

***DISCLAIMER This section of the Bank of Anytown provides sample comments for International pages in the Report of Examination. The information on the pages is not intended to tie directly with information in other sections of the Bank of Anytown Report of Examination.***

ANYTOWN	BANK OF ANYTOWN ANY COUNTY		ANYSSTATE
Region:	Any Region	Certificate Number:	99999
Examiner-In-Charge:	Sandra E. Smart		
Examination Start Date:	August 1, 2015		
Examination As Of Date:	June 30, 2015		

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## **INTERNATIONAL REPORT PAGES**

**Transfer Risks Subject to Classification****99999**

Description	Detail	Not Rated	Substandard	Value Impaired	Loss
<b>Anycountry</b>					
<b>November 13, 2015</b>					
Performing Short-Term Trade Credits		15			
Performing Short-Term Bank Credits		10			
All Other Exposures	250				
Less: Loss Classification on Credit Risk	<u>-150</u>				
Net Exposure			100		

In December 2014, the Anycountry government defaulted on \$50 billion of bonds held by foreign creditors and subsequently imposed strict capital controls that severely limited the ability of private borrowers to service their external liabilities. Private borrowers from Anycountry have accumulated significant interest and principal arrears to external creditors. Prior to the present interruption of external debt service, the country had been current on payments since completing a restructuring of bank debt in the early 1990s.

U.S. banks cut their exposures to Anycountry sharply in 2014, reflecting material reductions in business activities/lending and significant write-offs. In June 2015, U.S. banks' cross-border exposure totaled \$6.2 billion, down roughly 44 percent from a year earlier. Locally funded business fell by over two-thirds, to \$3.3 billion.

Amount scheduled as Substandard represents exposure to the Anycountry Distillery Corporation. Another facility to the Anycountry Oil Corporation is not adversely classified for transfer risk as it is subject to a credit risk classification of Loss.

*Insert the actual transfer risk write-up provided by the Interagency Country Exposure Review Committee. Adjust the comments if more severe adverse classifications (based on credit risk) are scheduled in the ROE.*

***Note: Countries and amounts provided are for illustrative purposes and do not reflect actual classifications.***

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

*Refer to additional guidance for completing this page contained in the ROE Instructions and the Interagency Statement on Sound Country Risk Management Practices.*

*Note: Countries and amounts provided are for illustrative purposes and do not reflect actual classifications. Amounts shown do not correspond with other information in the Bank of Anytown ROE.*

<b>Selected Concentrations of Country Exposure</b>	<b>99999</b>
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<b>Description</b>	<b>Detail</b>	<b>Amount Extended</b>
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Argentina

Value Impaired	980	
Less: ATRR	<u>-784</u>	
Net Amount	196	

The concentration represents 1.00 percent of Tier 1 capital. All credits are rated Value Impaired and subject to an ATRR of 80 percent.

Ecuador

Transfer Risk Claims	580	
Less: Performing Short-Term Trade and Bank Credit	<u>-80</u>	
All Other Credit - Substandard		500

The concentration represents 2.55 percent of Tier 1 capital. Performing short-term trade and bank credit is not rated.

United Kingdom

Transfer Risk Claims		6,325
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The concentration represents 32.27 percent of Tier 1 capital. The amount is listed for informational purposes.

*Refer to specific guidance for completing this page contained in the Report of Examination Instructions section of the Manual.*

***Note: Countries and amounts provided are for illustrative purposes and do not correspond with other information in the Bank of Anytown ROE.***

**DISCLAIMER: This information is provided to illustrate a relatively complex PBO. It does not correspond to other ownership/control information provided in the Bank of Anytown.**

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

U.S. Name:	Demo International Bank <sup>1</sup>	Foreign Name:	Demo International, C.A.
City, Country:	Miami, FL	City, Country:	Caracas, Venezuela
Number of Outstanding Shares:	1,000,000	Number of Outstanding Shares:	50,000
Foreign Name:	Demo Bank Venezuela <sup>2</sup>	Foreign Name:	Demo Bank do Brazil <sup>3</sup>
City, Country:	Caracas, Venezuela	City, Country:	Brasillia, Brazil
Foreign Name:	Demo Bank Mexico		
City, Country:	Mexico City, Mexico		
Number of Outstanding Shares:	100,000		

<sup>1</sup> Of the ten entities that compose the PBO, only the three foreign banks and the foreign bank holding company that actively engage in transactions with Demo International Bank, Miami, Florida are detailed above. The remaining five entities within the PBO structure include Demo Holdings, Caracas, Venezuela, which wholly owns Demo Bank International, Panama City, Panama; Demo Finance Company, Caracas, Venezuela, which wholly owns Demo Bank International, Guayaquil, Ecuador and Demo Bank Interandino, Lima, Peru.

<sup>2</sup> Wholly owned subsidiary of Demo International, C.A., Caracas, Venezuela.

<sup>3</sup> Wholly owned subsidiary of Demo Bank Venezuela, Caracas, Venezuela.

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

<b>U.S. Name: Demo International Bank</b>	<b><u>Number of Shares</u></b>	<b><u>Percent Owned</u></b>	<b><u>Type of Control</u></b>
Beneficial Owner: Demo Family Trust (Jose Demo controls 100%)	750,000	75.00%	Direct
Beneficial Owner: Example Family Trust (Juan Example controls 100%)	250,000	25.00%	Direct
<b>Foreign Name: Demo International, C.A.</b>	<b><u>Number of Shares</u></b>	<b><u>Percent Owned</u></b>	<b><u>Type of Control</u></b> <sup>1</sup>
Beneficial Owner: Jose M. Demo <sup>4</sup>	5,000	10.00%	Direct
Beneficial Owner: Carlita S. Demo <sup>4</sup>	12,500	25.00%	Direct
Beneficial Owner: Paco M. Demo	7,500	15.00%	Direct
Beneficial Owner: Juan H. Example	12,500	25.00%	Direct
Beneficial Owner: Demo Family Members	12,500	25.00%	Direct

<sup>4</sup> Mr. Jose M. Demo has indirect control of the shares owned by his wife, Ms. Carlita S. Demo.

<b>Foreign Name: Demo Bank (Mexico)</b>	<b><u>Number of Shares</u></b>	<b><u>Percent Owned</u></b>	<b><u>Type of Control</u></b> <sup>1</sup>
Beneficial Owner: Jose M. Demo <sup>5</sup>	50,000	50.00%	Direct
Beneficial Owner: Carlita S. Demo <sup>5</sup>	25,000	25.00%	Direct

<sup>5</sup> Mr. Jose M. Demo has indirect control of the shares owned by his wife, Ms. Carlita S. Demo.

**Discuss the factor(s) or combination of attributes (besides or in addition to common stock ownership) that was considered in determining whether a PBO relationship exists. Consider whether an individual or a group of individuals (e.g., family members, business partners, or any other group) acting together (directly or indirectly):**

- 1) Constitute a quorum or a significant presence on the board of directors of both the U.S. depository institution and the foreign bank or the foreign bank holding company.**

The members of the Demo family listed above serve as the chairman, vice chairman, or director for seven of the banking entities. However, none of the individuals are on the board of directors of Demo Bank International, Panama. Their membership does not constitute a quorum on any of the three foreign or U.S. bank boards, but does constitute a quorum on the board of the foreign bank holding company, Demo International, C.A.

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

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

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

The members of the Demo family listed above serve as the president, vice president or cashier of Demo International Bank, Demo International, C.A. and at the seven foreign banks, except Demo Bank International, Panama. Their positions constitute a quorum of the executive management at Demo International, C.A., (Venezuela) but not the other banks, but they do occupy critical positions on those teams.

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

Mr. Jose Demo is chairman of Demo International Bank and president of Demo Bank Venezuela, which enables him to exert a controlling influence over the management and policies of both organizations.

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

The banks primarily engage in correspondent bank services, dollar clearings, letters of credit, and trade related transactions. Fee income from transactions with the three foreign banks equaled over 40 percent of the total fee income generated by Demo International Bank in 2011. The U.S. bank also extended a \$5 million line of credit secured by a \$5 million certificate of deposit to Demo Bank Venezuela, Caracas, Venezuela.

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

None noted.



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

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

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

The titles of the banking organizations use similar naming conventions.

- 9) **Presents any other factor(s) or attribute(s) that affected the conclusion.**

None known.

### **Summarize the Examination Findings**

The review determined that a PBO relationship exists between Demo International Bank and three foreign banks and a foreign bank holding company through the common control of the Demo family, primarily through Mr. Jose Demo's ownership/control of the Demo International Bank in Miami, Florida; Demo International, C.A. in Caracas, Venezuela (foreign bank holding company); and Demo Bank Mexico in Mexico City, Mexico. Each of the affiliated foreign banks has audited annual reports for the most recent fiscal year.

Demo Bank do Brazil reported a negative 0.3 percent return on average assets for the most recent fiscal year because of elevated credit losses. Its book capital (minus goodwill) declined to 5 percent of total assets as of December 31, 2015. Other foreign financial affiliates had positive net income and at minimum, a book capital to assets ratio of 10 percent as of December 31, 2015.

Bank management acknowledges that the institutions are under common control and actively monitors all transactions with affiliated entities. No adverse trends were noted relating to transactions with foreign banking affiliates. Refer to the Related Organizations page and the Risk Management Assessment page for additional information.

*Return to top.*

## **INTERNATIONAL WORKPAPERS**

<b>International Loans, Acceptances, and Letters of Credit - Distribution</b>	<b>99999</b>
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An international loan, acceptance, or letter of credit is defined as any such instrument between this bank and a resident or entity domiciled outside the United States, District of Columbia, Puerto Rico or other United States Territory or Possession.

**DISTRIBUTION**

<b>Description</b>	<b>Amount</b>
Mortgage loans (Including Ship loans of \$2,327)	8,732
Loans insured or guaranteed by the U.S. government or its agencies	14,065
Loans to foreign governments, agencies thereof and central banks	15,971
Loans to financial institutions other than central banks	500
Loans to commercial, industrial and agricultural interests	41,689
Other Loans (Describe)	
Loans to religious institutions	8,572
All other loans	1,171
<b>Total International Loans*</b>	<b>90,700</b>
*Does NOT include loans to U.S. subsidiaries of foreign corporations	12,444

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

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

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

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

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

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

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

(b) Reviewed quarterly.

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

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

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

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

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

(b) Supporting documentation appeared in order.

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

Credit information on loans originated at the Nassau Branch continues to be inadequate. Deficiencies include a lack of current and complete financial information on the obligor and guarantor, an absence of thorough credit analysis, and a lack of complete information on country conditions. Management initiated a project (and hired two new credit analysts at the Nassau Branch) during the examination to enhance the availability and sufficiency of credit information on loans originated at the Nassau Branch.

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

(a) The bank is primarily involved in acceptance financing in connection with international trade activity.

(b) The acceptance financing involves manufactured goods, commodities, and exchange activities of central banks.

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

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

(b) The letters of credit involve manufacturers, machinery exporters and importers, commodity importers, and foreign governments and agencies.

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

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

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

Eurocurrency operations are conducted through the Nassau Branch. Investments are primarily loans to South American corporations and central governments, securities of foreign governments and bank placements. Sources of funding are individual, partnership, corporation, bank, and affiliate time deposits. As of the examination date, Eurocurrency loans, securities, and bank placements totaled \$325 million with approximately 98 percent of the placements funded by Eurocurrency time deposits.

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

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

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

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

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

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

Yes.

**Foreign Exchange Activities****99999**

NOTE: A negative answer below (questions 2 through 8(e)) may be indicative of a condition in need of correction.

Such answers may call for comment, or expanded treatment, below or elsewhere in the examination report.

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

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

<b>Position Analysis - Major Currency Positions</b>	<b>99999</b>
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<b>Country</b> United Kingdom	<b>Monetary Unit</b> Pound Sterling			
Description	Assets and Purchases (Long Position)		Liabilities and Sales (Short Position)	
	Foreign Currency	U.S. Dollar Book Value	Foreign Currency	U.S. Dollar Book Value
Cash	1,000	2,600		
Demand Balances Due (Nostro)	50,000	19,800		
Loans	1,000,000	2,500,000		
Securities	100,000	275,800		
Deposits of Banks (Vostro)			100,000	242,000
Other Deposits			400,000	1,040,000
Spot Contracts	1,300,000	3,120,000	1,400,000	3,346,000
Forward Contracts				
Holdovers				
Other: (Specify)				
Accrued Interest Receivable	10,500	25,200		
Accrued Interest Payable			3,000	7,200
Gross Position	2,461,500	5,943,400	1,903,000	4,635,200
Less: Long/Short	1,903,000	4,635,200		
Net Position	558,500	1,308,200		
Net position as a % of the bank's total capital and reserves:	2.90%			



99999

[illegible]

Capital and Reserves.

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**Maturity Distribution (GAP) Analysis**
**99999**
**MATURITY DISTRIBUTION SCHEDULE**

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

<b>Revaluation and Income/Loss Analysis</b>	<b>99999</b>
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<b>Monetary Unit</b>	<b>Book Value of F.C.</b>	<b>Net Position U.S.</b>	<b>Exam Date Spot Rate</b>	<b>Current U.S. Market Value (F.C. x Spot)</b>	<b>U.S. Spot Rate Profit (Loss)</b>	<b>U.S. Future Profit (Loss) Adjustment</b>	<b>U.S. Net Profit or (Loss)</b>
Australia \$	24,600	27,900	1.149500	28,300	400		400
				0	0		0
Canada \$	66,000	(90,000)	0.868300	57,300	147,300	(500)	146,800
				0	0		0
France Franc	1,000,000	210,000	0.219100	219,100	9,100		9,100
				0	0		0
German Mark	490,000	154,000	0.493800	242,000	87,700		87,700
				0	0		0
Italian Lira	(26,470,900)	(29,000)	0.001176	(31,100)	(2,100)		(2,100)
				0	0		0
Swiss Franc	(60,700)	(25,300)	0.532800	(32,300)	(7,000)		(7,000)
				0	0		0
UK Pound	558,500	1,308,200	2.222000	1,241,000	(67,200)	1,000	(66,200)
				0	0		0
				0	0		0
				0	0		0
<b>Total</b>					168,200	500	168,700

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

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

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

<b>Income/Loss Schedule</b>	<b>99999</b>
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<b>Previous Calendar Year</b>	<b>Amount or Percent</b>
Quarterly Average of Gross Assets	562,500,000
Total Foreign Exchange Income	1,000,000
Net Foreign Exchange Income (Loss)	550,000
% of Total Foreign Exchange Income to Average Gross Assets	0.18%
% of Net Foreign Exchange Income (Loss) to Average Gross Assets	0.10%
<b>Year to Date</b>	<b>Amount or Percent</b>
Total Operating Income (Bank)	25,156,300
Net Operating Income (Loss)	4,192,700
Total Foreign Exchange Income	735,200
Net Foreign Exchange Income (Loss)	404,400

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

(a) The bank's Board of Directors has authorized trading only in currencies listed in the position schedules. Overnight limits for each currency with the exception of the pound sterling are fixed at \$250M; pound sterling limit is \$1,500M. The aggregate position limit for all currencies is \$2,000M. Maturity gaps are authorized only on major active currencies up to \$100M not to exceed 3 months. Major active currencies have been described as having an active forward market.

(b) Limits appear to be reasonable.

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

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

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

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

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

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

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

(a) Net position reports enumerating all foreign currency balance sheet items, future contracts, and after-hour and holdover transactions are transmitted to the designee of the International Committee on a daily basis. Reports are prepared by the foreign exchange bookkeeping department and reconciled to the trader's blotter. Maturity gap reports are produced daily with the next month's transaction reflected on a

daily basis and subsequent transactions grouped in two-week intervals. Revaluation reports detailing ledger accounts, spot contracts, and forward contracts are developed on a weekly basis.

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

**5. If the bank is a subsidiary of a foreign bank, describe the controls and guidelines the parent has imposed on the bank's foreign exchange activities, and describe the foreign exchange reports prepared by the bank for the parent.**

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

**6. Briefly describe the procedures used in the revaluation, including the frequency and responsible party. If forward contracts are not revalued at future rates, so indicate.**

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

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

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

**8. (a) Approximate the volume of foreign exchange transactions the bank has with related companies or banks? (b) Determine whether the terms and conditions of such dealings vary from similar transactions with non-related companies and banks?**

(a) During 2015, the bank entered into approximately \$40,000M of forward contracts to purchase and sell foreign exchange with a related bank, First European Bank, London, England.

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

9. **Regarding holdover and/or after hour transactions, describe and assess the bank's system for controlling and recording such transactions. Indicate how management is informed of such transactions before recordation, and determine whether the system is correctly designed and adequately controlled?**

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

NOTE: A negative response below may indicate a condition that requires correction and comment(s) below and/or in the report of examination.

**AUDIT**

		YES	NO
1	Have the directors/trustees made provision for an audit of the foreign exchange area?	X	
	If "Yes," indicate method utilized:		
	<u>  X  </u> Employment of full time auditor.		
	<u>  X  </u> Periodic employment of independent auditor.		
	<u>      </u> Designation of an audit supervisor and an established program of internal audit by bank personnel.		
	Name of Audit Supervisor:		
2	If the answer to question 1 is "yes", does the audit program include the following:		
	(a) Periodic proof of forward and spot contracts?	X	
	(b) Periodic proof and/or reconciliation of foreign exchange general ledger accounts?	X	
	(c) Periodic direct verification of forward and spot contracts?	X	
	Frequency: Annually Amount: \$25,200,000		
	(d) Review of management reports and adherence to guidelines?	X	
	(e) Comparison of rate quotations in management reports and revaluations with outside sources?	X	
	(f) Perusal of authorized signatures?	X	
	(g) Briefly describe any other audit procedures conducted:		
3	If applicable, has the bank corrected major criticisms noted in the last independent audit report?		X
	Date of audit: 12/31/2014		
	Briefly describe major criticisms and/or recommendations in such report:		
	The bank was criticized for not maintaining a complete and current set of instructional memoranda describing the information generated from the accounting system and the general and subsidiary ledger accounts affected by trading activity. This defect has been corrected. Deficiencies still exist with respect to confirmation procedures.		
4	Is the foreign exchange audit program adequate as to scope and frequency?	X	
5	Does the foreign exchange auditor or audit supervisor report regularly and directly to the bank's board of directors/trustees or a committee thereof?		
6	Is a written audit report of the foreign exchange area maintained by the bank?	X	

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



NOTE: A negative response below may indicate a condition that requires correction and comment(s) below and/or in the report of examination.

**INTERNAL CONTROLS**

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

2-3 Although the bank established guidelines regarding the confirmation of spot and future contracts, examiners observed that outgoing confirmations are frequently incomplete, with trade and value dates frequently omitted. Further, many entries in the confirmation exception logs are incomplete, and the log is not reviewed by an operations officer. These deficiencies were noted by both the bank's internal and external auditors; however, management has not yet corrected the deficiencies .

## INTERNATIONAL PRE-EXAMINATION QUESTIONNAIRE

Examiners can use this optional questionnaire, in whole or part, during the pre-examination process as part of the preliminary risk assessment. This workpaper includes a list of questions that examiners can ask management to help identify international activities, develop document request lists, and scope examination activities.

Briefly summarize significant discussion topics in the pre-examination planning memorandum. Summarize items such as material changes since the prior examination, economic conditions in the institution's area of operation, new products or services, and areas of perceived risk. Include any other information useful for allocating examination resources. Document the officer's name and title, and note the discussion date.

### INTERNATIONAL ACTIVITIES

1) Does the bank offer any international products or services? For example:

- Cross-border loans or investments,
- Loans to domestic borrowers that are part of an international supply chain or that are guaranteed by a foreign parent, or other foreign legal entity,
- Trade financing,
- Foreign wire transfers,
- Foreign deposits or borrowings,
- Loans to non-resident aliens (NRAs),
- Private banking or wealth management for foreign nationals,
- Foreign correspondent banking, or
- Foreign exchange trading.

If yes:

- Provide a summary description of each activity,
- Indicate where the activities are conducted within the organization, and
- Provide the name and title of the person(s) responsible for each area.

2) Does the bank have an International Banking Facility (IBF)?

(Note: An IBF is a set of asset and liability accounts segregated on the books and records of a depository institution, United States branch or agency of a foreign bank, or an Edge or Agreement corporation that includes only IBF time deposits and IBF extensions of credit.)

3) Does the bank have any representative office(s)?

If yes:

- Indicate where the office(s) are located,
- Provide the name and title of the person(s) responsible for each office, and
- Provide a summary of the activities conducted by the office(s).

4) Does the bank maintain any foreign branches or subsidiaries, control a foreign organization, or have 20 percent or more of the organization's voting equity interests in a foreign organization?

If yes:

- What records and record keeping policies does the bank maintain to ensure compliance with the provisions of Section 347.116 of the FDIC Rules and Regulations?

**FOREIGN BANKING ORGANIZATION (FBO)**

5) Is the bank part of a FBO?

(Note: An FBO is a U.S. banking operation owned by a foreign banking organization. An FBO's operations may encompass a variety of banking and nonbanking activities conducted through subsidiaries, branches, agencies, or representative offices.)

If yes:

- Describe the organizational and ownership structure of the FBO.
- Summarize transactions or agreements of the FBO with its parent/controlling institution, and
  - Include a list of transactions conducted with the parent institution (participations purchased, participations sold, fund transfers, etc.), including the volume and approximate number of transactions, dollar amount, and percentage of income derived from such transactions.
  - Include a list of services provided to or received from the FBO (rental space, correspondent services, auditing, IT-related services, etc.).
  - Indicate fees paid or received for services rendered.

**PARALLEL BANKING ORGANIZATION (PBO)**

6) Is the bank owned or controlled, directly or indirectly, by an individual, family or group of individuals that are closely associated in their business, or otherwise acting in concert, that also own/control at least one foreign banking institution?

If yes:

- Provide a list of all relationships and international affiliations within the PBO, and
- Summarize transactions or agreements with the international relationships or affiliates listed, including the volume and approximate number of transactions, dollar amount, and percentage of income derived from such transactions.

7) Do any bank insiders, as defined by Regulation O, have cross-border related interests?

If yes:

- Describe the type of transactions between the bank and the related interests.

**CORRESPONDENT BANKING**

8) Does the bank have any foreign correspondent bank relationships?

If yes:

- Summarize the nature of the relationships and services offered (clearings, deposits, loans, trade financing, etc.), and
- Describe the due diligence conducted on each foreign correspondent.

**COUNTRY EXPOSURE**

9) Does the bank's present or future business strategy include cross-border lending or investment activities, in particular with emerging markets and other notable countries and regions?

If yes:

- Describe the bank's systems and controls over their country exposure, and
- Describe the process management uses to monitor economic and political situations in countries where the bank has exposure (either directly or through NRA relationships).

10) Does the bank file FFIEC Form 009 and/or Treasury International Capital (TIC) forms?

**FOREIGN DEPOSITS**

11) Does the bank accept foreign deposits?

If yes:

- Describe the bank's foreign deposit gathering activities or programs.

12) Are deposits referred to the bank by affiliates or other related foreign organizations?

If yes:

- Describe the process of how deposit accounts are referred by affiliates or related foreign organizations.

13) Does the bank use independent agents to acquire foreign deposits?

If yes:

- Describe how foreign deposit accounts are acquired through independent agents, and indicate if a fee is paid for deposit referral services.