GENERAL INSTRUCTIONS

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These instructions apply to all safety and soundness Reports of Examination (ROE).

References

Examiners should also consider the following:

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

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

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

Report Comments, Supervisory Recommendations, and Matters Requiring Board Attention

As used in these instructions, the term “report comments” refers generally to text set forth in the ROE. The term “supervisory recommendation” refers to FDIC communications with a bank that are intended to inform the bank of the FDIC’s views about changes needed in its practices, operations or financial condition. As described in the Statement of FDIC Board of Directors on the Development and Communication of Supervisory Recommendations (Statement), a principal purpose of supervisory recommendations is to communicate supervisory concerns to a bank so that it can make appropriate changes in its practices, operations or financial condition and thereby avoid more formal remedies in the future, such as enforcement actions.[1] All supervisory recommendations must address meaningful concerns, communicate concerns clearly and in writing, and discuss corrective action. Supervisory recommendations are not formal or informal enforcement actions, but they are communications of FDIC expectations of banks. The Statement acknowledges that bankers take seriously supervisory recommendations made by FDIC personnel; accordingly, care should be taken in their development and communication.

In the context of the ROE, supervisory recommendations include recommendations communicated on the Examiner’s Comments and Conclusions (ECC) page, and recommendations communicated on other report pages, such as the Risk Management Assessment page. Most supervisory recommendations are generally correctable in the normal course of business. However, when there are material issues and recommendations that require the attention of the institution’s board of directors and senior management, examiners must communicate concerns using Matters Requiring Board Attention (MRBA). MRBA are a subset of supervisory recommendations. It is FDIC policy to make supervisory recommendations in writing in the ROE, in a transmittal letter, or in other correspondence under official FDIC letterhead. Supervisory recommendations may not be solely verbal, but should be discussed with, and explained to bank management.

[1] See https://www.fdic.gov/about/governance/recommendations.html

Rounding

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

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

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

Ratios

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

Abbreviations

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

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

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

Writing Style and Grammar

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

Listed below are a few style and grammar conventions that should be used in the Report. Refer to the Federal Plain Writing Guidelines; Appendix B (Grammar and Punctuation Guide), of this document; and references such as dictionaries and writer's handbooks for additional guidance.

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

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

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

Spaces - Use two spaces between sentences.

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

Examples:

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

Incorrect: The borrower reports a negative NW of ($25M).

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

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

INVENTORY OF REPORT PAGES

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Report of Examination Page Order

Items in bold font indicates a mandatory schedule or a schedule that is mandatory when applicable.

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

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

International Report Page Order

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

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

MATTERS REQUIRING BOARD ATTENTION (MRBA)

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Purpose

MRBA are a subset of Supervisory Recommendations,[2] which are an FDIC communication intended to inform the institution of the FDIC's views about changes needed in its practices, operations, or financial condition to help directors prioritize their efforts to address examiner concerns, identify emerging problems, and correct deficiencies before the bank's condition deteriorates (or to keep the bank viable if conditions already deteriorated). A principal purpose of supervisory recommendations is to communicate supervisory concerns to a bank so that it can make appropriate changes in its practices, operations or financial condition and thereby avoid more formal remedies in the future, such as enforcement actions.

A MRBA is defined as an issue or risk of significant importance that requires board attention. Examples of matters requiring board attention that could warrant highlighting include:

- Emerging issues in which the board needs to be more proactive in establishing policy and risk management parameters;
- Policy weaknesses that, if left unaddressed, could increase the institution's risk profile or, adversely affect the condition of the institution;
- Ineffective management;
- Repeat examination recommendations or regulatory, audit, or risk management criticisms that have escalated in importance;
- Enforcement action provisions requiring continued attention (these should be included in one summary bullet point); or
- Significant noncompliance with laws, regulations, or the bank's own policies.

When To Include This Schedule

Examiners must use this schedule whenever MRBA are included in the ROE to briefly highlight material issues and recommendations that require prompt attention by the directorate and senior management and follow-up by regulators between examinations. When the MRBA page is included in a Report, place it before the ECC page.

Deficiencies and supervisory recommendations that management can address in the normal course of business should be included in the ECC, RMA, or other supporting pages.

Comment Structure

MRBA should be brief, addressed to the board of directors, and include:

- An introductory statement to explain the purpose of the MRBA comments.
- For each MRBA, a description of the practice or condition that is of concern, a description of the corrective action needed, and a description of the potential consequence of the inaction or non-timely action to the bank's financial condition or operations. Comments should be informative and persuasive by describing the risk(s) associated with an issue and the benefits of corrective action, or consequences of inaction, to the institution and board of directors. The comment should not highlight the threat of potential, escalated supervisory action. In cases where conditions have already deteriorated, comments should prompt the board and senior management to take immediate action to correct deficiencies.
- A statement reminding the directorate and senior management of the importance of addressing the noted issues and its responsibility to respond appropriately to the matters highlighted in the schedule and informing them that there will be follow-up by regulators between examinations.

The MRBA should be listed in order of importance. As with all supervisory recommendations, MRBA are expected to be meaningful, actionable, fully supported and clearly communicated. For example, "develop a plan to reduce overhead expenses by…" rather than "improve earnings." Clear expectations will enable the institution's board, senior management, and examiners to determine when the MRBA has been adequately addressed.

[2] Statement of FDIC Board of Directors on the Development and Communication of Supervisory Recommendations, see footnote 1.

EXAMINATION CONCLUSIONS AND COMMENTS (ECC)

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Purpose

The ECC page is the primary schedule examiners use to summarize examination findings, inform directors and senior management of undue risks, and guide corrective actions through presentation of supervisory recommendations, when appropriate.

Content

Examiners should convey all significant examination findings on this page, including those relating to risk management, specialty areas, and, when material and relevant, Compliance/ Community Reinvestment Act (CRA) examinations.

The ECC page should include significant issues to be addressed by senior management ─with board awareness─ that do not meet the significant and immediate criteria of MRBA. However, when applicable, ECC comments should support issues raised on the MRBA schedule. Generally, the remediation of supervisory recommendations set forth on the ECC page can occur during the normal course of business. Supervisory recommendations on the ECC page should be associated with material practices that deviate from sound governance, internal controls, or risk management or consumer protection principles and noncompliance with laws and regulations, enforcement actions, or conditions imposed in writing. Supervisory recommendations should be relevant to the institution and not based on examiner preference or industry “best practices.”

Examiners must document management's response to each supervisory recommendation and include an assessment of each CAMELS component on this page.

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

Comment Structure

Comments should focus the reader’s attention on the condition or practices that caused or otherwise led to the examiner’s criticisms and supervisory recommendations. Comments should be sufficiently detailed to support all examination findings, ratings, and recommendations. Examiners are encouraged to use tables, charts, or graphs to illustrate a complex concept or to help readers understand examination findings. Generally, commentary for a stable 1-rated component should be concise, while commentary for 2- through 5-rated components should be progressively more detailed.

Page Structure

Numerical Ratings

Uniform Financial Institutions Rating System – The top of the ECC page includes a grid to display the component and composite ratings for the current and two prior examinations. Previous examination dates should correspond to those noted elsewhere in the Report. Identify state examinations with "S" following the date, and designate other agency examinations with appropriate abbreviations. Composite ratings for the current and two prior specialty examinations, and the most recent Compliance and CRA examinations should be included at the bottom of the rating grid. Footnote any examination dates that do not correspond with the current or previous risk management examination dates. Composite rating definitions for risk management and specialty examinations should be included on the Composite Rating Definitions page. Definitions of component ratings are publicly available in the FDIC Statement of Policy on the Uniform Financial Institutions Rating System.[3]

[3] See https://www.fdic.gov/regulations/laws/rules/5000-900.html

commitment, to correct the violations cited at the examination.

Comments on the ECC page relating to IT examinations must summarize key ITA findings and assessments of the institution's cybersecurity preparedness and conformance with Appendix B to Part 364, Interagency Guidelines Establishing Information Security Standards (Security Guidelines). The length of the comment should vary based on the size and complexity of the institution and the significance of any weaknesses noted and should support the composite Uniform Rating System for Information Technology (USIRT) rating assigned. The comment should reference the ITA page when IT risk examinations are embedded in the Safety and Soundness examination. Significant findings from separate cover IT reports completed during the risk management examination cycle must also be summarized on the ECC page.

Bank Secrecy Act (BSA)

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

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

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

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

Meetings with Management and the Board of Directors

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

Board of Directors Reminder

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

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

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

COMPLIANCE WITH ENFORCEMENT ACTIONS

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Purpose

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

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

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

When To Include This Schedule

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

Formal Action

- Final Order pursuant to Section 8
- Capital Directive
- Section 39 Safety and Soundness Order
- Other formal administrative action of a state authority or other regulatory agency
- Continuing Condition

Informal Action

- Board Resolution
- Memorandum of Understanding
- Section 39 Safety and Soundness Compliance Plan
- Other informal administrative action of a state authority or other regulatory agency

Prompt Corrective Actions

When an institution is subject to Prompt Corrective Action (PCA), summarize the applicable provisions of the PCA and follow each provision with an examiner assessment.

Continuing Conditions

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

Page Structure

Examiners should begin comments with a brief overview of the facts leading to the issuance of an action. (For example, "Based on deficiencies noted at the xx/xx/xx examination, ...") Comments should detail the type of action, effective date, and affected parties. At the first examination after the issuance of a formal or informal administrative action, the action should generally appear verbatim on this page. If the action is lengthy and management is agreeable, it may be paraphrased.

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

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

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

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

RISK MANAGEMENT ASSESSMENT

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Purpose

The purpose of this schedule is to highlight deficiencies in risk management policies, procedures, and practices and to provide recommendations for corrective action, ideally before risk management practices impact the institution's condition.

When To Include This Schedule

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

General

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

"Yes" answers do not require ROE comments.

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

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

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

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

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

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

Risk Management Questions

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

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

Consider issues such as:

- Local economic conditions and trends (including real estate markets),
- Trade area demographics,
- Loan demand and diversification strategies,
- Industry or economic-sector concentrations, and
- Diversity and availability of funding sources.

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

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

Consider the adequacy of policies and practices relating to issues such as:

- Credit administration,
- Underwriting standards,
- Credit grading system,
- ALLL or ACL methodology,
- Real estate appraisals and evaluations,
- Concentration limits and oversight,
- Internal and external loan review programs,
- Documentation standards,
- Lending authorities,
- Loan approval processes,
- Loan committee structures,
- Nonaccruals and chargeoffs,
- Environmental risk controls,
- Out-of-area lending,
- Loan purchases and participations,
- Subprime lending programs,
- Credit card lending programs, and
- Renewals and extensions.

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

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

Consider the adequacy of policies and practices relating to issues such as:

- Asset/Liability management,
- Liquidity strategies,
- Investment strategies,
- Hedging strategies,
- How growth is funded,
- Investment authorities,
- Committee structures, and
- Outside advisory services.

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

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

Consider the adequacy of policies and processes relating to issues such as:

- Strategic and capital planning,
- Management depth and succession,
- New or expanded activities or products,
- Competitive environment,
- Feasibility and budgeting analysis,
- Fidelity insurance coverage, and
- Consistency of present business plan and proposed new activities with that provided with the Application for Federal Deposit Insurance (de novo institutions).

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

Consider the adequacy of practices, as well as policy coverage and implementation, relating to issues such as:

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

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

BSA and OFAC comments are not required on the RMA page if there are no concerns. However, moderate deficiencies or recommendations for program enhancements that do not require MRBA or ECC comments may be detailed on this page.

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

Consider issues such as:

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

VIOLATIONS OF LAWS AND REGULATIONS

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Purpose

Examiners use this page to communicate details regarding apparent violations of laws and regulations, or nonconformance with guidelines or standards that are incorporated into regulations as appendices to FDIC rules, such as the appendices to Parts 364 and 365 of the FDIC Rules and Regulations.

General

The ECC page must include a reference to this page whenever violations of laws or regulations, or nonconformance with guidelines incorporated into an appendix to a regulation, are cited. The MRBA page may also require a reference to this page depending upon the significance and prevalence of the infractions and whether they are repeat infractions. References to this page on other report pages may also be necessary if related issues, such as internal control or policy weaknesses, are detailed elsewhere in the ROE.

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

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

Formatting Write-ups

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

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

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

Description of Violation - Describe the specific actions or circumstances that caused an apparent violation. For example, "The $3 million loan to Director Smith funded on 12/2/16 is in apparent violation of Section 337.3 (b) of the FDIC Rules and Regulations because it was extended without prior board approval." Lengthy descriptions of violations may be unnecessary, especially if details are included in other schedules. In such cases, include references to the other schedules.

Management Response - Comments should include:

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

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

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

Legal Lending Limit Violations

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

Uncorrectable Vs. Repeat Violations

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

Civil Money Penalties

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

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

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

Nonconformance with Guidelines Incorporated into Regulations

After cited apparent violations, list nonconformance with guidelines or standards that are incorporated into an appendix of a regulation under the heading *Nonconformance with Guidelines Incorporated into Regulations*. An example of nonconformance with guidelines incorporated into a regulation would be when the institution did not meet one or more of the standards established in Appendix A or B of Part 364, or Appendix A of Part 365. Write-ups for nonconformance should follow the general format as violation write-ups.

INFORMATION TECHNOLOGY AND OPERATIONS RISK ASSESSMENT (ITA)

←

Purpose

The purpose of the ITA page is to convey the URSIT ratings for embedded information and operations risk (IT) examinations and provide detailed comments that support each component rating.

Examiners must include comments on the Examination Conclusions and Comments (ECC) page that summarize key ITA findings, and assessments of the institution's cybersecurity preparedness and conformance with Appendix B to Part 364, Interagency Guidelines Establishing Information Security Standards (Security Guidelines). Significant findings from separate cover IT examination reports completed during the risk management examination cycle must also be summarized on the ECC page.

Page Structure and Order

The ITA is a mandatory page when IT examinations are embedded in the Safety and Soundness examination. The page should immediately follow the Violations of Laws and Regulations page, if it is included. Detailed comments supporting assigned URSIT ratings and assessments of the institution's cybersecurity preparedness and conformance with Security Guidelines are required on the ITA page.

Numerical Ratings

The ITA page includes a grid at the top of the page to display the composite and component ratings for the current and two prior IT examinations.

Supporting Comments

Comments should be presented in order of importance and provide support for the conclusions and supervisory recommendations summarized on the ECC page. Use descriptive subheadings, bulleted lists, and other such devices to promote readability.

Comments should include:

- Assessment or condition statements for each component;
- Findings and, as needed, recommendations;
- Descriptions of the consequences of inaction, or benefit of corrective action, relating to each recommendation; and
- Management's response, name and title of respondent, and timeframe specified for corrective action.

If the institution incorporates a cybersecurity tool or framework (e.g., FFIEC Cybersecurity Assessment Tool or NIST Cybersecurity Framework) into its risk management process, examiners should detail the results of management's assessment. The details should be presented in conjunction with the examiner's review of the institution's overall information security risk assessment and can be included under the supporting comments for cybersecurity preparedness.

FIDUCIARY ACTIVITIES ASSESSMENT (FAA)

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Purpose

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

When to Include

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

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

Page Structure and Order

Numerical Ratings

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

Supporting Comments

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

EXAMINATION DATA AND RATIOS (EDR)

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Purpose

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

Summary of Items Subject To Adverse Classification

Generally, classification information automatically pulls from other report schedules. The Adversely Classified Items Coverage Ratio[4] included on this page represents all adversely classified items (ACI), including loans and leases, securities, other real estate owned, other assets, other transfer risk, and contingent liabilities.

Contingent Liabilities

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

Financial Performance and Condition Ratios

The standard ratios included on this page are derived from examination results, Call Reports, and the UBPR. When Call Report data is used, ratio calculations are consistent with UBPR User's Guide definitions. Call Report instructions require banks to report capital ratios, which are used for determining the PCA capital category, as a percentage, rounded to four decimal places. Capital ratios reflected in the EDR page are truncated at two decimals.

Note: Institutions can elect the Current Expected Credit Loss (CECL) transition provision in order to transition the day-one impact of adopting CECL in regulatory capital through transition adjustments to retained earnings, average total consolidated assets, temporary difference deferred tax assets (DTAs), and the adjusted allowance for credit losses (AACL). Additionally, those institutions that were required to adopt CECL during the 2020 calendar year can elect the CECL revised transition to delay for two years an estimate of CECL's effect on regulatory capital followed by the three-year transition provision.

Selection of Ratios

Data in the Asset Quality section and the top portion of the Capital section[5] is based on results from current and prior examinations (if applicable). The left column of the bottom three Capital ratios[6] and the Earnings and Liquidity ratios should tie to the Examination as of Date of the current examination. The information in the adjacent columns is user-defined. When selecting the period and type of information displayed in the adjacent columns (whether institution or peer), examiners should select the data that best supports examination conclusions.

For institutions reporting capital under the community bank leverage ratio (CBLR) framework, the risk based capital ratios will not be calculated; the related ratios can be shown as NC and footnoted as "Not calculated under CBLR".

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

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

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[4] For institutions that have adopted the CECL methodology, total ACI is divided by Tier 1 Capital plus the ACL for loans and leases (including the off-balance sheet liability) plus the ACL for HTM debt securities plus assets other than loans and debt securities classified loss plus the ineligible amount of the ACL transferred from Tier 1 capital to Tier 2 capital, if applicable. For institutions that have not adopted the CECL methodology, total ACI is divided by Tier 1 Capital plus the ALLL plus assets other than loans classified loss plus the ineligible amount of the ALLL transferred from Tier 1 Capital to Tier 2 Capital, if applicable.

[5] Tier 1 Capital/Average Total Assets, Common Equity Tier 1 Capital/Risk Weighted Assets, Tier 1 Capital/Risk-Weighted Assets, and Total Capital/Risk-Weighted Assets.

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

COMPARATIVE STATEMENTS OF FINANCIAL CONDITION

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Purpose

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

General

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

Show all asset categories net of specific and general valuation allowances, except Total Loans and Leases, which has a separate line item for general valuation allowances (the Allowance for Loan and Lease Losses or the Allowance for Credit Losses, as applicable). Additionally, examiners should consider the following:

- *Securities Purchased Under Agreements to Resell*, and *Held-to-Maturity* (HTM) securities - These items are reported net of applicable Allowances for Credit Losses.
- *Securities: Available-for-Sale (AFS) (at Fair Value)* - This line item includes AFS debt securities. *Note:* Equity securities with readily determinable fair values, which includes mutual funds, may no longer be designated as AFS.
- *Equity securities with readily determinable fair values not held for trading* - This line item includes investments in all equity securities with readily determinable fair values, unless the institution has designated the investments as trading.

Dates

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

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

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

Assets, Liabilities, and Equity Capital

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

Derivatives and Off-Balance Sheet Items

Derivatives and off-balance sheet Items should correspond to amounts listed on Call Report Schedule RC-L, (for banks that file Form 031 or 041), or Schedule RC-L and Schedule-SU, item 1 (for banks that file Form 051). If additional categories are needed, space is available below Other Off-Balance Sheet Items.

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

Footnotes

Use this section strictly for footnotes, not comments.

LOAN AND LEASE FINANCING RECEIVABLES

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Purpose

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

General

Complete this schedule according to Call Report Instructions.

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

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

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

Loan Portfolio Breakdown

All Other Loans and Leases - This item includes overdrafts.

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

Past-due And Nonaccrual Loans And Leases

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

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

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

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

Restructured Loans and Leases

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

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

The following loans are not considered troubled debt restructurings:

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

References:

- ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors
- Call Report Instruction Glossary under Troubled Debt Restructurings
- Interagency Supervisory Guidance Addressing Certain Issues Related to Troubled Debt Restructurings (FIL-50-2013)

Footnote

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

RECAPITULATION OF SECURITIES

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Purpose

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

General

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

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

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

Equity Securities With Readily Determinable Fair Values Not Held For Trading – The fair value of these securities include investments in mutual funds, if not designated as trading.

Sub-investment Quality/Investment Quality

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

Fair Value And Estimated Fair Value

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

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

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

Asset-backed Securities

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

References:

- Call Report Instructions for Schedule RC-B
- Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities
- Manual Section 3.3, Securities and Derivatives
- Capital Markets Handbook
- Call Report Glossary (particularly, Coupon Stripping, Treasury Receipts, and STRIPS; Marketable Equity Securities; Participation in Pools of Securities; and Trading Accounts)

ITEMS SUBJECT TO ADVERSE CLASSIFICATION

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Purpose

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

General

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

All types of assets are subject to adverse classification.

Asset Classification Write-Ups

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

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

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

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

Report Presentation

General

- In all cases, the dollar amount of adverse classifications must be included in the table at the top of the Examination Data and Ratios (EDR) page.
- If adverse classification write-ups are not prepared, examiners may list individual assets and groups of homogeneous assets on the Items Subject to Adverse Classification page.
- Regardless of ROE presentation, a detailed list of classifications should be left with management before the end of the examination. If this list differs from management's internal classifications, then examiners should obtain written acknowledgement from an executive officer regarding receipt of the list. This detailed list may be generated by examiners, or examiners may leverage a list of adversely classified assets provided by the institution, so long as the final list reconciles to the adversely classified items totals within the Report of Examination. Examiners should retain a copy of the list and the executive officer's acknowledgement in the

workpapers.
- If classified assets are grouped together, include a comment as to the number of assets and basis for classification. For example, "32 Consumer Installment Loans adversely classified based on the Uniform Retail Credit Classification and Account Management Policy."
- The order of adversely classified asset categories should follow the table at the top of the EDR page. Use appropriate subheadings, alphabetize assets within categories, and subtotal each category containing adversely classified items.

Loan Write-ups

When full-scope loan write-ups are prepared, comments should address pertinent factors affecting a classified asset. To the extent necessary, write-ups should address the following elements:

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

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

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

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

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

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

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

Consider the following when preparing write-ups:
- The format of write-ups within each asset category should be consistent in presentation, style, and appearance.
- Be concise, but do not omit pertinent information. Assess only relevant factors.
- Write informatively and factually. Do not include extraneous information that may overshadow important weaknesses.
- Round to the nearest thousand (with 000 omitted) in both the heading and adverse classification. In narrative comments, round dollar amounts to the nearest dollar (for example, $24,985) or to the nearest thousand (for example, $25M). Note: Round all dollar amounts in narrative ROE comments the same.
- When participation loans are adversely classified, list each participant and the participant's corresponding ownership percentage (whether or not originated by the institution). This requirement does not apply to Shared National Credits.
- When applicable, discuss contingent liabilities with the related credit relationship. However, do not extend adversely classified contingent liabilities with classified credits. Adversely classified contingent liabilities should be listed under the subheading Contingent Liabilities.
- When applicable, include overdraft amounts in outstanding debt recaps and discuss details on material or chronic overdrafts of borrowers with adversely classified loans in the same general comment.

- If an adversely classified asset has been partially charged off prior to the asset review date, note the date and amount of the charge-off.
- If an asset was adversely classified at prior examinations, indicate the number of times the asset was previously classified.
- If a previously classified and written up asset is again listed for classification, an abbreviated narrative, or a simple listing of name and amount, may be sufficient, if all of the following conditions are met:
    - The fundamental deficiencies have not materially changed,
    - Management agrees with the adverse classification,
    - Management and the board are sufficiently familiar with the deficiencies, and
    - Management and the board are taking feasible steps to improve or collect the asset.
- Indicate whether the loan is identified on the institution's internal watch list. If internally identified, indicate the internal rating.
- Indicate the past-due (30 days or more) or nonaccrual status of an asset. Occasionally, it may be pertinent to disclose delinquencies of less than 30 days.
- Indicate whether a loan had numerous extensions or rewrites.

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

Miscellaneous

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

ITEMS LISTED FOR SPECIAL MENTION

Purpose

The purpose of this schedule is to detail assets listed for Special Mention, and when necessary, communicate the rationale for the designation via write-ups.

General

The page heading includes the definition for Special Mention items.

All types of assets are subject to Special Mention designation.

Assets internally identified by management as Special Mention with definitions that do not align with the Interagency Statement on the Supervisory Definition of Special Mention Assets[7] or are not consistent with the related instructions included within the Manual of Examination Policies' Section 3.2 – Loans should not be included within this schedule.

Special Mention Designation Write-Ups

Special Mention designation write-ups may be prepared to support the examiner's conclusions and recommendations to the Board of Directors, senior management, and regulatory authorities. Write-ups should be included if necessary to explain potential weaknesses deserving management's close attention and how these deficiencies can reasonably be expected to lead to increased credit risk. Potential weaknesses identified that merit Special Mention designation may also be discussed, where appropriate, within other schedules of the Report of Examination including the Examination Conclusions and Comments and/or Risk Management Assessment pages to help support conclusions and examination findings.

Examiners should structure their write-ups to present information most effectively. When appropriate, comprehensive write-ups similar to those constructed on the Items Subject to Adverse Classification Report of Examination Instructions may be necessary depending on the complexity of the asset. Less comprehensive write-ups, or write-ups that only include a bulleted list of facts, may also be completed for less complex credits. Examiners may also include lists of individual loans, or group homogeneous loans together, if appropriate. The examiner-in-charge has discretion as to the level of detail necessary to support conclusions and satisfactorily convey examination findings.

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

- Weak underwriting, administration, and/or imprudent lending practices,
- Assets involve institution insiders,
- Internal credit grading systems are insufficient, or
- Management disagrees with one or more designations.

Report Presentation

- In all cases, the dollar amount of Special Mention designations must be included in the table at the top of the Examination Data and Ratios (EDR) page.
- If Special Mention designation write-ups are not prepared, examiners may list individual assets and groups of homogeneous assets on the Items Listed for Special Mention page.
- Regardless of ROE presentation, a detailed list of Special Mention designated assets should be left with management before the end of the examination. If this list differs from management's internal classifications,

[7] Interagency Statement on the Supervisory Definition of Special Mention Assets, June 10, 1993.

then examiners should obtain written acknowledgement from an executive officer regarding receipt of the list. This detailed list may be generated by examiners, or examiners may leverage a list of Special Mention loans provided by the institution, so long as the final list reconciles to the Special Mention totals within the Report of Examination. Examiners should retain a copy of the list and the executive officer's acknowledgement in the workpapers.

- If Special Mention assets are grouped together, include a comment as to the number of assets and basis for designation. For example, if the bank's risk rating framework and practices are deemed reliable, examiners can accept the list of assets the bank designates as Special Mention and put the total volume of Special Mention on the Items Listed for Special Mention page, with an explanatory comment, such as: "This total represents [number] loans and commitments that meet the bank's internal definition of Special Mention. Complete list provided to management during the examination."
- If the Items Listed for Special Mention page is not included in the report, and examiners have reflected the bank's designations of Special Mention on the Examination Data and Ratios (EDR) page, examiners should include an explanatory statement on the Examination Conclusions and Comments or Risk Management Assessment pages, or in a footnote on the EDR page, as appropriate.

Miscellaneous

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

ANALYSIS OF LOANS SUBJECT TO ADVERSE CLASSIFICATION

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Purpose

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

When To Complete

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

General

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

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

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

Additional Line Items

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

Payments vs. Recoveries

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

Further Advances - Loans Not Adversely Classified Previously

Circumstances when this line item may be used include:

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

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

Further Advances - Loans Adversely Classified Previously

Circumstances when this line item may be used include:

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

Credits Newly Extended

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

Note: The aforementioned examples are not all-inclusive.

ANALYSIS OF OTHER REAL ESTATE SUBJECT TO ADVERSE CLASSIFICATION

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Purpose

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

When To Complete

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

General

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

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

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

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

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

Additional Line Items

Add line items when necessary.

Examples of other possible line items under Reductions:

- To Premises
- Sales for Cash
- Sales to Insiders
- Now Adversely Classified Loan (This line item may be used when internally financed sales of ORE, which did not originally meet ASC Subtopic 360-20 requirements, now meets those requirements.)
- Examples of other possible line items under Additions:
- Capitalized Improvements (This line item may be used when capitalized improvements are substantial as a whole or to a particular parcel. Otherwise, one of the Further Advances line items may be used.)
- Formerly Premises

- Loans to Facilitate the Sale of ORE (sales of ORE that do not meet the criteria for the consummation of a sale under ASC Subtopic 360-20). Use this line item when a significant volume of sales has occurred. Otherwise, sales can go under ORE from Credits Newly Extended.

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

Charged-off

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

Not Adversely Classified Previously

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

ORE From Credits Newly Extended

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

Note: The aforementioned examples are not all-inclusive.

ASSETS WITH CREDIT DATA OR COLLATERAL DOCUMENTATION EXCEPTIONS

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Purpose

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

When To Include

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

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

General

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

Examiners have the flexibility to add line items in the heading to more accurately describe documentation exceptions encountered at the institution. Descriptive headings may include but are not limited to:

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

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

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

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

CONCENTRATIONS

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Purpose

The Concentrations page is an analytical page intended to identify *specific* concentrations of assets and liabilities that have similar risk characteristics and to communicate the examiner's evaluation of the institution's risk management practices for concentrations meeting the thresholds for write-ups described below. As an analytical page, the Concentrations page should not contain supervisory recommendations or management comments or commitments.

Overall concentration management practices and supervisory recommendations relating to concentrations should be detailed elsewhere in the ROE, such as on the ECC page, or, if included, the Risk Management Assessment (RMA) page. Material supervisory recommendations and management responses regarding concentrations should always be summarized on the ECC page. Also, depending on the extent of issues identified, commentary may be warranted on the Matters Requiring Board Attention (MRBA) page.

When to Include

Examiners must include this page to highlight asset or funding concentrations that exceed the *listing* thresholds below, and examiners must include their analysis of the potential risks and risk management practices for concentrations that exceed the *concentration written analysis* thresholds below.

Asset concentrations are pools of assets that share common risk characteristics or have heightened sensitivity to similar economic, financial, or other risk factors. An institution's asset quality, earnings, or capital can be disproportionally affected by a single or localized economic event or market conditions if the institution holds significant asset concentrations. Therefore, having risk management systems that ensure early identification of problems in these portfolios is a prudent risk management practice.

Funding concentrations are funding types that share common risk characteristics or have heightened sensitivity to similar economic, financial, or other risk factors. The primary risk of a funding concentration is that an institution may have to replace the related funds quickly or at unfavorable terms or both. This risk may become more pronounced if the bank's condition, or the condition of the party or parties providing the funds, deteriorates, which can significantly reduce the availability of funding.

The thresholds are only aimed at directing the examiner in the context of when to list a concentration for informational purposes and when to include a written analysis of a particular concentration in the Report of Examination (ROE). The thresholds are **not** limits for institutions.

Sound examiner judgment must be used to determine the most appropriate ROE treatment of concentrations in relation to the overall risk to the institution. Concentrations not meeting thresholds set forth in these instructions may also be included and analyzed on this page at the discretion of the Examiner-in-Charge (EIC) if elevated risk is evident or inclusion supports material examination findings.

Concentration Categories Requiring Listing

Asset and funding concentrations that meet or exceed the thresholds below should be listed on the Concentrations page. As a general rule, asset concentrations for credit-related assets should be measured as a percentage of Tier 1 Capital (T1C)[8] plus the entire allowance for loan and leases losses (ALLL), or the portion of the allowance for credit losses (ACL) attributable to loans and leases,[9] as applicable. The Allowance for Credit Losses (ACL) related to loans and leases, is applicable for institutions that have adopted the Current Expected Credit Losses (CECL) methodology. Examiners should identify only the funded exposures in the "Detail" and "Amount Extended" columns; unfunded amounts should be commented on in the narrative analysis but not be included in the calculation determining listing applicability.

[8] "Tier 1 Capital" as reported in the Consolidated Reports of Condition and Income, Schedule RC-R-Regulatory Capital.

[9] "Allowance for Credit Losses (ACL) on loans and leases" as reported in the Consolidated Reports of Condition and Income, Schedule RC- Balance Sheet.

For institutions that have adopted the CECL methodology and elected to use the three-year CECL transition or the revised CECL transition to delay the impacts of CECL to regulatory capital, transitioned amounts could result in a portion of the ACL to also be included as a component of T1C for the years the institution reports its regulatory capital ratios using the allowable capital relief provided by those rules. To prevent potential double-counting of the transitioned amounts of the ACL in the denominator for purposes of measuring lending-related concentrations, examiners should eliminate from T1C the transitioned amounts during the period the institution reports its regulatory capital ratios using the three-year CECL transition or the revised CECL transition provisions.

The amount to be eliminated from T1C can be calculated as the difference between the item reported on Schedule RC, Balance Sheet, item 26.a., Retained Earnings and the item reported on Schedule RC-R, Part I, Regulatory Capital Components and Ratios, item 2, Retained Earnings in the Consolidated Reports of Condition and Income. As a result of this adjustment, the amount of retained earnings used to calculate T1C for purposes of measuring lending-related concentrations will equal retained earnings as reported on the balance sheet of the institution. Examiners should ensure that, for the purposes of measuring and assessing lending-related concentrations, the denominator within the calculation represents T1C, excluding CECL transitioned amounts, if elected, plus the ACL related to loans and leases.

Asset concentrations for all other assets should be measured as a percentage of T1C, which excludes the allowance for credit losses. When capital is so low that it is no longer useful in identifying an asset concentration, examiners should use an appropriate percentage of assets as a guideline for the calculation (generally two percent of total assets (TA)).

List concentrations in order of importance (concentrations with higher perceived risks should be listed first). In determining whether, and how, to list a concentration, consider whether elevated risk is evident or whether groups of assets or funding types share common characteristics or have heightened sensitivity to similar economic, financial, or other risk factors.

1) Asset concentrations representing 25 percent or more of T1C plus the ALLL or the ACL related to loans and leases (for loans) or T1C (for securities and all other) by:

- Individual borrower,
- Small, interrelated group of individuals,
- Single repayment source, or
- Individual project.

2) Asset concentrations representing 100 percent or more of T1C plus the ALLL or the ACL related to loans and leases (for loans) or T1C (for securities and all other) by:

- Industry,
- Product line,[10]
- Type of collateral, or
- Short-term obligations of one financial institution or affiliated group.[11]

For example, a listing would be required for a concentration in non-owner occupied commercial real estate (CRE)[12] loans; owner-occupied CRE loans only if they have similar risk characteristics; agricultural real estate loans; agricultural production loans (crop loans and other loans to farmers); livestock loans; or asset-based loans, among others.

3) Funding concentrations representing 10 percent or more of TA by a single funding type.[13] Additionally, include

[10] Product lines are common programs used by an institution that target specialty lending within a broad loan category, such as leveraged financing, accounts receivable, home equity, row crops, farm equipment, and subprime.

[11] For the purposes of concentration identification, short-term obligations represent Federal funds sold with a maturity of one day or less or Federal funds sold under a continuing contract, and resale agreements that have an original maturity of one business day (or is under a continuing contract) and are in immediately available funds in domestic offices.

[12] For the purposes of this schedule, non-owner occupied CRE loans is the sum of construction and land development loans, multifamily property loans, non-owner occupied non-farm non-residential property loans, and loans to finance CRE not secured by real estate.

13 Funding "types" could include funding categories or programs that may be sensitive to interest rates or have other common risk factors. See FDIC RMS Manual of Examination Policies, Section 6.1 "Liquidity and Funds Management" for descriptions of types of funding.

any uninsured deposit[14] concentration if it represents 50 percent or more of total deposits.

Concentration Categories Requiring Written Analysis of Risk Management

In addition to listing, examiners are to provide a written analysis on the Concentrations page summarizing the examiner's evaluation of the institution's related risk management practices for each of the following asset or funding concentrations:

- Individual borrower concentrations (including small interrelated groups of individuals, a single repayment source, or an individual project) of 25 percent or more of T1C plus the ALLL or the ACL related to loans and leases (for loans) or T1C (for securities).
- Industry, product line, or collateral type loan concentrations of 300 percent or more of T1C plus the ALLL or the ACL related to loans and leases. For example, written analysis would be required for a concentration of non-owner occupied CRE loans; owner-occupied CRE loans only if they have similar risk characteristics; agricultural real estate loans; agricultural production loans (crop loans and other loans to farmers); livestock loans; or asset-based loans, among others.
- Acquisition, Development, and Construction (ADC) loan concentrations of 100 percent or more of T1C plus the ALLL or the ACL related to loans and leases.
- Correspondent credit concentrations of 100 percent or more of T1C plus the ALLL or the ACL related to loans and leases.
- Obligations of one, or a closely related group of, municipalities of 100 percent or more of T1C.[15]
- Non-agency securities (including private label mortgage backed securities, asset backed securities, and structured products) concentrations of 100 percent or more of T1C.
- Bank-owned Life Insurance (BOLI) concentrations of 25 percent or more of T1C.
- Single funding types representing 10 percent or more of TA.
- Uninsured deposit concentrations representing 50 percent or more of total deposits.

Written Analysis Instructions

Written analysis for concentrations should be risk-focused and provide a forward-looking assessment of risk that is centered on consideration of the institution's risk management practices. As a risk-focused analysis:

- When concentration risk is appropriately evaluated and controlled by institution management, the examiner's written analysis will usually be more concise than when concentration risk management is weak or deficient.
- Examiners have the option to combine concentrations with similar risk characteristics into one written analysis. For example, if the institution has ADC loans exceeding 100 percent of T1C plus the ALLL or the ACL related to loans and leases, that include an exposure to a single developer of more than 25 percent of the same denominator, then both concentrations may be combined into one analysis. Similarly, agricultural real estate loans and agricultural production loans are generally viewed as separate product lines. However, examiners have the discretion to aggregate the types, if the related risk is supported in the analysis.

The written analysis must address material factors within each of the following areas, although the examiner has discretion on formatting and does not need to expressly list or bullet each of the areas. In situations in which examiners address the areas on other ROE pages, such as the RMA page or ECC page, discussion on the Concentration page should be limited to minimize repetition.

Identification – Describe the concentration and the percentage of capital or assets it represents; deposit concentrations should be described as both a percentage of assets and deposits. Examiners should consider, and

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[14] Per 12 U.S.C. 1813(m)(3), the term "uninsured deposit" means the amount of any deposit of any depositor at any insured depository institution in excess of the amount of the insured deposits of such depositor (if any) at such depository institution.

[15] Examiner judgment is needed to assess when municipalities are related. For example, if a bank invests over 100 percent of T1C in municipals located in one county, an examiner could find that there is an economic co-dependence on local employers and other microeconomic factors that could collectively impact the local municipalities' repayment capacity in some counties but not in others. Secondly, an examiner could find that a class of municipal securities, like non-rated bonds, "dirt" bonds, or revenue obligations, might be appropriate for inclusion as a concentration above 100 percent of T1C.

address in written analysis if warranted, the impact of unfunded loan commitments in the assessment of concentration management. Also, describe the methodology used by the institution to identify and monitor exposure to this specific concentration.

Economic, Market, and Competitive Factors - Discuss management's consideration of relevant economic, market, and competitive conditions that affect the concentration's risk profile.

Risk Stratification and Vulnerability Assessment - Discuss the current risk profile and trends, including (when appropriate) product type, collateral type, geographic location, internal risk ratings, source of funding, and other factors deemed relevant.

Also, include management's assessment of the concentration's vulnerability to an economic downturn, sharp interest rate movements, or other scenarios as applicable. For asset concentrations, detail management's estimate of potential deterioration in credit quality. For funding concentrations, include management's assessment of the funding type's stability.
Comments must also specifically address any interrelationship between concentrated asset and funding exposures, including whether concentrations in funding types are being used to support significant growth in concentrated assets or whether an economic downturn or other scenario is negatively affecting, or could negatively affect, both asset and funding concentrations concurrently.

Risk Management and Control Processes - Discuss the risk management practices and control processes regarding the concentration including current levels, proposed levels, and adverse scenario sensitivity analyses (if applicable). Risk-focused analysis and comments should also address the following considerations, although examiners have flexibility in presentation and do not need to list all risk management and control processes:

- The reasonableness of the board's and management's risk tolerance in relation to the inherent risk of the concentration, capital protection, and risk management practices.
- Management's consideration of current and projected economic and competitive factors when establishing concentration policies, practices and monitoring processes covering items such as concentration limits, underwriting standards, and pricing terms. When applicable, this should also include scenario analyses and contingency funding plans.
- The presence of risk-mitigating enhancements, such as government guarantees or crop insurance backed by government agencies for loans or asset pledging, private insurance arrangements, or callable features for liabilities.
- Strategic actions to address changing risk profiles of the concentration, including capital adequacy determinations, staffing and managerial needs, and pricing actions.
- Adequacy of the incorporation of analytical information (such as scenario analysis results, if conducted) into policy limits, staffing and managerial resources, capital support, funding requirements, etc.
- Sufficiency of reports used by management and the board regarding concentration exposure levels and risk estimates.

Assessment Summary – Summarize the overall risk posed by the concentration; assess the overall governance, risk management, and controls over the concentration; and address any risk management issues. Also address the volume of adversely classified assets within a concentration, if the volume is material. If management plans to change the administration or size of the concentration, briefly address the change. If a concentration is well-managed and monitored, examiners should comment to that effect.

Treatment of Select Concentration Types

Specialty Business Models - If an institution has a specialty business model concentrated in one general class of credit (such as credit cards or equipment leases), it may be appropriate to simply identify the entire loan class as a concentration and focus assessments on the adequacy of related underwriting, credit administration, monitoring, and other risk management practices.

U.S. Government Securities - Securities issued by the U.S. Treasury, U.S. Government agencies and corporations, and other obligations either backed by the full faith and credit of or fully guaranteed by the U.S. Government (hereafter referred to as "U.S. Government securities") are considered risk-free from a credit risk standpoint. Therefore, these securities and other assets collateralized by them should generally not be scheduled as concentrations, provided the existence of the collateral has been verified.

However, examiners may exercise judgment in scheduling concentrations of U.S. Government securities if the instruments could potentially impact an institution's financial condition, particularly through market risk exposure. For example, an examiner may list a concentration in U.S. Government securities (such as zero coupon bonds) that present outsized market risk and potential depreciation in a changing interest rate environment. Finally, concentrations for other U.S. Government-related securities that are not in the zero percent risk-weighted category for regulatory capital purposes may be scheduled at examiner discretion.

Real Estate Lending Concentrations - Analysis of concentrations in CRE lending is warranted, as evidenced by the significant credit losses experienced in the past when such concentrations were coupled with weak loan underwriting and depressed CRE markets.[16] Accordingly, examiners should schedule non-owner occupied CRE concentrations on the page. The risk profile of owner occupied CRE loans may be somewhat less influenced by the condition of the general CRE market because repayment is dependent on the operations of the business housed by the property. Examiners retain the discretion to schedule owner-occupied portfolios where the portfolio contains common risk elements. The analysis expected is similar to that for other concentration types, and the extent of the written analysis, when necessary, will depend on risk identified in the concentration and in how the institution manages the risk.

Prudently underwritten residential loan portfolios generally would not be required to be scheduled as they do not usually have a common risk characteristic. However, when the residential loan portfolio, or one or more segments thereof, share common risk characteristics and meet or exceed the thresholds, then listing and preparing a written analysis (as appropriate) of the portfolio, or the applicable segment(s) thereof, would be appropriate. Examples could include, but are not limited to, subprime loans, high loan-to-value loans, or nontraditional mortgage loans.

At the discretion of the EIC, Other Real Estate (ORE) may be listed as a concentration if such assets are concentrated in a certain industry, product line or collateral type (e.g., ORE concentrated in ADC properties).

Out-of-Territory Lending Concentrations - When properly managed and monitored, out-of-territory lending can diversify an institution's loan portfolio, but in other instances, if out-of-territory credits are concentrated in a particular loan type or geographic area, these exposures could pose increased risk. When examiners identify out-of-territory concentrations, they should determine concentration levels (for example, by loan type or geographic location) and evaluate common risk factors, such as exposure to depressed local economies or elevated credit administration requirements.

Purchased Loans and Participation Loans - Similar to, and often associated with, out-of-territory loans, a significant volume of purchased or participated loans may result in concentration risks. If the loans are centered in a particular loan type or geographic location, purchased through the same loan broker, or originated from the same financial institution, examiners should list and evaluate the loans as concentrations.

Correspondent Bank Concentrations - A financial institution's relationship with a correspondent may result in credit or funding concentrations. A credit concentration exists when an institution advances or commits a significant volume of funds to a correspondent. A funding concentration exists when an institution depends on one or a few correspondents for a disproportionate share of its total funding. List credit concentrations that exceed 25 percent of T1C plus the ALLL or the ACL related to loans and leases. Also provide a written analysis if the credit concentration exceeds 100 percent of T1C plus the ALLL or the ACL related to loans and leases. Funding concentrations that exceed 10 percent of TA should be listed with a written analysis included. While correspondent concentrations often meet legitimate business needs, the concentrations represent diversification risks that management should consider when formulating strategic plans and internal risk limits. Refer to Federal Reserve Board Regulation F, Part 206-Limitations on Interbank Liabilities and the Correspondent Concentration Risks

[16] See FDIC, History of the 80's, Lessons for the Future, https://www.fdic.gov/bank/historical/history/ and FDIC, Crisis and Response, an FDIC History, 2008-2013.

Interagency Guidance for additional details.

Mutual Funds - Despite their inherent diversification, list an investment in a single mutual fund, the book value of which represents 25 percent or more of T1C (including those investing exclusively in U.S. Government securities).

Non-Agency Securitization Exposures in Structured Credit Products - Non-agency structured credit products, such as private label mortgage backed securities, asset backed securities, collateralized debt obligations, and collateralized loan obligations, can contain complex structures and characteristics that make their performance more volatile and susceptible to losses in adverse market or economic environments. Examiners should include these investments as concentrations when the aggregate book or fair value (whichever is greater) of an investment type represents 25 percent or more of T1C or when the aggregate book or fair value (whichever is greater) of all such investment types exceeds 100 percent of T1C.

Extensions of Credit to a Foreign Government – Examiners are expected to aggregate extensions of credit to a foreign government, its agencies, and majority-owned or controlled entities as a class of borrower. If the extensions of credit equal or exceed the 25 percent of T1C guideline, schedule them as a concentration. Loans to private sector enterprises may also be included with public sector borrowings if an interrelationship exists in the form of government guarantees, moral commitments, significant subsidies, or other pertinent factors pointing toward reliance on public sector support. Include amounts where sizable extensions of credit to related private entities equal or exceed the 25 percent of T1C guidelines.

The aforementioned procedures are intended to facilitate reporting of concentrations involving borrowers evidencing commonality of commercial credit risk. Follow outstanding instructions when handling transfer risk or country risk, where all public and private sector credits within a country are aggregated and related to the institution's capital structure. The International Banking section of the Manual and the instructions for the International section of the Bank of Anytown contain additional instructions regarding concentrations in the area of credit to foreign governments and their entities.

Funding Concentrations – Examiners are to include individual funding type concentrations that equal or exceed 10 percent of total assets when they have common risk characteristics. Additionally, uninsured deposit concentrations of 50 percent or more of total deposits should always be included.

Examiners should consider management’s internal analyses, if comprehensive and reasonable in relation to materiality, when identifying funding concentrations. An institution’s liquidity MIS and reporting typically provide information regarding deposit categories, wholesale funding, non-relationship or higher-cost funding strategies and programs, and the stability of deposit customers, among other items. Examiners are also to take into account the purpose for raising the funds and how they are deployed when assessing funding concentrations.

Wholesale funding concentrations are relatively straightforward to identify from Call Reports or institution-provided reports. These may include, but are not limited to, Federal Home Loan Bank borrowings, other borrowings, public funds, deposits raised through listing services, or brokered deposits.

Funding concentrations arising from a targeted deposit gathering strategy or program may be more difficult to identify and are dependent on whether the deposits share common risk characteristics. For example, deposits drawn to the institution solely because it pays significantly higher than market rates may be less stable than deposits with other relationships with the bank.

Similarly, for institutions with a sizeable volume of uninsured deposits, examiners need to consider whether such deposits, or a portion thereof share similar run-risk attributes. Management information and analysis may show these deposits have characteristics that contribute to stability, such as those from local customers with a long-term relationship, those with compensating accounts, or those that are not gathered through a targeted program. However, these characteristics may not prevent uninsured depositors from suddenly withdrawing funds to shield themselves from significant losses in the event an institution exhibits financial difficulties or receives negative publicity. When assessing uninsured deposit stability, examiners should consider the bank’s business model, risk profile, and complexity; the potential impact to the balance sheet; and, management’s ability to identify, measure, monitor, and control the risks of the concentration, including during times of stress. In addition, circumstances may warrant separately identifying the insured deposits of certain depositors with significant uninsured deposits if entire deposit relationships are subject to instability. Uninsured deposit concentrations that do not meet or exceed the 50 percent total deposit threshold may warrant listing and written analysis if the deposits share common risk characteristics or have heightened sensitivity to similar economic, financial, or other risk factors.

Examiners should always include large depositors (depositors who own or control 2 percent or more of total deposits) to the extent that these deposits total 10 percent or more of total assets. Inclusion of these large depositors is premised on run risk as a common characteristic, given the size of the deposits. However, to the extent that management has demonstrated stability or other mitigating factors regarding a concentration of large depositors, this should be noted in the write-up. It is also important to note that, more generally, during times of stress, stability characteristics could be tested when depositors stand to lose their uninsured funds. Therefore, if a bank's financial condition is deteriorating or stress is probable, examiners should assess stability closely and reflect the uninsured levels of these large depositors on the page as warranted.

CAPITAL CALCULATIONS

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Purpose

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

General

Examiners should prepare this schedule according to Part 324 of the FDIC Rules and Regulations. The date of the financial information should be the same as the Examination as of Date.

CBLR – Beginning with the March 31, 2020 Call Report, certain qualifying institutions may elect to use the CBLR framework. Such institutions will not calculate Tier 2 Capital, Total Capital, or risk weighted assets, and therefore those sections of this schedule will not be completed. For further information, refer to FIL-66-2019 *Community Bank Leverage Ratio Framework* and Part 324.

Current Expected Credit Losses (CECL) Methodology – Institutions may begin adopting CECL with the March 31, 2020 Call Report. In general, for those institutions that have adopted CECL, references to the allowance for loan and lease losses (ALLL) below should be considered references to the allowance for credit losses (ACL).

Computation of Common Equity Tier 1 Capital

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

Individual line items are provided for Common Equity Tier 1 Capital elements, followed by Adjustments and Deductions to Common Equity Tier 1 Capital. Refer to Schedule RC-R of the Call Report Instructions for line item explanations.

In addition to those items, make adjustments for any of the following items identified during the examination process:

Assets Other Than Held-for-Investment Loans & Leases Classified Loss - This item includes assets classified Loss other than held-for-investment loans and leases, such as loans held for sale (or trading), securities, other real estate, and other assets classified Loss.

Automated examination tools may not distinguish between loans held for investment and loans held for sale and may automatically deduct all loans classified Loss from the Allowance for Loan and Lease Losses calculation in Tier 2 Capital. In such instances, examiners should make adjustments to remove the amount of loans held for sale (or trading) classified Loss from the *Less: Held-for-Investment Loans and Leases Classified Loss* line item and make adjustments to include such amount in the *Less: Assets Other than Held-for-Investment Loans and Leases Classified Loss* line item.

Additional Provision to be Transferred to Tier 2 Capital- Refer below for explanation.

Other Adjustments to and Deductions from Common Equity Tier 1 Capital - This item may include:

- Contingent Liabilities Losses - Category I contingent liabilities classified Loss and Category II contingent liabilities Estimated Loss. Refer to the RMS Manual of Examination Policies (Manual) Sections 2.1 - Capital and 3.8 - Off-Balance Sheet Activities for an explanation of Category I and II contingency liabilities, Loss classification, and Estimated Loss. Do not include in this line item Potential Loss, which should be included in the Memorandum section as discussed below. *Note:* To the extent allowances for credit losses on off-balance sheet credit exposures are included in the Allowance for Loan and Lease Losses line item for Tier 2 calculation purposes and are available to cover the Category I contingent liabilities classified Loss, do not include the Category I Loss classifications in the Contingent Liabilities Losses to be deducted from Common Equity Tier 1 Capital; instead include the Loss in the item for Less: Held-for-Investment Loans and Leases Classified Loss.

- Differences in Accounts Which Represent Shortages - Shortages in assets (to the extent not already included in *Assets Other Than Held-for-Investment Loans and Leases Classified Loss* above), overages in liability accounts, or liabilities not shown on the institution's books. Refer to Section 2.1 - Capital for an explanation of Liabilities Not Shown on Books.
- Losses From Apparent Criminal Violations - Material losses attributed to a criminal violation that cannot be addressed by a specific asset classification should be deducted from Common Equity Tier 1 Capital. When the exact amount of the loss has not been determined, the examiner may recommend that the institution engage an outside accountant or legal counsel to conduct an appropriate audit or investigation.

Include the above items only when significant, and add appropriate footnotes. Refer to Deductions for Loss Classifications and Insufficient ALLL (or ACL, as applicable) section below for discussion on what is significant.

Computation of Additional Tier 1 Capital

Individual line items are provided for the Additional Tier 1 Capital elements. Refer to Schedule RC-R of the Call Report Instructions for line item explanations.

Computation of Tier 2 Capital

Individual line items are provided for Tier 2 Capital elements. Refer to Schedule RC-R of the Call Report Instructions for line item explanations.

Allowance for Loan and Lease Losses (ALLL)

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

Loans held for sale (or trading) classified Loss should not be included in the amount *Less: Held-for-Investment Loans and Leases Classified Loss*, such losses should instead be included in *Less: Assets Other than Held-for-Investment Loans and Leases Classified Loss* in the Common Equity Tier 1 Capital calculation. Manual adjustments to automated examination tools may be necessary, as discussed above. Also refer to the discussion on Contingent Liabilities Losses in the Common Equity Tier 1 Capital section above.

Eligible ALLL - The eligible amount of the ALLL to be included in Tier 2 Capital is limited to 1.25 percent of Risk-Weighted Assets base for purposes of calculating the ALLL (RWA base), as defined in Call Report Instructions. The RWA base should be adjusted to reflect examination findings as outlined in the RWA section below. When the eligible amount is less than the amount shown on the line item *Adjusted Allowance for Loan and Lease Losses,* the ineligible ALLL is shown on the line item *Less: Excess Allowance for Loan and Lease Losses (If Applicable).*

Capital Calculations for Institutions that have adopted CECL

For institutions that have adopted CECL, the ALLL is replaced with the adjusted allowance for credit losses (AACL) for purposes of regulatory capital calculations. AACL equals allowance for credit losses (ACL) under U.S. GAAP adjusted to exclude credit allowances for purchased credit deteriorated assets and AFS debt securities.

Institutions can elect the CECL transition provision to transition the day-one impact of adopting CECL in regulatory capital, which permits transition adjustments to retained earnings, average total consolidated assets, temporary differences in deferred tax assets, and the ACL. Additionally, institutions that were required to adopt CECL during the 2020 calendar year can elect the CECL revised transition to delay for two years an estimate of CECL's effect on regulatory capital followed by the three-year transition provision.

The eligible amount of the AACL to be included in Tier 2 Capital is limited to 1.25 percent of the Risk-Weighted Assets base. The RWA base should be adjusted to reflect examination findings as outlined in the RWA section below. When the eligible amount is less than the amount shown on the line item *Examination Adjusted AACL,* the ineligible AACL is shown on the line item *Less: Excess Adjusted Allowance for Credit Losses (If Applicable).*

Deductions for Loss Classifications and Insufficient ALLL (or ACL, as applicable)

Part 324 states that on a case-by-case basis and in conjunction with supervisory examinations of an FDIC-supervised institution, other deductions from capital may also be required. These should include any adjustments deemed appropriate for identified losses, including assets other than held-for-investment loans and leases classified Loss and provisions for an insufficient ALLL.

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

Method

- The amount of Loss for items other than held-for-investment loans and leases is deducted from the calculation of Common Equity Tier 1 Capital.
- Loss for held-for-investment loans and leases are deducted from the ALLL in the calculation of Tier 2 Capital and, if significant, examiners should deduct from Common Equity Tier 1 Capital the provision expenses necessary to replenish the ALLL to an appropriate level (as discussed in the ALLL paragraph above).

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

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

Other-than-Temporary Impairment (OTTI): If an institution made the Accumulated Other Comprehensive Income (AOCI) opt-out election for regulatory capital purposes and it has debt securities (not held for trading) classified Loss because of OTTI, the portion of the amount classified Loss related to all factors other than credit losses that will be included in AOCI (if any) should be reversed using line item *Other Adjustments to and Deductions from Common Equity Tier 1 Capital.* For examination as of dates prior to January 1, 2018, if an institution did not make the AOCI opt-out election and has debt securities (not held for trading) classified Loss because of OTTI, a percentage of the portion of the amount classified Loss related to all factors other than credit losses that will be included in AOCI (if any) should be reversed using the same line item so that the deduction from Common Equity Tier 1 Capital reflects the AOCI adjustment transition schedule outlined in Part 324.

AFS Securities Classified Loss for institutions that have adopted CECL: For institutions that have adopted CECL and made the AOCI opt-out election for regulatory capital purposes and have AFS securities (not held for trading) classified Loss because of impairment, the portion of impairment that has not been charged to earnings, if any, should be reversed using line item Other Adjustments to and Deductions from Common Equity Tier 1 Capital. Examiners should contact the Regional Office accounting and capital markets specialists for more information.

Capital Treatment of Other Real Estate (ORE) Allowances

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

Risk-Weighted Assets

Risk-Weighted Assets are as of the latest Call Report date. Refer to Schedule RC-R of the Call Report Instructions for information regarding the Risk-Weighted Assets calculation. Adjustments for any Risk-Weighted Assets classified Loss should be reflected in line item *Less: Risk-Weighted Asset Amounts Deducted from Capital*. This line item should also include adjustments for items identified during the examination process in the *Other Adjustments to and Deductions from Common Equity Tier 1 Capital* line item, but only to the extent the items were risk weighted. For example, a Category I contingent liability classified Loss should be deducted if the contingent liability is included in the calculation of risk-weighted assets; however, other losses that are not associated with an asset or off-balance sheet item that is included in the calculation of risk-weighted assets should not be deducted from Risk-Weighted Assets.

The amount deducted from Risk-Weighted Assets should represent the risk-weighted portion of the asset. Automated examination tools may deduct the classified Loss amount instead of the risk-weighted portion; examiners should adjust the automated examination tool deduction from risk-weighted assets if the difference is significant (refer to the inadequate ALLL section above for discussion on significance).

Average Total Assets

Average Total Assets are as of the latest Call Report date. Refer to Schedules RC-K and RC-R of the Call Report Instructions for detailed information on this figure. Use the amounts deducted from Common Equity Tier 1 Capital above to adjust *Average Total Assets* to calculate *Average Total Assets for the Leverage Ratio. Note:* Do not deduct *Other Adjustments to and Deductions from Common Equity Tier 1 Capital* that are not associated with an asset. For example, do not deduct contingent liabilities losses from *Average Total Assets*.

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

Memoranda Items

Capital Conservation Buffer (beginning first quarter of 2016) - The capital buffer necessary to avoid limitations on distributions and discretionary bonus payments.

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

Contingent Liabilities - The first item, Contingent Liabilities, refers to Category I contingent liabilities. The second item, Potential Loss, refers only to Category II contingent liabilities. Refer to the *Contingent Liabilities* entry in Manual Section 2.1 – Capital for a discussion of potential and estimated losses.

Advanced Approaches Institutions

For an advanced approaches institution that exited parallel run, consult with the Regional Capital Markets Specialist to make any necessary adjustments to Tier 2 Capital, Total Capital, and Risk-Weighted Assets. It may be necessary to overwrite existing Allowance for Loan and Lease Losses line items in Tier 2 on the Capital Calculations page to reflect eligible credit reserves.

Reminder: Examiners adjusting the Call Report schedule within automated examination tools (such as the Examination Tool Suite) to reflect correction of Call Report filing errors identified during the examination, should also determine whether other capital components are impacted and require adjustments. Adjustments to Tier 2 Capital may impact Additional Tier 1 Capital deductions. Likewise, adjustments to certain Common Equity Tier 1 Capital, Additional Tier 1 Capital, or Tier 2 Capital elements may impact Common Equity Tier 1 Capital deductions. Examiners should ensure that any adjustments are in accordance with Call Report Instructions for schedule RC-R.

References:

- Part 324 of the FDIC Rules and Regulations
- Manual Section 2.1 - Capital
- Call Report Instructions

ANALYSIS OF EARNINGS

←

Purpose

This page details changes in income, expense, and equity accounts; activity in the ALLL;[13] and trends in key ratios.

For institutions that have adopted CECL, examiners should ensure that this page reflects the ACL instead of the ALLL.

Selection of Financial Periods

Examiners should use dates consistently in the Comparative Statement of Income, Reconcilement of Allowance for Loan and Lease Losses, and Other Component Ratios and Trends sections. Three data columns are available, allowing for two calendar years and one interim period (or three calendar years for examinations commencing shortly after the end of a calendar year). The interim period should correspond with the Examination as of Date.

Comparative Statement of Income

This schedule reflects data that conforms to Call Report Instructions and generally ties to the supplemental ROE page titled *Comparative Statements of Income and Changes in Equity Capital Accounts*, the Call Report schedule *RI - Income Statement*, and the UBPR *Income Statement* (except that UBPR data is completed on a tax-equivalent basis). Data fields populate automatically; however, examiners should modify the information if necessary (for example, if Call Report changes are required or if information other than quarter end is used). Footnote all changes.

- ***Provision for Loan and Lease Losses*** - Only applicable to institutions that have not adopted CECL.
- ***Provision for Credit Losses*** - Only applicable to institutions that have adopted CECL. This item reflects provisions for credit losses on all financial assets that fall within the scope of CECL.
- ***Securities Gains (Losses)*** - This item includes gains (losses) from the sale of HTM and AFS debt securities and unrealized holding gains (losses) on equities securities with readily determinable fair values not held for trading.
- ***Applicable Income Taxes*** - Worksheets for calculating Applicable Income Taxes are included in quarterly Call Report updates. The worksheets can be beneficial in verifying the accuracy of income tax accruals.
- ***Discontinued Operations, Net of Applicable Income Taxes*** – Corresponds to line item 11, Schedule RI. If the amount reported in this item is a net loss, report it with a minus (-) sign.
- ***Net Income (Loss) Attributable to Noncontrolling (Minority) Interests*** **–** Corresponds to line item 13, Schedule RI. A noncontrolling interest, also called a minority interest, is the portion of equity in a bank's subsidiary not attributable, directly or indirectly, to the parent bank. If the amount reported in this item is a net loss, report it with a minus (-) sign.
- ***Other Increases/Decreases*** - This title does not match a specific Call Report line item but includes all categories in the Changes in Equity Capital section (Schedule RI-A) that are not included in other line items.

Reconcilement of Allowance for Loan and Lease Losses (ALLL), or the Allowance for Credit Losses (ACL), as applicable.

Negative Provisions to the ALLL (or ACL on loans and leases, as applicable) - Negative provisions may be appropriate if clearly supported and applicable accounting guidelines are followed.

- ***Other Increases (Decreases)*** - Refer to Call Report Instructions for details.
- For banks that have adopted CECL, reconcilement reflects Call Report Schedule RI-B, Part II, Column A.

[13] Allowance for Credit Losses on loans and leases held for investment for institutions that have adopted CECL.

Other Component Ratios and Trends

- ***Noncurrent Loans and Leases to ALLL Ratio*** - Noncurrent loans and leases and past-due loans and leases are defined differently. Refer to the UBPR User's Guide and Call Report Instructions for these definitions.
- Examiners should include additional ratios when they are informative and support ECC page comments.
- For institutions that have adopted CECL, references to ALLL should be changed to ACL, reflecting the ACL on loans and leases held for investment.

COMPARATIVE STATEMENTS OF INCOME AND CHANGES IN EQUITY CAPITAL ACCOUNTS

←

Purpose

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

General

- Complete this schedule according to Call Report Instructions.
- Dates used should be consistent with the Analysis of Earnings page.
- Securities gains (losses) includes Gains (losses) from the sale of HTM and AFS debt securities, and Unrealized holding gains (losses) on equity securities with readily determinable fair values not held for trading.

Footnotes

Only footnotes, not comments, should appear here.

RELATIONSHIPS WITH AFFILIATES AND HOLDING COMPANIES

←

Purpose

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

General

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

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

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

Holding Company Ratios and Trends

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

The type and availability of BHCPRs depend upon the size of a holding company's consolidated assets. A BHCPR is produced quarterly for three groups of top-tier bank holding companies (collectively, "holding companies"): holding companies with consolidated assets of $1 billion or more, holding companies that are required to file the FR Y-9C and FR Y-9LP to meet supervisory needs, and holding companies that are not subject to the FRB's risk-based capital guideline but elect to voluntarily comply with the guidelines and file the FR Y-9C and FR Y-9LP report forms.

Extensions of Credit to Affiliated Organizations Schedule

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

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

Indirect extensions of credit include borrowings guaranteed by an affiliate.

Comments

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

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

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

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

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

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

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

References:

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

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

←

Purpose

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

When to Include

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

General

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

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

Definition of Terms

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

List of Insider Credits

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

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

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

Duplications With Extensions of Credit to Affiliates

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

References:

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

COMPOSITE RATING DEFINITIONS

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Purpose

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

General

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

References:

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

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

If the automated examination tool is used to generate the ROE, the rating definitions should appear upon entering the composite ratings on the ECC page.

SIGNATURES OF DIRECTORS/TRUSTEES

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Purpose

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

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

General

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

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

OFFICER'S QUESTIONNAIRE

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Purpose

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

General

- The Questionnaire is an official document prepared by the institution. Examiners must not alter the specific questions or answers in any way.
- Generally, the chief executive officer (CEO) should sign the Questionnaire. However, an executive officer, as defined by Regulation O, may sign if designated to do so by the CEO and material concerns are not anticipated.
- The EIC has flexibility in determining the as-of date of the Questionnaire. The Questionnaire may be completed as of the Examination as of Date or the Examination Start Date. However, the Questionnaire should never be completed as of a date subsequent to the date the institution received the questionnaire.
- The Questionnaire should be completed on a consolidated-bank basis.
- In general, bank management should be instructed to base their responses on transactions or events that have occurred since the date of the previous FDIC examination. Where a specific timeframe is not specified in the question, examiners have the discretion to request only information since the previous state examination if the state ROE is acceptable. Exception: responses to questions 10, 11, and 12 are not to be limited to any time period.
- Examiners may review these instructions with management to help them understand and complete the Questionnaire.
- Answers can be listed on continuation pages if adequate space is not provided following a question. Copies of the institution’s records are acceptable if the documents furnish all the requested information and contain original signatures. If responses are voluminous, they may be provided separately from the Officer's Questionnaire. The Questionnaire should state when separate information was given to the EIC, and the information should identify the questions to which it pertains.
- Financial institutions can submit Questionnaire responses in a printed form (such as hardcopy attachments), in a secure electronic format (such as through FDICconnect), or in a combination or of paper and electronic documents. Upon receipt of Questionnaire responses, examiners should scan any printed forms into an electronic portable document format (pdf) file and convert any electronically received documents into a pdf file, to the extent not already in pdf format. Examiners should then import the pdf files of the documents into the Officer’s Questionnaire folder in the Regional Automated Document Distribution and Imaging System (RADD).
- If an EIC believes an officer gave an answer in error due to oversight or misunderstanding, the signing officer may be permitted to correct the answer. The signing officer should initial all corrections.
- The Questionnaire may be submitted with the Report of Examination when appropriate. For example, the
- Questionnaire should be included if the examiner suspects that an officer knowingly provided incorrect information in the document.
- The Questionnaire should be retained for a minimum of ten years from the examination start date.
- The Questionnaire should be retained indefinitely when irregularities are discovered or suspected during the ten-year retention period.
- If management is given an electronic copy of the Questionnaire, examiners must carefully compare the returned questionnaire to ensure the wording in each question is identical to the wording in original documents.

Question 1

List all extensions of credit and their corresponding balances, which, since the last FDIC examination, have been renewed or extended under any of the following circumstances:

a) without full collection of interest due
b) with acceptance of separate notes for the payment of interest
c) with capitalization of interest to the balance of the note

For all listed loans, state which situation applies. Consumer credit/installment loans may be aggregated by number and total dollar volume.

The purpose of the question is to:

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

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

Question 2

List all extensions of credit secured by stock of other financial institutions, or financial institution holding companies, or their affiliates where the total of all shares held as collateral represents five percent or more of the entity's outstanding shares. Provide the following information for each listing:

- Name and location of entity
- Name of stockholder and borrower
- Number of shares held as collateral
- Percentage of ownership
- Certificate number(s)
- Original amount
- Current balance
- Origination date
- Maturity date
- Interest rate
- Purpose

The purpose of the question is to:

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

References:

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

Question 3

List all extensions of credit made for the accommodation or direct benefit of anyone other than those whose names appear either on the note or on other related credit instruments. If any executive officer, principal shareholder, director, or their related interest (per Federal Reserve Board Regulation O definitions) is or was involved.

The purpose of the question is to:

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

References:

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

Question 4

List all extensions of credit made by the bank (or its subsidiaries) to the officers, directors, (or their related interests) of other financial institutions or their affiliates. Provide the following information for each listing:

- Name and title of director, officer, or related interest
- Name and location of the entity
- Original amount
- Original date
- Current balance
- Maturity date
- Interest rate
- Security
- Purpose

The purpose of the question is to:

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

Reference: Section 106(b)(2) of the Bank Holding Company Act

Question 5

List all transactions between the institution and any of its executive officers, principal shareholders, directors, or their related interests, except for:

- Loans
- Deposits
- Bonuses
- Salaries
- Director fees

Include the insider's name, as well as the date and nature of the transaction.

The purpose of the question is to:

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

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

References:

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

Question 6

List any oral or written agreements with correspondent depository institutions that establish balances to be maintained, or other similar consideration, in connection with loans to either institution's directors, officers, employees, or principal shareholders.

The purpose of the question is to:

- Assist in reviewing potential conflicts of interest.
- Assist in determining if such transactions have an adverse effect on the institution.
- Assist in reviewing potential misapplication of funds.
- Assist in determining tying arrangements per Section 106 of the Bank Holding Company Act of 1956.
- Assist in assessing practices related to establishing or maintaining relationships via oral agreements, if any.

Reference: Manual Section 4.3, Related Organizations

Question 7

List all extensions of credit to accountants, lawyers, consultants, appraisers, or other similar individuals (including their related interests) who have provided professional services to the institution since the last FDIC examination. Exclude loans to directors, officers, or employees who perform these services, if such loans have been disclosed to examiners in other documents. Provide the following information for each listing:

- Name of borrower
- Borrower's relationship with the institution
- Current Balance

The purpose of the question is to:

- Assist in reviewing potential conflicts of interest.

Question 8

List all arrangements where the institution is obligated to make payments to a former institution-affiliated person (per Section 3 of the FDI Act) who has left the institution's employment, or has otherwise terminated his/her affiliation with the institution. Provide the following information for each listing:

- Name of person receiving payments
- Total amount of payments
- Basis for payment
- Explanation of the type of agreement (such as severance pay or deferred compensation)

If more than one person is covered by a single agreement, list the plan only once and summarize the plan's coverage.

The purpose of the question is to:

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

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

References:

- Section 18(k) of the FDI Act
- Part 324 of the FDIC Rules and Regulations (Prompt Corrective Action)
- FIL-66-2010 Guidance on Golden Parachute Applications
- Part 364 of the FDIC Rules and Regulations
- Manual Section 4.1, Management

Question 9

List any written or oral contract or agreement (not included in responses to questions five and eight above) that obligates the institution to pay more than ten percent of its current equity capital over the life of the contract or agreement. Provide the following information for each listing:

- Name of the counter party or payee
- Date of the contract or agreement
- A brief description of the purpose, terms and conditions

The purpose of the question is to:

- Assist in identifying undesirable lengths of contracts and potential excessive liabilities.
- Assist in determining any impairment of capital.
- Review for adverse termination clauses.
- Determine impact on the institution's future profitability.
- Assist in assessing practices related to establishing or maintaining relationships via oral agreements, if any.

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

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

Reference: Section 30 of the FDI Act

Question 10

List any director who has been ineligible or disqualified from serving as a director at any time. Also, furnish the reason for his/her ineligibility or disqualification.

The purpose of the question is to:

- Determine compliance with applicable state laws and regulations.
- Verify the directors' continued eligibility to serve on the bank's board. For example, many states require a director to own and maintain qualifying shares of stock in the institution. In addition, some state laws prohibit individuals from serving as a director, if their loan(s) have been adversely classified. State laws generally govern the meaning of disqualification for the response to this question. However, any current director that was ever deemed ineligible from serving as a director at an insured depository institution due to statutory or regulatory guidelines (state or federal), or internal (bank) restrictions, should be identified. Cross-check responses here with responses in question No. 12 for possible tie-ins.

Question 11

List all instances where a director, officer, or employee has committed a crime involving the institution's funds or property, including any funds or property for which the institution is responsible. Provide the following information for each listing:

- Name(s) of all individuals involved
- Date and nature of irregularities
- Extent of restitution made, if any
- Whether the proper law enforcement authorities and the fidelity bond carrier were promptly notified

If either law enforcement officials or the bond carrier was not notified, explain the situation in a separate memorandum to the examiner-in-charge.

The purpose of the question is to:

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

References:

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

Question 12

List any director, officer, or employee who has been convicted of, or who is presently under indictment or similar action for, or has agreed to enter into a pretrial diversion or similar program in connection with the prosecution for any criminal offense involving dishonesty, breach of trust, or money laundering. Briefly describe the situation.

The purpose of the question is to:

- Determine compliance with applicable laws and regulations.
- Assess conformance with corporate codes of conduct and bank ethics policies
- Assess UFIRS Management component

References:

- Sections 8(e), 8(g), and 19 of the FDI Act
- FIL 105-2005, Corporate Codes of Conduct, Guidance On Implementing An Effective Ethics Program
- Manual Section 4.1- Management

Question 13

List all assets of value the institution owns but does not show on its books.

The purpose of the question is to:

- Assist in ensuring proper internal control and accounting over such items.
- Assist in determining the institution's capital position.

This question may encompass a variety of answers. Typical answers include charged-off assets of undetermined value.

Reference:

- Manual Section 2.1, Capital
- Manual Section 3.7, Other Assets and Liabilities
- Manual Section 4.1, Management
- Manual Section 4.2, Internal Routine and Controls

Question 14

If the institution is a defendant in any lawsuit, provide the following summary information:

- Names of the plaintiffs
- Amount sued for
- Nature of, or basis for, litigation
- Expected result, including any probable loss

If necessary, provide full details to examiners, in a separate memorandum.

The purpose of the question is to:

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

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

References: Manual Section 2.1, Capital - Contingent Liabilities

Question 15

List all organizations that are directly or indirectly affiliated with, or otherwise related to, the institution in any way, including fiduciary relationships. Related organizations may be corporations, partnerships, business trusts, or any similar organization. Provide the following information for each listing:

- Name of affiliate or related entity
- Location
- Type of business
- Current balance of all direct and indirect extensions of credit to the affiliate (per Section 23A of the
- Federal Reserve Act)
- Current balance of all loans to third parties, where the loans are collateralized with securities issued by the affiliate

The purpose of the question is to:

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

References:

- Section 303.7 of the FDIC Rules and Regulations
- Section 23A of the Federal Reserve Act
- Manual Section 4.3, Related Organizations
- Manual Section 12.1, Applications
- Trust Examination Manual, Section 10, Other Trust Matters

ABBREVIATIONS

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

et al	And Others
a/k/a	Also Known As
ABS	Asset-Backed Securities
ACH	Automated Clearing House
ACI	Adversely Classified Items
ACL	Allowance for Credit Losses
ADC	Acquisition, Development, and Construction
AFS	Available-for-Sale
AGI	Adjusted Gross Income
AL	Acres of Land
ALCO	Asset/Liability Committee
ALLL	Allowance for Loan and Lease Losses
AML	Anti-Money Laundering
AOCI	Accumulated Other Comprehensive Income
AP	Accounts Payable
AR	Accounts Receivable
ARM	Adjustable Rate Mortgage
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM	Automated Teller Machine
AV	Appraised Value
AVP	Assistant Vice President
BIA	Business Impact Analysis
BCP	Business Continuity Plan
BHC	Bank Holding Company
BOLI	Bank-Owned Life Insurance
bp	Basis Point(s)
BSA	Bank Secrecy Act
BV	Book Value
Call Report	Reports of Condition and Income
CCO	Chief Credit Officer
CD	Certificate of Deposit
CDD	Customer Due Diligence
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CF	Cash Flow
CFP	Contingency Funding Plan
CFPB	Consumer Financial Protection Bureau
CFR	Code of Federal Regulations
C&I	Commercial and Industrial
CIP	Customer Identification Program
CISO	Chief Information Security Officer
COO	Chief Operations Officer
CRA	Community Reinvestment Act
CRE	Commercial Real Estate
CTR	Currency Transaction Report
CPA	Certified Public Accountant
CSV	Cash Surrender Value
DDA	Demand Deposit Account
DDoS	Distributed Denial of Service
DSC	Debt Service Coverage
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
d/b/a	Doing Business As
DPC	Debts Previously Contracted
DT	Deed of Trust
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
EFT	Electronic Funds Transfer
EIC	Examiner-in-Charge
EVE	Economic Value of Equity
EVP	Executive Vice President
FA	Fixed Assets
FASB	Financial Accounting Standards Board
F&F	Furniture and Fixtures
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FinCEN	Financial Crimes Enforcement Network
f/k/a	formerly known as
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Bank
FS	Financial Statement
FSA	Farm Service Agency
FS-ISAC	Financial Services - Information Sharing and Analysis Center
FV	Fair Value
GAAP	Generally Accepted Accounting Principles
GNMA	Government National Mortgage Association
Gty	Guaranty or Guarantee
HTM	Held-to-Maturity
HVCRE	High Volatility Commercial Real Estate
ID	Income Data
Inc	Incorporated
IPO	Initial Public Offering
IRR	Interest Rate Risk
IRS	Internal Revenue Service
ISO	Information Security Officer
ISP	Information Secuirty Program
IT	Information Technology
JM	Joint Maker
LAN	Local Area Network
LLC	Limited Liability Company
LOC	Line of Credit

LP	Limited Partnership
LS	Livestock
LTV	Loan-to-Value
M	Thousands
M&E	Machinery & Equipment
MBS	Mortgage-Backed Security
MMDA	Money Market Deposit Account
MRBA	Matter Requiring Board Attention
MSA	Mortgage Servicing Asset
Mtg	Mortgage
MV	Market Value
NI	Net Income
NII	Net Interest Income
NIM	Net Interest Margin
NNCFD	Net Non-Core Funding Dependence
NOI	Net Operating Income
NOL	Net Operating Loss
NOW	Negotiable Order of Withdrawal
NP	Notes Payable
NR	Notes Receivable
NW	Net Worth
OD	Overdraft
OFAC	Office of Foreign Assets Control
ORE	Other Real Estate
PCA	Prompt Corrective Action
PD	Past Due
P&I	Principal & Interest
P&L	Profit & Loss Statement
PV	Present Value
RE	Real Estate
ROA	Return on Average Assets
RBC	Risk-Based Capital
RE	Real Estate
REM	Real Estate Mortgage
SVP	Senior Vice President
SA	Security Agreement
SAR	Suspicious Activity Report
SBA	Small Business Administration
SEC	U.S. Securities and Exchange Commission
SFR	Single-Family Residence
SLOC	Standby Letter of Credit
TA	Total Assets
TDR	Troubled Debt Restructure
TE	Tax Equivalent Basis
TL	Total Liabilities
TR	Tax Return
UBPR	Uniform Bank Performance Report
UCC	Uniform Commercial Code
USDA	United States Department of Agriculture
VA	Veteran's Administration
VOIP	Voice Over Internet Protocol
VP	Vice President
WAN	Wide Area Network
YTD	Year-to-Date

CONFIDENTIAL – SUPERVISORY SECTION

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Purpose

The purpose of this page is to communicate non-public information to regulatory personnel. Generally, information on this page should not duplicate information in the open section of the Report. Use descriptive headings to separate topics and improve readability.

Mandatory Comments

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

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

References:

- Change in Bank Control - Section 7(j) of the FDI Act
- Part 362 - Activities of Insured State Banks and Insured Savings Association

Director Involvement **–** Prepare a brief statement of any Director contacts with the examiners outside of the exit/board meetings. If no such contact takes place, no comment is necessary.

Dominant Management **–** Identify the dominant officials, if any, and describe the dominant official's influence and effect on the institution, the board's independence and oversight, and the effectiveness of mitigating controls, if no concerns are identified. If there is a dominant official, ensure this is indicated on the SAER page. If there is no dominant official present, indicate such on the SAER page and no comment is required in the confidential pages.

Examination Scope – Prepare a brief comment addressing any deviations greater than 15% between projected and actual hours or any material change in examination scope or procedures. If there are no significant deviations or any material changes, then no comment is necessary.

If applicable, address within the examination scope comment any increased Bank Secrecy Act/Anti-Money Laundering or Office of Foreign Asset Control risk that should be reviewed at subsequent examinations and/or address significant or material changes in examination scope or examination procedures. If there are no increased risks and/or significant variances from the original scope did not occur, no comment is necessary.

Specialty Examinations (Including Information Technology, Trust, Registered Transfer Agent, Government and Municipal Securities Dealers) **–** Comments should include:

- Specialty examination numbers (used for hours tracking)
- Discussion and explanation of any material change in examination scope or procedures, or deviations between projected and actual hours of 15% or greater.
- For Information Technology, note any participation by other regulatory agencies in the IT examination, including the name of the agency and examination hours, if applicable. Comments should also include a listing of serviced institutions, if applicable.
- For Trust examinations, note the component ratings and list any unique characteristics of the client base or services, unless already addressed elsewhere in the ROE.

Capital Enhancement Sources – This section is applicable if not addressed within the ECC pages and earnings retention of the bank is significantly insufficient to maintain adequate capital, and the sale of new equity may be necessary to address capital needs. This section would primarily address potential capital resources, including the perceived capacity and willingness of potential investors to purchase stock. The following items may also be addressed at the examiner's discretion:

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

Optional Comments

Questionnaires and Work Programs – Prepare a summary comment if any findings from a Questionnaire or Work Program completed during the examination identifies an increased risk or some other item that should be reviewed at a subsequent examination.

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

Additional Items **–** The following topics may be addressed if relevant:

- Information supporting examination comments, recommendations, ratings, and/or sensitive information regarding management, strategic plans, offices, products, or services.
- Comments reconciling apparent discrepancies between the assigned rating and recommended supervisory actions (or lack of recommended actions),
- Sensitive or nonpublic information such as planned management changes and merger discussions, and other issues such as a lack of cooperation from management.
- Noting the name of the acting EIC if the examination served as a practice job

Suggestions and Comments for Future Examinations

Comments may include the following:

- Special Expertise requirements (e.g., capital markets experts),
- Dress code and locations and business hours,
- Records maintained at locations other than the main office,
- Working space limitations, and
- Any other information that may improve examination efficiencies.

Recommendations for Administrative Actions

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

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

DIRECTORS/TRUSTEES AND OFFICERS

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Purpose

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

General

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

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

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

Other

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

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

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

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

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

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

Memoranda - Note the following information:

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

APPENDIX A – GRAMMAR AND PUNCTUATION GUIDE

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

HYPHENATION - ADJECTIVES:

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

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

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

<u>Examples:</u>

A full-scope examination began on June 30.

The loan is secured by a single family residence.

The apartment complex has 50 units.

HYPHENATION - PREFIXES:

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

<u>Examples:</u>

nonaccrual nonperforming subtotal

HYPHENATION - COMPOUND VERBS:

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

<u>Report standards:</u>

charge off paid off write off/ up/ down

HYPHENATION - COMPOUND NOUNS:

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

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

HYPHENATION - SUSPENDING HYPHEN:

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

Examples:

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

HYPHENATION - ADVERBS:

General Rule: If the first word is an adverb ending in "ly," do not use a hyphen.

Examples:

publicly held widely held wholly owned

CAPITALIZATION:

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

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

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

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

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

Capitalize account titles (for example, Other Borrowings).

Capitalize the word federal.

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

Capitalize Regional Director and Regional Office.

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

Do not capitalize the word State unless referring to a specific public agency or the word is being used in the same sentence as Federal.

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

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

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

DATES:

Report Standard: A comma precedes and follows the year when the month and day precede the year. However, when the date consists only of month and year, commas are not necessary.

Examples: The examination that began on December 2, 1998, was completed in two weeks.

The report is due in January 1999.

NUMBERS:

General Rule: Write out numbers below 10. Use figures for numbers 10 and above.
Regardless of the number's size, use figures if they are followed by a unit of measure.
Write out numbers that begin a sentence.
Do not begin a sentence with a large number.

Examples: The bank employs five people.
The examiners cited 14 deficiencies.
Twenty-six examiners attended the field office meeting.

SPELLING:

Report Standards: installment totaling totaled