest income? [S-X Rule 9-04(4)]	_____	_____	_____
L. Other Income			
1. Are any of the following amounts that exceed one percent of the aggregate of total interest income and other income stated separately:			
a. Commissions and fees from fiduciary activities (i.e., trust department income)?	_____	_____	_____
b. Commissions, brokers' fees and markups on securities underwriting and other securities activities?	_____	_____	_____
c. Insurance commissions, fees and premiums?	_____	_____	_____
d. Fees for customer services?	_____	_____	_____
e. Trading account profit or loss?	_____	_____	_____
f. Equity in earnings of unconsolidated subsidiaries and 50% or less owned persons?	_____	_____	_____
g. Gains or losses on the disposition of equity investees or 50% or less owned persons?	_____	_____	_____
2. Are investment security gains and losses disclosed separately regardless of size? [S-X Rule 9-04.13]	_____	_____	_____
3. For investment security gains or losses:			
a. Are investment securities gains or losses shown separately regardless of amount?	_____	_____	_____
b. Is method followed in determining cost of investments sold disclosed?	_____	_____	_____
c. Are related taxes disclosed in a footnote or parenthetically as a part of income tax expense? [S-X Rule 9-04.13(h)]	_____	_____	_____
M. Other Expenses			
1. Are any of the following amounts that exceed 1% of the aggregate of total interest income and other income stated separately:			
a. Salaries and employee benefits?	_____	_____	_____
b. Net occupancy expense of premises?	_____	_____	_____
c. Goodwill amortization?	_____	_____	_____
d. Net cost of operation of other real estate (including provisions for losses, rental income and gains and losses on sales)?	_____	_____	_____
e. Minority interest in income of consolidated subsidiaries?	_____	_____	_____
f. Any other expenses? [S-X Rule 9-04.14]	_____	_____	_____
N. Income Taxes			
1. Is a reconciliation of the reported income tax expense with the "computed expected" ³ tax amount disclosed? [S-X Rule 4-08(h)]	_____	_____	_____

³ The "computed expected" tax amount is defined as the amount determined by multiplying the financial statement income before income tax by the applicable statutory federal income tax rate. The reconciliation may be presented in percentages, in dollar amounts or both.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
O. Condensed Financial Information of Parent Company Only			
1. Is disclosure in a footnote made of the parent company's condensed balance sheet, income statement and statement of cash flows for the periods that correspond with the consolidated financial statements presented? ⁴	_____	_____	_____
2. Is the following condensed parent company information stated separately:			
a. Investments in bank subsidiaries?	_____	_____	_____
b. Indebtedness of and to bank subsidiaries?	_____	_____	_____
c. Cash dividends paid to the registrant by bank subsidiaries? [S-X Rule 9-06]	_____	_____	_____
3. Is each of the following disclosed unless stated separately in the consolidated statements or on Article 12 schedule:			
a. Material contingencies?	_____	_____	_____
b. Significant provisions of long-term debt obligations?	_____	_____	_____
c. A five-year schedule of debt maturities?	_____	_____	_____
d. Mandatory dividend or redemption requirements of redeemable stock?	_____	_____	_____
e. Guarantees? [S-X Rule 12-04(a)]	_____	_____	_____
4. Is separate disclosure made of cash dividends paid to the parent for each of the last three years by subsidiaries and investees accounted for by the equity method? [S-X Rule 12-04(b)]	_____	_____	_____
P. Foreign Activities			
Complete Items 1 to 5 if one or more of the following amounts (assets, revenue, income (loss) before income tax expense, and net income (loss)) associated with "foreign activities" ⁵ exceed 10% of the related consolidated amounts as reported in the financial statements:			
1. For each balance sheet, are total identifiable assets (net of valuation allowances) associated with foreign activities disclosed? [S-X Rule 9-05(b-1)]	_____	_____	_____
2. For each income statement, are revenue, income (loss) before taxes, and net income (loss) associated with foreign activities disclosed? [S-X Rule 9-05(b-2)]	_____	_____	_____
3. Is the information required by items 1 and 2 disclosed for each significant geographic area ⁶ and in the aggregate for the other geographic areas not deemed significant? [S-X Rule 9-05(b-3)]	_____	_____	_____
4. Are any significant estimates and assumptions, including those related to the cost of capital, used in allocating revenue and expenses to foreign activities disclosed? [S-X Rule 9-05(b-2)]	_____	_____	_____
5. Are the nature and effects of any changes in estimates and assumptions referred to in item 4 that have a significant impact on interperiod comparability disclosed? [S-X Rule 9-05(b-2)]	_____	_____	_____

⁴ Such disclosure is required when restricted net assets (as defined) of consolidated subsidiaries exceed 25% of consolidated net assets as of the end of the most recent fiscal year.

⁵ The term "foreign activities" includes loans and other revenue-producing assets and transactions for which the debtor or customer, whether an affiliated or unaffiliated person, is domiciled outside of the United States.

⁶ A "significant geographic area" is one in which assets, revenue, income before tax or net income exceed 10% of the consolidated amount as reported in the financial statements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Q. Financial Guarantees			
1. When aggregate amounts guaranteed are material to the consolidated equity or when there is a material effect on results of operations before income taxes, are the following disclosures made:			
a. A general description of the type of obligations guaranteed (e.g., corporate, municipal general obligation, industrial revenue, etc.), the relative amount and range of maturity dates of each, and the degree of risk involved?	_____	_____	_____
b. The amount of exposure with respect to the debts of others guaranteed at the date of each balance sheet presented, including a discussion of how the participation by other parties and other factors that may reduce exposure are treated in determining the amount reported?	_____	_____	_____
c. The manner in which the registrant recognizes revenue with respect to the guarantees?	_____	_____	_____
d. The amount of unearned premiums as of the date of each balance sheet?	_____	_____	_____
e. Whether the registrant provides an allowance for losses by charges against income and, if so, the basis for the reserve and its amount at each balance-sheet date?	_____	_____	_____
f. Any other information that may be necessary to adequately describe the nature and extent of the obligations guaranteed and the degree of risk related to the guarantees? [SAB 60]	_____	_____	_____
R. Quarterly Information			
1. For registrants required to include selected quarterly financial data, are the following captions, at a minimum, disclosed:			
a. Interest income?	_____	_____	_____
b. Interest expense?	_____	_____	_____
c. Provision for loan losses?	_____	_____	_____
d. Security gains or losses?	_____	_____	_____
e. Net income?	_____	_____	_____
f. Earnings per share? [SAB Topic 6.G.]	_____	_____	_____
S. Other SEC Related Disclosures			
1. Are the following Staff Accounting Bulletins considered for disclosure, if applicable:			
a. SAB Topic 11-K, added by SAB 69, expressing the staff's views on the use of Article 9 and Industry Guide 3 as guidance for disclosure purposes by registrants that are not bank holding companies but that are engaged in similar lending and deposit activities?	_____	_____	_____
b. SAB Topic 1-F, added by SAB No. 50, reflecting the staff's views on the financial statement requirements in filings involving the formation of a one-bank holding company?	_____	_____	_____
c. SAB Topic 11-G, discussing the use of tax-equivalent-adjusted amounts in financial statements and MDA?	_____	_____	_____
d. SAB Topic 11-I, added by SAB 56, expressing the staff's views about the reporting of Allocated Transfer Risk Reserve (ATRR) provisions established when federal banking agencies determine that such reserves are necessary?	_____	_____	_____
e. SAB Topic 5-V, added by SAB No. 82, discussing the staff's views regarding the accounting for transfers of nonperforming assets by financial institutions? (See also SAB Topic 5-E)	_____	_____	_____
f. SAB Topic 11-N, also added by SAB No. 82, expressing the staff's views regarding the required disclosure by a financial institution that receives financial assistance from a federal regulatory agency?	_____	_____	_____

FSP Section 6600

Illustrative Financial Statements

Introduction

.01 The consolidated financial statements that follow have been designed to portray one example of compliance with the minimum disclosure requirements for a banking organization under generally accepted accounting principles. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated. Pronouncements deemed remote for audits of banks or savings institutions are not included in this document. The illustrative financial statements reflect many of the minimum disclosure requirements for a bank or savings institution, but do not include all transactions. Issuers of financial statements and practitioners should refer to the appropriate professional literature for guidance regarding disclosures required for specific transactions, balances, events and/or conditions.

.02 Banking organizations whose securities are publicly traded will also be required to comply with the disclosure regulations of the banking and/or securities regulatory authorities to which they are subject. Such disclosure regulations often require that financial statements be presented for more periods and contain greater detail disclosure than is required by generally accepted accounting principles. Issuers of financial statements whose securities are publicly traded and practitioners should refer to the financial disclosure regulations of the appropriate securities regulatory authority (or authorities) to which the issuer is subject. Other financial statement issuers may also find such disclosure regulations to be of assistance when considering specific disclosures.

.03 Users of this Manual should be alert for any new disclosure requirements that may be issued in connection with the revised Audit and Accounting Guide, *Banks and Savings Institutions*, which is expected to be released in early 1996. (cont'd)

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Model Bank, N.A.
and Subsidiary

We have audited the accompanying consolidated balance sheets of Model Bank, N.A. and Subsidiary as of December 31, 1994 and 1993, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1994. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Model Bank, N.A. and Subsidiary as of December 31, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, Model Bank, N.A. adopted the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," on January 1, 1994.

Audit City, USA
February XX, 19X5

**Model Bank, N.A.
AND SUBSIDIARY**

.05

**Consolidated Balance Sheets
(In Thousands)
December 31, 1994 and 1993**

	<u>1994</u>	<u>1993</u>
Assets		
Cash and due from banks	\$ 6,352	\$ 5,168
Investment securities:		
Available-for-sale (market value of \$43,363 in 1993)	76,505	43,182
Held-to-maturity (market value of \$18,769 in 1993)	—	17,551
Other (market value of \$1,109 in 1994 and \$921 in 1993)	1,109	921
Loans, net of allowance for credit losses of \$1,051 in 1994 and \$1,174 in 1993	78,734	81,275
Property and equipment, net	3,477	3,573
Accrued income and other assets	3,053	1,870
Total assets	<u>\$169,230</u>	<u>\$153,540</u>
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	\$ 15,624	\$ 16,588
Interest bearing	116,849	117,532
Total deposits	132,473	134,120
Federal funds purchased and securities sold under agreements to repurchase	1,130	2,590
Long-term debt	20,000	—
Accrued expenses and other liabilities	707	678
Total liabilities	<u>\$154,310</u>	<u>\$137,388</u>
Commitments and contingent liabilities	—	—
Shareholders' equity		
Common stock—\$1 par value;		
Authorized—3,000,000 shares		
Outstanding—1,097,320 and 1,098,986 shares	1,097	1,098
Paid-in-capital	2,562	2,515
Retained earnings	13,403	12,539
	<u>17,062</u>	<u>16,152</u>
Net unrealized loss on securities available for sale, net of deferred tax asset of \$1,370	(2,142)	—
Total shareholders' equity	<u>14,920</u>	<u>16,152</u>
Total liabilities and shareholders' equity	<u>\$169,230</u>	<u>\$153,540</u>

**Model Bank, N.A.
AND SUBSIDIARY**

.06

**Consolidated Statements of Income
(In Thousands)
Years Ended December 31, 1994, 1993 and 1992**

	<u>1994</u>	<u>1993</u>	<u>1992</u>
Interest income:			
Loans	\$ 7,312	\$ 8,014	\$ 8,434
Federal funds sold	52	38	75
Investment securities:			
Taxable	2,880	2,625	2,504
Exempt from federal income tax	850	908	959
Other	42	48	36
Total interest income	<u>11,136</u>	<u>11,633</u>	<u>12,008</u>
Interest expense			
Deposits	4,256	4,843	5,677
Federal funds purchased and securities sold under re-purchase agreement	33	43	73
Long-term debt	207	—	—
Total interest expense	<u>4,496</u>	<u>4,886</u>	<u>5,750</u>
Net interest income	6,640	6,747	6,258
Provision for credit losses	105	190	340
Net interest income after provision for credit losses	<u>6,535</u>	<u>6,557</u>	<u>5,918</u>
Other income			
Service charges on deposit accounts	661	671	668
Other service charges and fees	216	240	210
Net gain on sale of loans	—	155	56
Net realized gains on securities available for sale	49	140	234
Total other operating income	<u>926</u>	<u>1,206</u>	<u>1,168</u>
Other expenses			
Salaries and employee benefits	2,787	2,790	2,623
Occupancy expense	327	295	297
Furniture and equipment expense	415	313	279
Insurance expense, including FDIC assessment	335	334	326
Net loss on sale of loans	211	—	—
Other real estate expense, net	61	62	199
Marketing expense	145	114	109
Printing and supply expenses	167	159	124
Merger and acquisition expenses	199	—	—
Other expenses	685	722	569
Total other operating expenses	<u>5,332</u>	<u>4,789</u>	<u>4,526</u>
Income before income taxes	2,129	2,974	2,560
Income tax expense	538	846	603
Net income	<u>\$ 1,591</u>	<u>\$ 2,128</u>	<u>\$ 1,957</u>
Net income per share of common stock	<u>\$ 1.45</u>	<u>\$ 1.94</u>	<u>\$ 1.77</u>
Weighted average shares outstanding	<u>1,095,733</u>	<u>1,097,419</u>	<u>1,105,737</u>

**Model Bank, N.A.
AND SUBSIDIARY**

**.07 Consolidated Statements of Changes in Shareholders' Equity
(In Thousands)
Years Ended December 31, 1994, 1993 and 1992**

	<u>1994</u>	<u>1993</u>	<u>1992</u>
Common Stock			
Balances	\$ 1,098	\$ 1,105	\$ 1,110
Treasury stock canceled	(5)	(7)	(5)
Exercise of stock options	4	—	—
Balances at end of years	<u>1,097</u>	<u>1,098</u>	<u>1,105</u>
Paid in capital			
Balances at beginning of years	2,515	2,505	2,504
Exercise of stock options	44	—	—
Employee stock awards	3	10	1
Balances at end of years	<u>2,562</u>	<u>2,515</u>	<u>2,505</u>
Retained Earnings			
Balances at beginning of years	12,539	11,140	9,845
Net income for years	1,591	2,128	1,957
Cash dividend paid (\$.60 in 1994, \$.57 in 1993, and \$.53 in 1992)	(657)	(629)	(586)
Treasury stock canceled	(70)	(100)	(76)
Balances at end of years	<u>13,403</u>	<u>12,539</u>	<u>11,140</u>
Net unrealized depreciation on available for sale securities			
Balances at beginning of years	—	—	—
Net change	(2,142)	—	—
Balances at end of years	<u>(2,142)</u>	<u>—</u>	<u>—</u>
Treasury Stock			
Balances at beginning of years	—	—	—
Cost of shares of common stock acquired for treasury, 5,000 shares in 1994 and 6,711 shares in 1993 and 5,750 shares in 1992	(75)	(107)	(80)
Treasury stock sold or canceled	75	107	80
Balances at end of years	<u>—</u>	<u>—</u>	<u>—</u>
Total shareholders' equity	<u>\$14,920</u>	<u>\$16,152</u>	<u>\$14,751</u>

**Model Bank, N.A.
AND SUBSIDIARY**

.08

**Consolidated Statements of Cash Flows
(In Thousands)
Years Ended December 31, 1994, 1993 and 1992**

	<u>1994</u>	<u>1993</u>	<u>1992</u>
Cash flows from operating activities			
Interest received	\$11,552	\$11,316	\$12,035
Fees and commission received	1,013	1,082	1,144
Interest paid	(4,311)	(5,011)	(5,856)
Noninterest expense paid	(4,934)	(4,563)	(4,088)
Income taxes paid	(417)	(844)	(695)
Net cash provided by operating activities	<u>2,903</u>	<u>1,980</u>	<u>2,540</u>
Cash flows from investing activities			
Proceeds from sale of securities	6,548	23,794	16,599
Proceeds from maturities of securities	11,742	12,790	18,240
Purchase of investment securities	(38,239)	(47,085)	(33,673)
Capital expenditures	(249)	(640)	(400)
Decrease in other real estate owned	49	209	441
Net decrease (increase) in loans	1,502	(693)	(7,007)
Proceeds from mortgage loans sold	719	4,520	3,764
Net cash used in investing activities	<u>(17,928)</u>	<u>(7,105)</u>	<u>(2,036)</u>
Cash flows from financing activities			
Net (decrease) increase in demand, savings and interest checking accounts	(2,843)	3,935	5,304
Net increase (decrease) in time deposits	1,195	(1,551)	(3,864)
Net (decrease) increase in repurchase agreements	(1,462)	1,799	(1,100)
Proceeds from advances	20,000	—	—
Purchase of common stock	(71)	(99)	(79)
Proceeds from issuance of common stock	47	—	—
Dividends paid	(657)	(629)	(586)
Net cash provided by (used in) financing activities	<u>16,209</u>	<u>3,455</u>	<u>(325)</u>
Net increase (decrease) in cash and cash equivalents	1,184	(1,670)	179
Cash and cash equivalents, beginning of year	<u>5,168</u>	<u>6,838</u>	<u>6,659</u>
Cash and cash equivalents, end of year	<u>\$ 6,352</u>	<u>\$ 5,168</u>	<u>\$ 6,838</u>

**Model Bank, N.A.
AND SUBSIDIARY**

**Consolidated Statements of Cash Flows (Continued)
(In Thousands)
Years Ended December 31, 1994, 1993 and 1992**

	<u>1994</u>	<u>1993</u>	<u>1992</u>
Supplemental disclosure of non-cash transactions			
Non-cash transfers from loans to other real estate	\$ 94	—	—
Investment securities transferred to available for sale	<u>\$17,551</u>	<u>\$43,182</u>	<u>\$ —</u>
Unrealized loss in value of securities available for sale (net of tax effect of \$1,370)	<u>\$ 2,142</u>	<u>\$ —</u>	<u>\$ —</u>
Employee stock awards	<u>\$ 3</u>	<u>\$ 10</u>	<u>\$ 1</u>
Reconciliation of net income to net cash provided by operating activities			
Net income	\$ 1,591	\$ 2,128	\$1,957
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan losses	105	190	340
Gain on sale of securities available for sale	(49)	(140)	(234)
Loss (gain) on sale of loans	211	(155)	(56)
Loss on write down of other real estate	47	42	152
Provision for prepaid (deferred) taxes	113	40	(60)
(Decrease) increase in taxes payable	7	(38)	(30)
Increase (decrease) in interest payable	185	(125)	(106)
Increase (decrease) in interest receivable	(59)	33	188
(Decrease) increase in accrued expenses	(209)	10	36
Decrease (increase) in prepaid expenses	6	(112)	31
Increase in accrued income	(6)	(2)	(7)
Decrease (increase) in miscellaneous assets	88	(220)	9
Decrease (increase) in miscellaneous liabilities	46	(23)	35
Accretion and amortization	482	107	81
Depreciation	345	286	222
Federal Home Loan Bank stock dividend	—	(41)	18
Net cash provided by operating activities	<u>\$ 2,903</u>	<u>\$ 1,980</u>	<u>\$2,540</u>

**Model Bank, N.A.
AND SUBSIDIARY**

.09

**Notes to Consolidated Financial Statements
December 31, 1994, 1993 and 1992**

Note 1—Summary of Significant Accounting Policies

The accounting and reporting policies of Model Bank, N.A. and Subsidiary (the Bank) are in accordance with generally accepted accounting principles and conform to general practices within the banking industry. The more significant of the principles used in preparing the financial statements are briefly described below.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Model Bank, N.A. and its wholly-owned subsidiary, Model Land Company, which owns some of the property used by the bank in its operations. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

Model Bank, N.A. operates under a national bank charter and provides full banking services, including trust services. As a national bank, the Bank is subject to regulation of the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. The area served by Model Bank, N.A. is the north central region of North Carolina and services are provided at 15 branch offices.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For the purpose of presentation in the statement of Cash Flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and Due from Banks."

Investments in Securities

In May 1993, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair value and all investments in debt securities. These investments are to be classified into three categories as follows:

- held-to-maturity securities reported at amortized cost;
- trading securities reported at fair value with unrealized gains and losses included in earnings; or
- securities available-for-sale reported at fair value with unrealized gains and losses reported as a separate component of shareholders' equity (net of tax effect).

On January 1, 1994, the Bank adopted the provisions of SFAS No. 115 and classified the balance of its portfolio of U. S. Treasury Notes, U. S. Government and agency securities, and state and municipal obligations as securities available for sale. The Bank intends to hold these securities for an indefinite period of time but may sell them prior to maturity. Other securities include stock in the Federal Reserve Bank and the Federal Home Loan Bank.

At December 31, 1993 all securities classified as available for sale were reported at the lower of amortized cost or market and all securities classified as held to maturity or other were reported at amortized cost.

Gains and losses on sales of securities are recognized when realized on a specific identification basis. Premiums and discounts are amortized into interest income using a level yield method.

Loans

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest income is ordinarily discontinued when a loan becomes 90 days past due as to principal or interest; however, management may elect to continue the accrual when the estimated net realizable value of collateral is sufficient to cover the principal balance and the accrued interest. When interest accruals are discontinued, interest credited to income in the current year is reversed. When the loan is determined to be uncollectible, interest accrued in prior years and the principal are charged to the allowance for loan losses.

Mortgage loans held for sale are valued at the lower of cost or market as determined by outstanding commitments from investors or current investor yield requirements, calculated on the aggregate loan basis.

Allowance for credit losses

The allowance for credit losses is maintained at a level believed adequate by management to absorb potential losses in the loan portfolio. Management's determination of the adequacy of the allowance is based upon reviews of individual credits, recent loss experience, current economic conditions, composition of the loan portfolio, and other relevant factors. Losses are charged and recoveries are credited to the allowance for loan losses at the time the loss or recovery is incurred.

Other real estate

Other real estate, acquired through partial or total satisfaction of loans, is carried at the lower of cost or fair market value. At the date of acquisition, losses are charged to the allowance for loan losses, and subsequent write downs are charged to expense in the period they are incurred.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation and amortization is computed principally by the straight-line method over the estimated useful lives of the assets.

Expenditures for maintenance and repairs are charged to operations, and the expenditures for major replacements and betterments are added to the property and equipment accounts. The cost and accumulated depreciation of the property and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale and the resulting gain or loss is reflected in current operations.

Income taxes

Provisions for income taxes are based on taxes payable or refundable for the current year (after exclusion of non-taxable income such as interest on state and municipal securities) and deferred taxes on temporary differences between the amount of taxable and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax asset and liabilities are expected to be realized or settled as prescribed in FASB Statement No. 109, "Accounting for Income Taxes." As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision of income taxes.

The Bank and its subsidiary file a consolidated Federal income tax return. Its subsidiary provides for income taxes on a separate-return basis, and remits to the Bank amounts determined to be currently payable.

Net income per share of common stock

Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during each year.

Loan origination fees and costs

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield on the related loan.

Sale of mortgage loans

Gains and losses on the sale of loans are accounted for by imputing gain or loss on those sales where a yield rate guaranteed to the buyer is more or less than the contract interest rate being collected. Such gains or losses are recognized in the financial statements for the year of sale. The Bank services loans that have been sold with servicing retained by the Bank. Such loan balances are not included in the accompanying consolidated balance sheets.

Pension costs

Pension costs are charged to salaries and employee benefits expense and are funded as accrued.

Trust fees

Trust fees are recorded on the accrual basis.

Off-balance-sheet financial instruments

In the ordinary course of business the Bank has entered into off balance sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Effect of new financial accounting standards

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 114, "Accounting by Creditors for Impairment of a Loan". SFAS No. 114, as amended by SFAS No. 118, is effective for the Bank for the year beginning January 1, 1995 and requires that impaired loans that are within the scope of this Statement be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

In December 1991, the Financial Accounting Standards Board issued SFAS No. 107, "Disclosures about Fair Value of Financial Instruments". SFAS No. 107 is effective for fiscal years ending after December 15, 1995 for entities with less than \$150 million in total assets as of December 31, 1992. SFAS No. 107 requires disclosure of the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statements of financial position, for which it is practical to estimate fair value.

The Bank expects to adopt SFAS Nos. 114, and 107 when required, and management believes adoption will not have a material effect on financial position and results of operations, nor will adoption require additional capital resources.

Note 2—Restriction on cash and due from banks

The Bank has elected to maintain average reserve balances with the Federal Reserve Bank. The average amount of those reserve balances for the year ended December 31, 1994 and 1993 was \$272 and \$437 respectively.

Note 3—Investment securities

Investment securities (In Thousands) shown in the consolidated balance sheets of the Bank at December 31 were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
December 31, 1994				
Available for sale:				
U.S. Treasury notes	\$ 4,037	\$ —	\$ 132	\$ 3,905
U.S. Government agency securities	1,000	—	127	873
Mortgage-backed securities	62,551	—	3,461	59,090
State and municipal obligations	12,429	407	199	12,637
	<u>80,017</u>	<u>407</u>	<u>3,919</u>	<u>76,505</u>
Other securities	1,109	—	—	1,109
Total investment securities	<u>\$81,126</u>	<u>\$ 407</u>	<u>\$ 3,919</u>	<u>\$77,614</u>
December 31, 1993				
Available for sale:				
U.S. Government agency securities	\$ 3,230	\$ 58	\$ —	\$ 3,288
Mortgage-backed securities	39,952	216	93	40,075
	<u>43,182</u>	<u>274</u>	<u>43,182</u>	<u>43,363</u>
Held to maturity:				
U.S. Treasury notes	5,580	5	5	5,580
State and municipal obligations	11,971	1,223	5	13,189
	<u>17,551</u>	<u>1,228</u>	<u>10</u>	<u>18,769</u>
Other securities	921	—	—	921
Total investment securities	<u>\$61,654</u>	<u>\$1,502</u>	<u>\$ 103</u>	<u>\$63,053</u>

The amortized cost and estimated market value of debt securities at December 31, 1994, by contractual maturities, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Securities Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
Due in one year or less	\$ 4,767	\$ 4,770
Due after one through five years	6,562	6,432
Due after five through ten years	5,472	5,469
Due after ten years	63,216	59,834
	<u>\$80,017</u>	<u>\$76,505</u>

Proceeds from the sale of investments in debt securities, gross realized gains, gross realized losses, and the related income taxes on net realized gains were as follows:

	<u>Years Ending December 31</u>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
Proceeds from sales	\$6,548	\$23,794	\$16,599
Gross realized gains	52	149	239
Gross realized loss	3	9	5
Applicable income tax on net realized gains	19	54	91

At December 31, 1994 and 1993, investment securities with a carrying value of approximately \$14,104 and \$7,635 respectively, were pledged as collateral to secure public deposits and for other purposes.

Note 4—Loans

The components of loans in the consolidated balance sheets are as follows:

	<i>December 31</i>	
	<u>1994</u>	<u>1993</u>
Commercial	\$ 9,066	\$ 9,526
Installment	22,385	24,027
Real Estate	48,334	48,896
Total	<u>\$79,785</u>	<u>\$82,449</u>

Loans on non-accrual status amounted to approximately \$154 at December 31, 1994 and \$634 at December 31, 1993. Also, re-negotiated debt amounted to approximately None at December 31, 1994 and \$243 at December 31, 1993.

Note 5—Loan servicing

Mortgage loans serviced for Federal Home Loan Mortgage Corporation are not included in the accompanying consolidated balance sheets. The unpaid principal balances of those loans at December 31, 1994 and 1993 were \$11,806 and \$11,087, respectively.

Note 6—Allowance for credit losses

Changes in the allowance for credit losses for the three years ended December 31 were as follows:

	<u>1994</u>	<u>1993</u>	<u>1992</u>
Balance at beginning of year	\$1,174	\$1,161	\$ 957
Provision for credit losses	105	190	340
Recoveries	119	65	76
Loans charged off	(347)	(242)	(212)
Balance at end of year	<u>\$1,051</u>	<u>\$1,174</u>	<u>\$1,161</u>

Note 7—Property and Equipment

Components of property and equipment included in the consolidated balance sheets at December 31 were as follows:

	<u>1994</u>	<u>1993</u>
Land	\$ 415	\$ 415
Property and leasehold improvements	2,768	2,714
Equipment	3,390	3,241
	<u>6,573</u>	<u>6,370</u>
Less accumulated depreciation and amortization	3,096	2,797
	<u>\$3,477</u>	<u>\$3,573</u>

Note 8—Long-term debt

Long-term debt consists of the following:

	<u>1994</u>
Advance from Federal Home Loan Bank with interest at the three month LIBOR rate plus two basis points (6.33% at December 31, 1994) due on June 26, 1997	\$10,000
Advance from Federal Home Loan Bank with interest at the three month LIBOR rate flat (6.00% at December 31, 1994) due on November 23, 1996	10,000
Total Advances	<u>\$20,000</u>

The Bank's advances from the Federal Home Loan Bank are collateralized by a blanket floating lien on qualifying first mortgage loans and pledging of the Bank's stock in the Federal Home Loan Bank of Atlanta. In addition, the advances are collateralized by pledges of certain mortgage backed securities having aggregate market value at December 31, 1994 of \$7,519.

Advances at December 31, 1994 have maturities in future years as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
1996	\$10,000
1997	10,000
	<u>\$20,000</u>

Note 9—Income taxes

The consolidated provision for income taxes consisted of the following:

	<u>1994</u>	<u>1993</u>
Current tax expense		
U.S. Federal	\$316	\$628
State and local	108	178
Total current	<u>424</u>	<u>806</u>
Deferred tax expense		
U.S. Federal	90	31
State and local	24	8
Total deferred	<u>114</u>	<u>39</u>
Total expense	<u>\$538</u>	<u>\$845</u>

The components of the deferred income tax asset included in other assets are as follows:

	<u>1994</u>	<u>1993</u>
Deferred tax liability:		
Federal	\$ 236	\$183
State	59	47
	<u>295</u>	<u>230</u>
Deferred tax assets:		
Federal	1,361	240
State	261	61
	<u>1,622</u>	<u>301</u>
Net deferred tax asset	<u>\$1,327</u>	<u>\$ 71</u>

The tax effects of each type of significant item that gave rise to deferred taxes are:

	<u>1994</u>	<u>1993</u>
Net unrealized loss on securities available for sale	\$1,370	\$ —
Depreciation	(255)	(189)
Provision for loan losses	253	302
Accretion	(33)	(34)
Other	(8)	(8)
Net deferred tax asset	<u>\$1,327</u>	<u>\$ 71</u>

No valuation allowance for deferred tax assets was recorded at December 31, 1994.

The provision for federal income taxes is less than that computed by applying the federal statutory rate of 34% as indicated in the following analysis:

	<i>Years Ending December 31</i>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
Tax based on statutory rates	\$724	\$1,011	\$870
Increase (decrease) resulting from:			
Effect of tax-exempt income	(284)	(310)	(361)
Loan loss provisions	30	4	69
Interest and other nondeductible expenses	36	37	44
Other (net)	32	104	(19)
	<u>\$538</u>	<u>\$ 846</u>	<u>\$603</u>

Note 10—Lease and rental expense

At December 31, 1994, the subsidiary of the Bank was obligated under a number of noncancellable leases for premises and equipment which are accounted for as operating leases. Leases for real property contain original terms of 5 to 20 years with renewal options up to 15 years. In most cases, management expects, that in the normal course of business, leases will be renewed or replaced by other leases or, when available, purchase options may be exercised.

Rental expense was \$38,282 in 1994, \$33,649 in 1993 and \$30,322 in 1992.

The minimum annual lease commitments under noncancelable leases in effect at December 31, 1994 are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
1995	\$ 28
1996	20
1997	20
1998	20
1999	15
Thereafter	26
	<u>\$129</u>

Note 11—Related party transactions

The Bank had loans outstanding to principal officers and directors and their affiliated companies of approximately \$2,686 and \$2,719 at December 31, 1994 and 1993, respectively. Such loans were made substantially on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers and do not involve more than the normal risks of collectibility.

An analysis of the activity with respect to such loans to related parties is as follows:

	<i>December 31</i>	
	<u>1994</u>	<u>1993</u>
Balance, January 1	\$2,719	\$2,618
New loans during the year	1,227	1,377
Repayments during the year	(1,260)	(1,276)
Balance, December 31	<u>\$2,686</u>	<u>\$2,719</u>

The Bank entered into a lease for a mortgage facility from an affiliated party. The lease is an operating lease with a term of one year and three renewal options of one year each. The lease provides for minimum annual rentals of \$6.

Note 12—Shareholders' equity

The Bank has a Stock Compensation Plan whereby 111,000 shares of common stock are reserved for issuance. The Plan is administered and interpreted by the Board of Directors of the Bank. The Board may grant options which are intended to qualify as incentive stock options under section 422A of the Internal Revenue Code of 1986, as amended and restricted and unrestricted stock bonuses to key employees (including directors and officers who are key employees) of the Bank and its subsidiary, First National Bank of Reidsville, and non-qualified options to key employees, officers and directors (whether or not employees) of the Bank. The Bank has approximately twelve (12) employees whom it considers eligible to receive awards under the Plan in addition to nine (9) non-employee directors. The Plan shall terminate no later than March 9, 1999. No options or stock bonuses may be granted after the Plan has terminated, but options or restricted stock bonuses granted prior thereto may extend beyond that date. The exercise price of the stock options may not be less than the fair market value of the common stock as of the date the option is granted and must be exercisable not later than ten years after date of grant.

On May 10, 1990, the Board of Directors approved a non-qualified stock option of 1,000 shares at \$18.25 per share. After May 10, 1991, this option may be exercised over four years at 25% per year. During 1992, the Board of Directors granted incentive stock options to purchase an aggregate of 15,459 shares and nonqualified stock options to purchase an aggregate of 46,388 shares. All incentive stock options expire on May 28, 1995, and all nonqualified stock options expire on May 28, 1997. The exercise price of all options granted in 1992 is \$15.00 per share. One-half of each incentive option may become exercisable as scheduled if the Bank meets certain performance goals for 1993, and the remaining one-half may become exercisable if the Bank meets certain performance goals for 1994. After May 28, 1993, the nonqualified stock options may be exercised over four years at 25% per year. On November 10, 1994, 1,987 shares of the nonqualified stock options and 1,202 shares of the incentive stock options were exercised at the option price of \$15.00 per share. As of December 31, 1994, 17,601 of the nonqualified stock options and 3,432 shares of the incentive stock options were exercisable.

No options under the plan were granted in 1993 or 1994.

Note 13—Commitments and contingent liabilities

The Bank is party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the consolidated financial position.

Note 14—Financial instruments with off-balance-sheet risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	<i>Contract or Notional Amount</i>	
	<i>1994</i>	<i>1993</i>
Financial instruments whose contract amounts represent credit risk		
Commercial loan commitments	\$ 1,653	\$ 1,889
Unfunded lines-of-credit	12,343	11,984
Letter of credit	62	68
Total	<u>\$14,058</u>	<u>\$13,941</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral normally consists of real property.

Note 15—Concentration of credit risk

Practically all of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. Practically all such customers are depositors of the Bank. Investment in state and municipal securities also include governmental entities within the Bank's market area. The concentrations of credit by type of loan are set forth in Note 4.

At December 31, 1994, the Bank's cash included four commercial bank deposit accounts aggregating \$102,629 in excess of the Federal Deposit Insurance Corporation limit of \$100,000 per institution.

Note 16—Employee benefit plans

Effective January 1, 1994, the Bank merged its defined contribution retirement plan into a defined benefit plan. Under the defined contribution retirement plan substantially all full-time employees were covered. The Bank's funding policy was to contribute annually ten percent of net income before the profit sharing contribution, net of income taxes. The contributions were paid into a trust fund and amounted to \$221 and \$208 for 1993 and 1992, respectively.

The Bank's new non-contributory defined benefit pension plan covers substantially all of its employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the bank and a percentage of qualifying compensation during final years of employment. Contributions to the plan are based upon the projected unit credit actuarial funding method and comply with the funding requirements of the Employee Retirement Income Security Act. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Plan assets consists primarily of cash and cash equivalents, U. S. government securities, and common stocks. Effective as of January 1, 1994, the Bank adopted statement of Financial Accounting Standards No. 87, (SFAS 87) "Employers' Accounting for Pensions."

Pension expense for 1994 includes the following components:

Service cost of the current period	\$ 40
Interest cost on the projected benefit obligation	146
Actual return on assets held in the plan	(336)
Net amortization of prior service	213
Pension expense	<u>\$ 63</u>

The following sets forth the funded status of the plan and the amounts shown in the accompanying consolidated balance sheet at December 31, 1994:

Actuarial present value of benefit obligations:	
Accumulated benefit obligation, including vested benefits of \$1,618,000	\$1,649
Effect of anticipated future compensation levels	215
Projected benefit obligation	<u>1,864</u>
Fair value of assets held in the plan	1,912
Plan assets in excess of projected benefit obligation	48
Unrecognized prior service cost being recognized over 15 years	153
Net unrecognized gain from past experience different from that assumed and effects of changes in assumption	(201)
Pension liability	<u>\$ —</u>

The weighted average discount rate used to measure the projected benefit obligation is 7.00%, the rate of increase in future compensation levels is 5.00%, and the expected long-term rate of return on assets is 7.00%. The Bank uses the straight-line method of amortization for prior service cost and unrecognized gains and losses.

The Bank also has a contributory 401(K) savings plan covering substantially all employees. The plan allows eligible employees to contribute up to a fixed percentage of their compensation, with the Bank matching a portion of each employee's contribution. The Bank's contributions were \$35, \$20, and \$20 for 1994, 1993 and 1992, respectively.

Note 17—Regulatory matters

The Bank, as a National Bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends, as of December 31, 1994, that the bank could declare without the approval of the Comptroller of the Currency, amounted to approximately \$3,506.

The Bank is also required to maintain minimum amounts of capital to total "risk weighted" assets, as defined by the banking regulators. At December 31, 1994, the Bank is required to have minimum Tier 1 and Total capital ratios of 4.0% and 8.0%, respectively. The Bank's actual ratios at that date were 18.24% and 19.39%, respectively. The Bank's leverage ratio at December 31, 1994, was 10.11%.

Note 18—Reclassifications

Certain items for 1993 and 1992 have been reclassified to conform with the 1994 presentation. Such reclassifications had no effect on net earnings or stockholders' equity as previously reported.

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