
American Institute of Certified Public Accountants. Technical Information Division

Neil Selden

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Checklists and Illustrative Financial Statements for Banks

A Financial Accounting and Reporting Practice Aid

DECEMBER 1993 EDITION
CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS IN THE SERIES

Checklists and Illustrative Financial Statements for Corporations

Checklist Supplements and Illustrative Financial Statements
Checklist Supplement and Illustrative Financial Statements for Construction Contractors
Checklist Supplement and Illustrative Financial Statements for Investment Companies
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Checklist of Emerging Issues Task Force Consensuses

Industry Checklists and Illustrative Financial Statements
Checklists and Illustrative Financial Statements for Agricultural Cooperatives
Checklists and Illustrative Financial Statements for Banks
Checklists and Illustrative Financial Statements for Colleges and Universities
Checklists and Illustrative Financial Statements for Common Interest Realty Associations
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Checklists and Illustrative Financial Statements for Prospective Financial Statement Engagements
Checklists and Illustrative Financial Statements for Savings Institutions
Checklists and Illustrative Financial Statements for State and Local Governmental Units
Checklists and Illustrative Financial Statements for Banks

A Financial Accounting and Reporting Practice Aid

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

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CHECKLISTS AND ILLUSTRATIVE
FINANCIAL STATEMENTS FOR BANKS

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

- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

- The checklists and illustrative financial statements have been updated through SAS No.72, SSARS No. 7, FASB Statement of Financial Accounting Standards No. 117, FASB Interpretation No. 40, FASB Technical Bulletin No. 90-1, AICPA Statement of Position No. 93-5, and EITF consensuses adopted up to and including the July 22, 1993 Emerging Issues Task Force meeting. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.

- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being presented.

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

.01 The U.S. banking system operates under comprehensive state and Federal rules and regulations. These rules and regulations greatly influence the accounting and financial reporting. Banks subject to reporting requirements of the Securities Exchange Act of 1934 administered by the Securities and Exchange Commission are subject to extensive additional financial and accounting disclosures.

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

.03 Common accounting and reporting practices by banks include:

- Accrual basis of accounting is the only acceptable basis of accounting under GAAP, although some banks may report certain revenue and expense items on a cash or modified cash basis.
- Banks usually prepare a non-classified balance sheet.
- Regulatory accounting policy requires that “goodwill” should not be capitalized but written off against stockholders’ equity. For GAAP, banks are required to capitalize the goodwill.
- Assets and liabilities of a bank’s trust accounts are not recorded in the balance sheet.
- Subordinated debt is classified as debt and not as capital.
- Trading account securities are presented at market value. Any unrealized appreciation or depreciation is included in the income statement.
- The income statement is usually reported on a “net interest income” basis. (Interest expense is deducted from interest revenues to arrive at net interest income.)
- The provision for loan losses is usually reported as a deduction from net interest income.
- Realized gains and losses on investment securities are presented on a separate line, on a pretax basis, in the “other income” section of the income statement.
- Transfers of securities from an investment account to the trading account are recorded at market on the transfer date. Unrealized gains are deferred until disposition; unrealized losses are recognized at the transfer date.
- Transfers from the trading account to the investment account are recorded at market on the transfer date. Unrealized gains or losses are included in income on the transfer date.
- The components and approximate market value of the investment security portfolio should be disclosed on the balance sheet or in the related notes.
- Note disclosures should include a breakdown of loans by major types of lending activities, with disclosure of information about maturities and loans with fixed and floating rates of interest.
- Fixed assets are normally shown as a single caption on the balance sheet, net of accumulated depreciation and amortization with note disclosures of the components.
- The components of the deposit liability accounts should be disclosed on the balance sheet or in the related notes.
- The interest method is used to amortize unearned discount on loans and deferred loan origination fees and costs.

.04 If a bank owns a captive finance company, the accounting provisions of the AICPA Finance Companies Audit Guide apply.
Checklists—General

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

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

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

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

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

- The checklists are not all-inclusive and are not intended to present minimum requirements.

- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

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

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

.02 Explanation of References:

ARB = AICPA Accounting Research Bulletin
APB = AICPA Accounting Principles Board Opinion
SFAS = AICPA Statement of Financial Accounting Standards
SAS = AICPA Statement of Auditing Standards
FASBI = FASB Financial Accounting Standards Board Interpretation
TB = Technical Bulletin issued by the staff of the FASB ¹
AC = Reference to section number in FASB Accounting Standards—Current Text
AU = Reference to section number in AICPA Professional Standards (vol. 1)
AAG = AICPA Audit and Accounting Guide, Audits of Banks (with conforming changes as of May 1, 1993)
SOP = AICPA Statement of Position
EITF = Emerging Issues Task Force Consensus
Reg. S-X = SEC Regulation S-X

.03 Checklist Questionnaire

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<td>A. Titles and References</td>
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<td>1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]</td>
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<td>2. Does each statement include a general reference to the notes that are an integral part of the financial statement presentation?</td>
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<td>B. Disclosure of Accounting Policies</td>
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<tr>
<td>1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]</td>
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<td>2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods? [APB 22, par. 12 (AC A10.105)]</td>
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¹ The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided?  
[APB 22, par. 14 (AC A10.107)]

4. Does the disclosure of significant accounting policies include an explanation of the accounting policy for debt securities held, including the basis for classification into balance-sheet captions, such as investment or trading?  
[SOP 90-11, par. 8]

C. **Accounting Changes**

1. For all changes in accounting principles, are the following disclosures made in the year of change:
   a. Nature of the change?  
   b. Justification for the change? 
   c. Effect on income before extraordinary items and on net income?  
   [APB 20, par. 17 (AC A06.113)]

2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made?  
[APB 20, pars. 22, 25 (AC A06.115—.118,.121)]

3. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented?  
[APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]

4. For a change in accounting estimate affecting several future periods, is the following disclosure made in the year of change:
   a. Effect on income before extraordinary items and on net income?  
   [APB 20, par. 33 (AC A06.132)]

5. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:
   a. Nature of the error in previously issued financial statements?  
   b. Effect of its correction on income before extraordinary items and net income?  
   [APB 20, par. 37 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]

6. Is the reason for omitting accounting for the cumulative effect of the change and disclosure of the pro forma amounts for prior years disclosed if it is impossible to determine such effect?  
[APB 20, pars. 25 and 26 (AC A06.121 and .122)]

D. **Comparative Financial Statements**

1. Are comparative statements considered?  
[ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]

2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance?  
[ARB 43, Ch. 2A, par. 2 (AC F43.102)]

3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?  
[ARB 43, Ch. 2A, par. 3 (AC F43.103)]

E. **Business Combinations**

1. If a business combination occurred during the period and met the specified conditions for a pooling-of-interests:  
[APB 16, pars. 45—48 (AC B50.104—.107)]
a. Do the statements and notes include the name and descriptions of companies involved, number of shares of stock issued, details of operations for the part of the year before the pooling, adjustments to adopt common accounting principles, effect on prior net income, details of equity changes if fiscal year change, and reconciliation of revenue and net income previously reported to amounts now reported? [APB 16, pars. 63—65 (AC B50.122—124)]

2. If a business combination does not meet the specified conditions for a pooling-of-interests:
   a. Do the statements and notes include the name and description of purchased company; time period for which post-purchase results are included in income; cost, number of shares issued or issuable, and amounts assigned to such shares; method and period for amortizing goodwill; contingent payments or commitments? [APB 16, pars. 95 (AC B50.164)]

3. In connection with the acquisition of a banking or thrift institution, are the nature and amounts of any regulatory financial assistance disclosed? [SFAS 72, par. 11 (AC B50.158F)]

4. Is any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill and other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36 of SFAS 109, AC Section 127.129 and .135) disclosed? [SFAS 109, par. 48 (AC 127.147)]

5. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired, are the method and period of amortization disclosed? [APB 17, par. 30 (AC 160.111)]

6. Where the bank has purchased an enterprise and applied guidance outlined in EITF 87-11 regarding the intended disposition of a subsidiary in accounting for the purchase, where the subsidiary has not yet been disposed of, are the following disclosed:
   a. A description of the operations held for sale, the method used to assign amounts to those assets, the method used to account for those assets, and the expected disposal date?
   b. Disclosure of the operation’s profit or loss that has been excluded from the consolidated income statement during the period, together with a schedule reconciling that amount to the earnings received or losses funded by the parent that have been accounted for as an adjustment to the carrying amount of the assets (the amount of allocated interest cost should be separately identified)?
   c. Disclosure of any gain or loss on the ultimate disposition that has been treated as an adjustment of the original purchase price allocation? [EITF 90-6]
   d. Consideration that is issued or issuable at end of contingency period or that is held in escrow? [APB 16, par. 78 (AC B50.136)]
   e. If applicable, that the purchase price allocation is tentative or preliminary?

7. If, after the end of the holding period as defined, a decision not to sell a line of business or a portion of a line of business is made, does disclosure include:
   a. The reason for the decision not to sell?
   b. An explanation of the adjustment including:
(1) The carrying amount of the operations held for sale that will be allocated to the current fair values of its identifiable assets and liabilities (the explanation should include the amount of operating profit or losses and interest capitalized in obtaining the current fair value)?

(2) The effect on comparability of the reporting periods?

[SFAS 57, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]

F. Consolidations

1. If consolidated statements are presented:
   a. Is the consolidation policy disclosed?
      [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]
   b. Are intercompany balances and transactions eliminated?
      [ARB 51, par. 6 (AC C51.109)]

2. Are the accounts of majority-owned subsidiaries consolidated?
   [SFAS 94, par. 13 (AC C51.103)]
   a. If the bank owns a captive finance company, are the provisions of the AICPA Audit and Accounting Guide, Audits of Finance Companies, applied?
      [See separate Finance Company checklist]

3. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed?
   [SFAS 12, par. 20 (AC 189.114)]

4. In consolidated bank holding company financial statements, is goodwill written off by bank subsidiaries reinstated by an adjustment in consolidation?
   [IAG 20.04]

5. Are combined financial statements considered for entities under common control?
   [ARB 51, par. 22—23 (AC C51.121—.122)]

G. Related-Party Transactions and Economic Dependency

1. For related-party transactions do disclosures include:
   a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?
   b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to understand the effects of the transactions on the financial statements?
   c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?
   d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement?
      [SFAS 57, pars. 2—4 (AC R36.102—.104)]

2. If the bank is part of a group that files a consolidated tax return, is the amount of current and deferred tax expense disclosed for each of the periods for which income statements are presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented?
   [ARB 51, par. 5 (AC C51.108A)]

3. Are the principal provisions of the method in which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which income statements are presented?
   [SFAS 109, par. 49 (AC I27—.148)]

4. Is information about economic dependency disclosed when necessary for a fair presentation?
5. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting bank and one or more other enterprises are under common ownership or management control, and the existence of the control could result in operating results or financial position of the reporting bank being significantly different from those that would have been obtained if the bank was autonomous? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]

6. Is a review made of selected related-party loans to determine whether any representation in the financial statement that related-party loans are on normal terms can be substantiated as required by GAAP? [SFAS 57, par. 3 (AC R36.103)]

H. Financial Instruments

1. For financial instruments with off-balance-sheet risk (except for certain insurance contracts, lease contracts under SFAS 13, purchase obligations, employers' obligations for pension benefits and other forms of defined compensation, extinguished debt pursuant to an in-substance defeasance), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument: 2
   a. The face or contract amount (or notional principal amount if there is no face or contract amount)?
   b. The nature and terms, including, at a minimum, a discussion of:
      (1) The credit and market risk of those instruments?
      (2) The cash requirements of those instruments?
      (3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"?
         [SFAS 105, pars. 14, 15 and 17 (AC F25.112)]

2. For financial instruments with off-balance-sheet risk (except as noted above in Step 1.), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument:
   a. The amount of accounting loss the bank would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the bank?
   b. The bank's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the bank's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?
      [SFAS 105, par. 18 (AC F25.113)]

3. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties (except for certain insurance contracts, purchase contracts and pension obligations), include:
   a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?
   b. The amount of the accounting loss due to credit risk the bank would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and if the collateral or other security, if any, for the amount due proved to be of no value to the bank?

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2 Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In this statement, class of financial instrument refers to those classifications.
c. The bank’s policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the bank’s access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?
[SFAS 105, par. 20 (AC F25.115)]

4. For all fiscal years subsequent to the year of transition, are SFAS 105 disclosures included for each year for which a statement of condition is presented for comparative purposes?
[SFAS 105, par. 22]

5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, either in the body of the financial statements or in the accompanying notes?
[SFAS 107, par. 10 (AC F25.115C)]

6. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed?
[SFAS 107, par. 10 (AC F25.115C)]

7. If it is not practicable to estimate the fair market value of a financial instrument, are the following disclosed:
   a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?
   b. The reasons why it is not practicable to estimate fair value?
[SFAS 107, par. 14 (AC F25.115G)]

I. Foreign Currency
1. Is the aggregate transaction gain or loss included in net income for the period disclosed?
[SFAS 52, par. 30 (AC F60.140)]

2. Does the analysis of changes during the period in the separate component of equity for cumulative translation adjustments disclose:
   a. Beginning and ending amount of cumulative translation adjustments?
   b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?
   c. The amount of income taxes for the period allocated to translation adjustments?
   d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity?
[SFAS 52, par. 31 (AC F60.141)]

3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant?
[SFAS 52, par. 32 (AC F60.142)]

4. Are any foreign earnings reported in addition to amounts received in the U.S. disclosed, if significant?
[ARB 43, Ch. 12, par. 5 (AC F65.102)]

5. Is disclosure of principal amounts of spot and forward exchange contracts considered?
[AAG, par. 22.26; SFAS 80 (AC F80)]

6. Are the following disclosures made for hedging foreign currency risks with complex options and similar transactions:
a. The method of accounting for currency options, option combinations, and similar instruments including a description of the events or transactions that result in recognition in income of changes in value?  

b. The nature of the anticipated transactions for which there is no firm commitment that are hedged with currency options, option combinations, or similar instruments?  

c. The maximum number of years over which anticipated, but not firmly committed, foreign currency transactions are hedged?  

d. The combined realized and unrealized net gain or loss deferred as of each balance-sheet date on currency options, option combinations, or similar instruments that are designated as hedges of anticipated transactions for which there is no firm commitment?  

[EITF 91-4]  

7. If the bank entered into a foreign currency swap contract to replace foreign currency debt with reporting currency debt, is the contract accounted for separately and not netted against the foreign currency debt (because they are two separate legal transactions and do not have the right of setoff, except as expanded below)?  

a. A right of setoff exists only when all of the following conditions are met:  

(1) Each of two parties owes the other determinable amounts?  

(2) The reporting party has the right to set off the amount owed with the amount owed by the other party?  

(3) The reporting party intends to set off?  

(4) The right of setoff is enforceable at law?  

[EITF 86-25]  

8. Are foreign currency translation disclosures encouraged (but not required) to be supplemented with an analysis and discussion of the effects of rate changes on reported results of operations?  

[SFAS 52, par. 144 (AC F60.143)]  

J. Contingencies and Commitments  

1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading?  

[SFAS 5, par. 9 (AC C59.108)]  

2. For loss contingencies not accrued, do disclosures indicate:  

a. Nature of the contingency?  

b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?  

[SFAS 5, par. 10 (AC C59.109 and .111)]  

3. Are the nature and amount of guarantees disclosed (e.g., obligations under standby letters of credit, guarantees to repurchase loans that have been sold)?  

[SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1—3 (AC C59.114); AAG, par. 2.30]  

4. Are gain contingencies adequately disclosed and misleading implications about likelihood of realization avoided?  

[SFAS 5, par. 17 (AC C59.118)]  

5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans?  

[SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80); AAG, par. 2.30]  

6. Are unused commercial letters of credit reported as commitments and not as liabilities?  

[AAG, par. 22.23]  

7. Is disclosure made if a subsidiary bank has guaranteed parent company debt?
8. If the bank as guarantor "lends" its credit worthiness to another party (borrower) for a fee, is the guarantor disclosed in a note, if material? [EITF 85-20]  

[ ] Yes  [ ] No  [ ] N/A

9. If an obligation for postemployment benefits is not accrued in accordance with SFAS 5 or 43 only because the amount cannot be reasonably estimated, is that fact disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]  

[ ] Yes  [ ] No  [ ] N/A

K. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SAS 1, secs. 560.03-.04, 560.07 and 561.06-.09 (AU 560.03-.04, 560.07 and 561.06-.09)]  

[ ] Yes  [ ] No  [ ] N/A

2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05-.07, 09 and 561.06-.09 (AU 560.05-.07, 09 and 561.06-.09)]  

[ ] Yes  [ ] No  [ ] N/A

L. Pension Plans (For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 [AC Pe35])

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

a. A description of the plan, including employee groups covered, type of benefit formula, funding policy, types of assets held and significant non-benefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 54a (AC P16.150a)]  

[ ] Yes  [ ] No  [ ] N/A

b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components? [SFAS 87, par. 54b (AC P16.150b)]  

[ ] Yes  [ ] No  [ ] N/A
c. All amounts shown within three months of the balance-sheet date using a consistent date from year to year (estimates may be necessary)? [SFAS 87, par. 52 (AC P16.148)]  

[ ] Yes  [ ] No  [ ] N/A
d. A schedule reconciling the funded status of the plan with amounts reported in the employer’s statement of condition, showing separately:

(1) The fair value of plan assets?  

[ ] Yes  [ ] No  [ ] N/A

(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?  

[ ] Yes  [ ] No  [ ] N/A

(3) The amount of unrecognized prior service cost?  

[ ] Yes  [ ] No  [ ] N/A

(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?  

[ ] Yes  [ ] No  [ ] N/A

(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)?  

[ ] Yes  [ ] No  [ ] N/A

(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?  

[ ] Yes  [ ] No  [ ] N/A

3 The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 [AC P16]. That net total includes:

(1) The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).

(2) Amortization of the net gain or loss from earlier periods.

(3) Amortization of unrecognized prior service cost.

(4) Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16].
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 (AC P16.129—130) (which is the net result of combining the preceding six items)?

[SFAS 87, par. 54c (AC P16.150c)]

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e. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?

[SFAS 87, par. 54d (AC P16.150d)]

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f. If applicable, the amounts and types of securities of the employer and related parties included in plan assets and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?

[SFAS 87, par. 54e (AC P16.150e)]

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g. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 (AC P16.120 and .127), and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 (AC P16.135)?

[SFAS 87, par. 54 (AC P16.150)]

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h. If more than one defined benefit plan exists:

(1) Are the required disclosures in Step 1. above aggregated for all of the employer’s single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?

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(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?

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(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions?

[SFAS 87, par. 56 (AC P16.153)]

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2. If there is a defined contribution plan, do disclosures include:

a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?

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<th>Yes</th>
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b. The amount of cost recognized during the period?

[SFAS 87, par. 65 (AC P16.162)]

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c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:

(1) Is the substance of the plan to provide a defined benefit?

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<th>Yes</th>
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(2) If answer is yes, are disclosures required for a defined benefit plan made?

[SFAS 87, par. 66 (AC P16.163)]

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3. If there is a multiemployer plan, do disclosures include:

a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?

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<th>Yes</th>
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b. The amount of cost recognized during the period?

[SFAS 87, par. 69 (AC P16.166)]

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c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that is either probable or reasonably possible, are the provisions of SFAS 5 (AC C59) applied?

[SFAS 87, par. 70 (AC P16.167)]

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4. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such a plan, do disclosures include:

15
a. A description of the nature of the event(s)?

b. The amount of gain or loss recognized?
   [SFAS 88, par. 17 (AC P16.187)]

5. If the bank terminates a defined benefit plan and (1) contributes the assets withdrawn to either a defined contribution plan or an ESOP, (2) the amount contributed is in excess of the employer's required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, are the following disclosures considered:

   a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds?

   b. Is the unallocated amount treated as if it were part of the employer's investments portfolio and recorded as an asset?

      (1) Is the income attributed to such securities including dividends, interest and realized gains and losses reported in a manner consistent with the employer's reporting of similar items?

   c. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?

   d. Are the unallocated assets consisting of the employer’s debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements?
      [EITF 86-27]

M. Postretirement Health Care and Life Insurance Benefits (See Exhibit A)

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

   a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan, employee groups covered, types of benefits provided, funding policy, types of assets held and significant nonbenefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture?

   b. The amount of net periodic postretirement benefit cost showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components? 4

   c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer’s statement of financial position, showing separately:

      (1) The fair value of plan assets?

      (2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?

      (3) The amount of unrecognized prior service cost?

      (4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?

4 The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106. That net total includes:

   a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).

   b. Amortization of unrecognized prior service cost.

   c. Amortization of the net gain or loss from earlier periods.

   d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61 of SFAS 106).

16
(5) The amount of any remaining unrecognized transition obligation or transition asset?  

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(6) The amount of net postretirement benefit asset or liability recognized in the statement of condition, which is the net result of combining the preceding five items?  

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d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible changes) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s), and when the rate(s) is expected to be achieved?  

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e. The weighted average of the assumed discount rate(s) and rate(s) of the compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted average of the expected long-term rate(s) of return on plan assets and, for plans whose income is segregated from the employer's investment income for tax purposes, the estimated income tax rate(s) included in the rate of return?  

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f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:  

1. The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost?  

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2. The accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions shall be held constant and the effects shall be measured based on the substantive plan that is the basis for the accounting)?  

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g. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?  

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h. Any alternative amortization method used pursuant to paragraph 53 or 60 of SFAS 106 (AC P40.148 or .155)?  

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i. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event(s)?  

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j. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)?  

[SFAS 106, par. 74a—j (AC P40.169a—j)]  

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2. If more than one defined benefit postretirement plan exists:  

a. Are the disclosures required by Step 1. above aggregated for all of an employer's single-employer defined benefit postretirement plans or disaggregated in groups so as to provide the most useful information (except for purposes of the disclosures required by Step 1.c. above, the aggregate plan assets and the aggregate accumulated postretirement benefit obligation of the underfunded plans shall be separately disclosed)?  

[SFAS 106, par. 77 (AC P40.172)]  

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b. Are plans that provide primarily postretirement health care benefits and plans that provide primarily other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all the plans?  

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c. Are plans inside the U.S. and plans outside the U.S. separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans?  

[SFAS 106, par. 78a—b (AC P40.173)]  

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3. If there is a multiemployer plan, do disclosures include:
a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefits provided (defined benefits or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?

b. The amount of postretirement benefit cost recognized during the period, if available (otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provides health and welfare benefits to both active employees and retirees should be disclosed)?

[SFAS 106, par. 82a—b (AC P40.178)]

c. Are the provisions of SFAS 5 (AC C59) applied if the situation arises where withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation, and it is either probable or reasonably possible that:

(1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?

or

(2) An employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage?

[SFAS 106, par. 83 (AC P40.179)]

4. If there are one or more defined contribution postretirement plans, are the following items disclosed separately from defined benefit postretirement plan disclosures:

a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?

b. The amount of cost recognized during the period?

[SFAS 106, par. 106 (AC P40.198)]

N. Futures Contracts

1. If a futures contract is accounted for as a hedge, does the disclosure include:

a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?

b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts?

[SFAS 80, par. 12 (AC F80.112)]

2. Are the following items considered for additional disclosure for options and interest rate swaps:

a. The market value of the options purchased and written, and the market value of premiums paid or received?

b. The treatment of any fees received or paid?

c. Interest rates on the swap at the balance-sheet date, including disclosure of whether the bank pays or receives a fixed or variable rate?

d. The original and remaining term to maturity of the swap?

e. Swap terminations, including the amount and method of accounting for gains and losses on swap terminations?

f. The nature of any other commitments made by the bank, such as the commitment to take delivery of mortgage-backed securities at a specified price on a mortgage swap?
O. Other Matters

1. If required [SFAS 21 (AC S20)], does the financial statement presentation include segment information? [SFAS 14 (AC S20); SFAS 24, par. 5 (AC S20.109—110); SFAS 30, par. 6 (AC S20.145); TBs 79-4, 79-5 and 79-8 (AC S20.501—507)]

2. If a bank has accounted for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment of the individual assets classified in continuing operations? [EITF 90-16]

3. If the bank plans to dispose of two segments of a business, and a net gain is expected (one has a net gain and the other a net loss), is that gain shown net? [EITF 85-36]

4. If a bank is acquired pursuant to an assistance agreement between the acquirer and the Federal Savings and Loan Insurance Corporation (or its successor) ("the governmental agency"), are the following considered:
   a. If part of the governmental agency assistance involved a note receivable from the agency, is a portion of the note receivable, equal to the fair value of the equity securities sold to the governmental agency, offset against the equity securities (unless it can be demonstrated the equity security is economically separable from the note) [see the actual EITF for conditions that would determine economic separability]? [SFAS 13, par. 16a (AC L10.112a(1))]
   b. If all or a portion of the note receivable from the governmental agency is offset against the equity from the securities issued to the agency, are subsequent dividend payments to the governmental agency on the equity securities netted against cash receipts from the governmental agency for interest payments on the note, and the net amount recorded as regulatory assistance? [EITF 88-19]

P. Lessee Leases

1. For capital leases, do disclosures include:
   a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1))]
   b. Future minimum lease payments, as of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years with separate deductions for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(2))]
   c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(3))]}
   d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a(4)), as amended by SFAS 29, par. 12]
   e. Separate identification of:
      (1) Assets recorded under capital leases?
      (2) Accumulated amortization of capital leases?
      (3) Obligations under capital leases?
      (4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112a. (5))]

2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:
a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?

b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented?

3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals?

4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:
   a. Basis for determination of contingent rentals?
   b. Terms of any renewal or purchase options or escalation clauses?
   c. Restrictive covenants?

5. If the conditions of EITF 90-15 are met, does the lessee consolidate special-purpose entities established for both the construction and subsequent lease of an asset?
   a. Does consolidation occur at the inception of the lease rather than at the beginning of the lease term?

Q. Nonmonetary Transactions

1. Are the following disclosures for nonmonetary transactions made:
   a. Nature of transactions?
   b. Basis of accounting?
   c. Gain or loss on transfer?

R. Capital Stock

1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share and changes therein?

2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, or unusual voting rights)?

3. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented?

Statement of Condition

A. General

1. Are trust assets excluded?

2. Is the tax equivalent basis of reporting in the primary financial statements of income from tax-exempt securities avoided?
3. If the bank's liquidity is not sufficient to meet prospective needs and there is evidence that the bank may have to dispose of certain assets to obtain liquidity, is the propriety of the accounting basis for any assets that may be sold considered? [AAG, par. 2.16]

B. Cash and Due From Banks

1. For financial statement purposes, are cash items and debits reclassified to the account of ultimate disposition? [AAG, par. 4.03]

2. Does cash and due from banks include cash on hand, clearing and exchange, cash items and due from banks? [AAG, par. 4.01]

3. Are reciprocal "due to/from" balances offset for balance sheet presentation? [AAG, par. 4.12]

4. Are "due from" credit balances reclassified to short-term borrowings? [AAG, par. 4.12]

5. Are "due to" debit balances reclassified to loans? [AAG, par. 4.12]

6. Are any withdrawal and usage restrictions or compensatory balance arrangements with other financial institutions disclosed? [Reg. S-X, Rule 09.1a]

C. Interest-Bearing Deposits in Other Banks

1. If material, are such deposits disclosed separately in the balance sheet? [AAG, par. 4.11]

D. Federal Funds Sold and Securities Purchased Under Resale Agreements

1. Are such amounts presented gross and not netted (however, it is permissible to continue federal funds sold with securities purchased under reverse repo agreements and federal funds purchased with securities sold under repo agreements)? [AAG, par. 4.09]

E. Investment Securities (See Exhibit B)

1. For debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made, by major-security type, for each balance sheet presented:
   a. Aggregate fair value?
   b. Gross unrealized holding gains and losses?
   c. Amortized cost basis?
   d. Disclosure of major-security types including:
      (1) Equity securities?
      (2) Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?
      (3) Debt securities issued by the states of the U.S. and political subdivisions of the states?
      (4) Debt securities issued by foreign governments?
      (5) Corporate debt securities?
      (6) Mortgage-backed securities?
      (7) Other debt securities? [SFAS 115, par. 19 (AC I80.118)]

2. For investments in debt securities classified as available-for-sale or held-to-maturity, is:
a. Disclosure made about their contractual maturities as of the date of the latest balance sheet date presented (maturity information may be combined in appropriate groupings)?

b. Disclosure made of the fair value and the amortized cost of debt securities in at least four maturity groupings:
   (1) Within one year?
   (2) After one year through 5 years?
   (3) After five years through 10 years?
   (4) After 10 years?

c. Securities not due at a single date may be disclosed separately?
   [SFAS 115, par. 20 (AC I80.119)]

3. For each period for which an earnings statement is presented, are the following disclosures made:
   a. The proceeds from sales of available-for-sale securities and gross realized gains and losses those sales?
   b. The basis on which cost was determined in computing realized gain or loss, (i.e., specified identification, average cost, or other method used)?
   c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?
   d. The change in net unrealized holding gain or loss on available-for-sale securities that has been included in the separate component of shareholders’ equity during the period?
   e. The change in net unrealized holding gain or loss on trading securities that has been included in earnings during the period?
      [SFAS 115, par. 21 (AC I80.120)]

4. For any sales of, or transfers from, securities classified as held-to-maturity, is disclosure made of the following for each period an earnings statement is presented:
   a. Amortized cost amount of the sold or transferred security?
   b. Related realized or unrealized gain or loss?
   c. The circumstances leading to the decision to sell or transfer the security?
      [SFAS 115, par. 22 (AC I80.121)]

5. If investments in high-risk CMOs are significant, are the following disclosures made in the annual financial statements:
   a. The effective yield, calculated as if the reporting date, for either each CMO or for the CMO portfolio (this yield would be used to accrue income in the following period)?
   b. The carrying amount and fair value of investments in high-risk CMOs?
   c. If market quotations are not available, are estimates made?
      [EITF 89-4]

6. Are included held-to-maturity securities and included available-for-sale securities classified as either current or noncurrent, as appropriate under the provisions of ARB 43, Chapter 3A?
   [SFAS 115, par. 17 (AC I80.116)]

7. Are concentrations of securities of a particular issuer disclosed?
   [SFAS 115, par. 20 (AC F25.115); AAG, par. 5.29]

F. Mortgage Loans and Mortgage-Backed Securities Held for Sale
1. If right to service mortgage loans is acquired, is the following information disclosed:
   a. Amount capitalized during period in acquiring right to service?
   b. Method of amortizing capitalized amount?
c. Amount of amortization for period?  
   [SFAS 65, par. 30 (AC Mo4.131)]

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<th>Yes</th>
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d. The amount of the servicing portfolio maintained by the institution?

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e. A roll-forward of deferred loan sale premium or discount activity (scheduled amortization, amortization due to changes in prepayment assumptions, changes due to loan sale activity, and so on) for each year of operations presented?

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f. The nature and extent of any recourse provisions caused by, for example, the borrower’s default, or by technical underwriting exceptions associated with both the institutions, servicing portfolio and loans that the institution may have subsequently sold?

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g. The amount of aggregate gains on sales of servicing included in operations?

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h. A roll-forward of purchased servicing activity (purchases, sales and amortization, and so forth) for each year of operations presented?

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i. The nature and extent of off-balance-sheet escrow accounts?  
   [AAG, par. 19.16]

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G. Loans—General

1. Are amounts disclosed separately in the balance sheet or related notes for the following categories or similar groupings:

   a. Commercial and industrial?

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   b. Financial institutions?

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   c. Real estate—construction?

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   d. Real estate—other?

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   e. Consumer installment?

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   f. Lease financing?

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   g. Foreign?  
   [AAG, par. 7.43]

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2. Are maturities and sinking fund requirements for each category disclosed?  
   [AAG, par. 7.43]

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3. Is the amount of loans at fixed interest rates disclosed?  
   [AAG, par. 7.43]

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4. Is the amount of loans at variable interest rates disclosed?  
   [AAG, par. 7.43]

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5. Are loans to related parties disclosed?  
   [AAG, par. 7.46; SFAS 57, par. 2 (AC R36.102)]

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6. Is the amount of loans pledged disclosed?  
   [SFAS 5, par. 18 (AC C59.120)]

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7. For troubled debt restructurings, are the following disclosed by major category of loans for each balance sheet presented:

   a. Aggregate recorded investment?

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   b. Gross interest income that would have been recorded if loans had been current per their original terms and had been outstanding throughout the period or since origination?

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   c. Amount of interest income included in net income?

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   d. Amounts of any commitment to lend additional funds to debtors owing restructured troubled loans?  
   [SFAS 15, pars. 40—41 (AC D22.136—.137); TBs 79-6 and 79-7 (AC D22.501—.505)]

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8. Are overdrafts classified as loans?  
   [AAG, pars. 7.14 and 12.04]

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9. Is the unamortized balance of unearned discounts on purchased loans shown separately and deducted from loans?  
[SFAS 91, par. 21 (AC L20.120); AAG par. 7.49]  

10. Is the amortized balance of loan commitment and loan origination fees shown separately and deducted from loans?  
[SFAS 91, pars. 21 and 65 (AC L20.120); AAG, par. 7.44]  

11. Is the unamortized balance of premiums on purchased loans shown as part of the related loan balance?  
[SFAS 91, par. 21 (AC L20.120)]  

12. If at the end of an accounting period it is apparent that the bank intends to sell certain loans and the anticipated sale will result in a loss, is an allowance for losses established and deducted from the related asset in the balance sheet?  
[AAG, par. 19.17]  

13. Is the amount of loans on a nonaccrual basis (including loans accruing at a reduced rate) and the income effect of nonaccrual loans disclosed?  
[AAG, par. 7.45]  

14. Are federal funds transactions with maturities exceeding one business day classified as loans?  
[AAG, par. 9.09]  

**H. Loans—Lease Finance**

1. Is aggregate of lease payments receivable plus estimated residual value, less the amount of unearned income and applicable allowance for losses, classified as loans on the balance sheet or set forth in a separate caption?  
[AAG, par. 7.48]  

2. Do disclosures include:  
   a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?  
   b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?  
   c. Total contingent rentals included in income for each period for which an income statement is presented?  
   d. Amount of aggregate future minimum lease payments representing:  
      (1) Executory costs, including any profit thereon?  
      (2) Unearned income?  
      (3) Initial direct costs (for direct finance leases only)?  
      [SFAS 13, par. 23a (AC L10.119a)]  

3. Is the method of amortizing deferred investment credits retained on lease transactions disclosed?  
[AAG, par. 17.09]  

4. Are leasing arrangements described?  
[SFAS 13, par. 23c (AC L10.119c); for amendments of SFAS 13, see SFASs 22, 23, 27, 28, 29, 76, 77, 91, 94, 96, 98 and 109; for interpretations, see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins, see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 7916(r), 85-3, 86-2 and 88-1]  

5. Are the following disclosures made for leveraged leases:  
   a. Pretax income from leveraged leases?  
   b. Tax effect of pretax income?  
   c. Amount of investment tax credit, if any?  
   d. The deferred taxes related to the investment in a leveraged lease shall be presented separately from the remainder of the net investment?  
   e. If leveraged leases are significant, the following additional disclosure should be made as to the investment in leveraged leases:
I. Allowance for Loan Losses

1. Is the allowance shown on the balance sheet as a deduction from loans and lease finance receivables?
   [AAG, par. 7.44; APB 12, par. 3 (AC V18.102)]

2. Is the method of providing for loan losses disclosed?
   [AAG, par. 7.50]

3. Are activities in the allowance for loan losses disclosed, including:
   a. Balances at the beginning and end of each period?
   b. Provision charged to income?
   c. Losses charged to the allowance?
   d. Recoveries of amounts charged off?
      [AAG, par. 8.05]

4. Is the bank disclosing, either in the body of the financial statements or in the accompanying notes, the following information:
   [SFAS 114 is effective for fiscal years beginning after December 15, 1994, with earlier application encouraged. Previously issued financial statements should not be restated]
   a. As of the date of each statement of financial position presented, is the recorded investment in the loans, for which impairment has been recognized in accordance with this SFAS 114, and is the total allowance for credit losses related to those impaired loans disclosed?
   b. For each period for which results of operations are presented, is the activity in the allowance for credit losses account, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, and direct write-downs charged against the allowance, and are recoveries of amounts previously charged off disclosed?
   c. Is the income recognition policy, dealing with the periodic changes in present value of impaired loans disclosed (a bank that recognizes income in accordance with this policy also should disclose the amount of interest recognized in accordance with the policy)?
      [SFAS 114, par. 20(AC I80.118)]

J. Premises and Equipment

1. Are fixed assets shown on the balance sheet net of accumulated depreciation?
   [AAG, par. 10.08]

2. Is the carrying basis disclosed?
   [AAG, par. 10.08]

3. Are the balances of major classes of depreciable assets disclosed?
   [APB 12, par. 5b (AC D40.105b); AAG, par. 10.08]

4. Is accumulated depreciation, either by major classes of assets or in total, disclosed?
   [APB 12, par. 5c (AC D40.105c)]

5. Is the amount of capitalized interest cost, such as repossessed collateral, disclosed in the period of capitalization?
   [SFAS 34, par. 21 (AC I67.118)]
6. Is property acquired but not used in operations and presented as other assets, such as repossessed collateral, classified within other assets? [AAG, par. 10.08] | Yes | No | N/A |
--- | --- | --- | --- |

7. If properties were previously written down to nominal values, are material amounts of property still in use reinstated at original cost less accumulated depreciation to the beginning of the earliest year's financial statements presented with a corresponding credit to retained earnings at the beginning of the year? [AAG, par. 10.05] | | | |

8. Do fixed assets include all costs related to the acquisition of the property, including transportation costs and all costs connected with installation? | | | |
   a. If the property is constructed, do costs include all direct construction costs together with architects' fees, costs of excavations, and supervision of construction? | | | |

9. For an existing property with an asbestos problem, are the costs incurred to treat the problem, if charged to expense, not classified as an extraordinary item? [EITF 89-13] | | | |

10. Are all costs and expenses identified with or directly allowable to the maintenance and operations of the bank premises included as net occupancy expense, including salaries and wages, payroll taxes, insurance, depreciation, rent expense and real estate taxes less rentals from tenants and other income, related to the premises? [AAG, par. 10.09] | | | |

**K. Other Assets**

1. If material, are amounts disclosed separately for:  
   a. Customers' acceptance liability? | | | |
   b. Investments in subsidiaries that are not consolidated? | | | |
   c. Investments in 50 percent-and-less-owned companies? | | | |
   d. Other nonmarketable investments? | | | |
   e. Other real estate owned by the bank? | | | |
   f. Accrued interest receivable? | | | |
   g. Accrued income receivable? | | | |
   h. Accounts receivable (deposits for special purposes, advances to trusts, etc.)? | | | |
   i. Prepaid expenses and deferred charges (insurance, taxes, FDIC assessments, debt issuance cost, etc.)? | | | |
   j. Suspense accounts (items recorded and held subject to clarification and transfer to the proper account, such as loan account and branch clearing transactions)? [AAG, par. 11.01] | | | |

2. Are other assets presented as the last item or items on the balance sheet? [AAG, par. 11.01] | | | |

3. Are the following items considered for foreclosed assets:  
   a. Are foreclosed assets held for sale valued and disclosed at the lower of fair value minus estimated costs to sell or cost? [SOP 92-3, par. 12] | | | |
   b. If the fair value of the asset, minus the estimated costs to sell, is less than the cost of the asset, is the deficiency recognized and disclosed as a valuation allowance? [SOP 92-3, par. 12] | | | |
   c. Are changes in the valuation allowance based upon fluctuations in the fair value less disposal costs charged or credited to income? [SOP 92-3, par. 12] | | | |
d. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired other than through foreclosure?

[SOP 92-3, par. 15]

---

e. If foreclosed assets originally classified as held-for-sale are reclassified to be held for production of income, is the net effect of such change reported in income from continuing operations in the period in which the decision not to sell the asset has been made?

[SOP 92-3, par. 16]

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f. In the period of transition for the adoption of SOP 92-3 for foreclosed assets, is the nature of change disclosed in the financial statements in the period in which the change is made?

[SOP 92-3, par. 16]

---

4. Are the following disclosures as to foreclosed assets made:

a. If it is later determined that the cost of the property cannot be recovered through sale or use, is the additional loss immediately recognized by a charge to income with a corresponding writedown of the asset or by a credit to an allowance for losses on real estate owned?

---

b. If the property is in a condition for use or sale at the time of foreclosure, are any subsequent holding costs included in expense as incurred?

---

c. If a property is not in a condition for sale or use at the time of foreclosure, are completion and holding costs, including such items as real estate taxes, maintenance, and insurance capitalized?

---

d. Are legal fees and other direct costs incurred in a foreclosure included in expenses when they are incurred?

[AAG, pars. 11.05 and 11.07]

---

5. Are investments in life insurance reported at amounts that can be realized as of the balance-sheet date?

[TB 85-4, par. 2 (AC 10.508)]

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L. Deposits

1. Are amounts disclosed separately for:

a. Domestic demand deposits?

---

b. Domestic time deposits?

---

c. Foreign demand deposits?

---

d. Foreign time deposits?

---

e. Certificates of deposit of $100,000 or more?

---

f. NOW accounts?

[AAG, par. 12.17]

---

2. Is disclosure made as to deposits received on unusual terms or from related parties?

[AAG, par. 12.18]

---

M. Income Taxes

1. Are deferred tax assets determined for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction presented separately?

[SFAS 109, par. 17 (AC I27.116)]

---

2. Are the components of the total of net deferred tax liability or asset recognized in the statement of condition disclosed?

---

a. The total of all deferred tax liabilities?

---

b. The total of all deferred tax assets?

---

c. The total valuation allowance for deferred tax assets?

[SFAS 109, par. 43 (AC I27.142)]

---
### N. Borrowed Funds

1. If funds are transferred from the Treasury tax and loan remittance option account to the Treasury tax and loan note option account, are they included in the financial statements as other borrowed funds?  
   [AAG, par. 13.04]

2. Are borrowings from the Federal Reserve Bank grouped with promissory notes, such as commercial paper, reported as other borrowed funds?  
   [AAG, par. 13.07]

3. Are federal funds purchased and securities sold under repurchase agreements included as other borrowings?  
   [AAG, par. 13.08]

4. Are the following disclosures made for other borrowings:
   a. Details of significant components?  
   b. Interest rates?  
   c. Due dates?  
   d. Pledged property?  
   e. Restructure components?  
   f. Notes payable, including mortgage notes, debentures, subordinated notes and capital notes reported separately?  
   [AAG, pars.13.07—.09]

### O. Other Liabilities

1. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated?  
   [SFAS 88, par. 15 (AC P16.185)]

2. For loans transferred with recourse that are not reported as sales, is the amount of proceeds from the transfer reported as a liability?  
   [SFAS 77, par. 8 (AC R20.108)]

3. If material, are amounts disclosed separately for:
   a. Acceptances outstanding?  
   b. Accrued payrolls?  
   c. Accrued income taxes?  
   d. Deferred income taxes?  
   e. Undistributed payroll deductions?  
   f. Accounts payable?  
   g. Cash dividends declared but unpaid?  
   h. Suspense accounts?  
   i. Accrued vacation pay that is vested or may be carried forward?  
   [SFAS 43, par. 13 (AC C 44.109; AAG, par. 14.01]

4. Are short-sale proceeds presented as a liability?  
   [AAG, par. 6.10]

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

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

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P. Long-Term Debt

1. Is the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented?
   [SFAS 47, par. 10 (AC C32.105)]

2. Are conversion features appropriately accounted for and disclosed?
   [APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)]

3. For troubled debt restructuring occurring during the current period, do disclosures include:
   a. Description of the principal changes in terms, the major features of settlement, or both?
   b. Aggregate gain on restructuring of payables and the related income tax effect?
   c. Aggregate net gain or loss on transfers of assets recognized during the period?
      [SFAS 15, par. 25 (AC D22.121)]

4. For periods after a troubled debt restructuring, do disclosures include:
   a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?
   b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven?
      [SFAS 15, par. 26 (AC D22.122)]

5. If debt is considered to be extinguished in conformity with SFAS 76, paragraph 3c, does the disclosure include:
   a. A general description of the transaction?
   b. The amount of debt that is considered extinguished as long as the debt remains outstanding?
      [SFAS 76, par. 6 (AC D14.108)]

6. Is debt considered extinguished for financial reporting purposes because:
   a. The debtor has paid the creditors and is released of all its obligations with regard to the debt?
   b. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to that debt under any guarantee?
   c. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote?
      [SFAS 76, par. 3 (AC D14.102A)]

7. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount:
   a. Recognized currently in income?
      [APB 26, pars. 20—21 (AC D14.103—104); TB 80-1, pars. 3—4 (AC D14.503—504)]
   b. Identified as a separate or extraordinary item?
      [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC D14.105)]

8. Do disclosures for extinguishments of debt described in Step 7. above include:
   a. A description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?
   b. Income tax effect in the period of extinguishment?

9. If the bank issued debt securities convertible into a fixed number of common shares, and upon conversion the bank either is required or has the option to satisfy all or part of the obligation in cash, is the conversion feature and debt obligation presented on the balance sheet as one amount?
10. If the holder of debt securities exercises the conversion option and the bank satisfies the obligation in cash, is the debt considered extinguished at that time and accounted for in accordance with APB 26, Early Extinguishment of Debt, par. 20 and the gain or loss classified pursuant to SFAS 4, Reporting Gains and Losses from Extinguishment of Debt (AC D14.103 and .105)? [EITF 90-19] 

11. Are the following disclosed when events of default under a credit agreement occur any time prior to the date of the accountants' report and are not cured or waived or a valid waiver is obtained for only a stated period of time: 
   a. The nature and amount of the default? 
   b. The period for which the violation has been waived? [SAS 1, (AU 560); EITF 86-20] 

12. If a long-term obligation that is or will be callable by the creditor because of a loan or covenant violation is classified as long-term (or is included as a long-term liability in the disclosures for an unclassified balance sheet) because it is probable the violation will be cured within a specified grace period, are the circumstances disclosed? [SFAS 78, par. 5 (AC B05.109A)] 

Q. Capital Stock 
1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share and changes therein? [APB 12, par. 10 (AC C8.102)] 

2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, (i.e., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, or unusual voting rights)? [APB 15, par. 19 (AC E09.110)] 

3. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10 (AC C32.105)] 

4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)] 

5. For preferred stock, do disclosures include: 
   a. The aggregate or per share amounts at which shares may be called or are subject to redemption? 
   b. The aggregate and per share amounts of arrearages in cumulative preferred dividends? [APB 10, par. 11 and APB 15, par. 50, fn. 16 (AC C16.102)] 

6. For stock option and stock purchase plans, do disclosures include: 
   a. The number of shares under option? 
   b. The option price? 
   c. The number of shares as to which options are exercisable? 
   d. For shares exercised, the number of shares exercised and option price? [ARB 43, Ch. 13B, par. 15 (AC C47.123)] 

7. Are the carrying basis and the number of shares disclosed for treasury stock? [APB 6, pars. 12b (AC C23.103)] 

8. Are the guarantees of ESOP debt deducted from equity? [SOP 76-3, par. 7] 

30
9. Are capital shares reserved for future issuance disclosed (when there are several categories, a total should be provided, including shares applicable to business combinations, shares issuable upon conversion of debt or preferred stock, and shares issuable upon exercise of purchase warrants)?
   [APB 16, pars. 78 and 95 (AC B50.136 and .164); APB 15, par. 19 (AC E09.110)]

10. Are the dollar amounts of capital shares subscribed but unissued and the dollar amount of subscriptions receivable as a deduction from equity disclosed?

R. Additional Paid-in Capital

1. Is the amount of additional paid-in capital shown separately on the balance sheet?
   [AAG, App. A]

S. Retained Earnings

1. Is the amount of retained earnings shown separately on the balance sheet?
   [AAG, App. A]

2. Are significant restrictions on the use of retained earnings for payment of dividends disclosed?
   [SFAS 5, par. 18 (AC C59.120); AAG, par. 15.09]

3. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity?
   [SFAS 5, par. 15 (AC C59.117)]

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

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

6. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant?
   [ARB 43, Ch. 7A, par. 10 and ARB 46, par. 2 (AC Q15.111)]

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

8. a. Are stock dividends accounted for using the fair value of the shares issued in connection with the dividend?

     b. Is there disclosure of the remaining amount of retained earnings available for future stock dividends?
        [AAG, par. 15.05]

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

10. Are stock dividends/splits through the issue date of financial statements disclosed and, if appropriate, are all presented EPS restated?
    [APB 15, par. 48 (AC E09.139)]

11. Are appropriated and unappropriated retained earnings shown separately?
    [SFAS 5, par. 15 (AC C5.117 and AC R70.105)]

12. Are the nature and extent to which retained earnings is restricted indicated?
    [APB 6, par. 13 (AC C23.104)]
### T. Other Stockholders’ Equity Accounts

1. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed?  
   [TB 85-6, par. 3 (AC C23.501—503)]

2. Is the valuation allowance for marketable equity securities separately disclosed?  
   [SFAS 12, par. 11 (AC 189.105); AAG, par. 5.25]

### Income Statement

#### A. Interest Income

1. Is the method of recognizing interest income from loans disclosed?  
   [AAG, par. 7.50]

2. Is tax-exempt income disclosed separately?

3. Are amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield reported as part of interest income?

#### B. Interest Expense

1. If significant, is interest on short positions disclosed?  
   [AAG, par. 6.10]

2. Is amortization of other fees, such as commitment fees that are being amortized on a straight-line basis over the commitment period or included in income when the commitment expires, reported as service fee income?  
   [SFAS 9, par. 22 (AC L22.121)]

#### C. Provision for Credit Losses

1. Is the method of providing for credit losses disclosed?  
   [AAG, par. 7.50]

#### D. Other Income

1. For investment securities gains/losses:
   a. Are such gains/losses presented separately on a pretax basis and classified as “Other Income”?  
      [SOP 83-1, par. 16]
   b. Is provision for estimated losses included?  
      [AAG, par. 5.08]
   c. Are material gains/losses on U.S. Treasury bills included?  
      [AAG, par. 5.20]

2. If no interest is capitalized during the period, are the amount of interest cost and charge to expense disclosed?  
   [SFAS 34, par. 21 (AC 167.118a)]

3. Are gains/losses on pension plan settlements or curtailments or termination benefits disclosed, including a description of the nature of the event(s)?  
   [SFAS 88, par. 17 (AC P16.187)]

#### E. Other Expenses

1. Salaries:
   a. If there is a compensatory stock issuance plan, are the following disclosures made:
      (1) Status of the option plan at the end of the period, including the number of shares under option, the option price and the number of shares as to which options are exercisable?  
      (2) As the options exercised during the period, the number of shares involved and the option price thereof?  
         [ARB 43, Ch. 13B, par. 15 (AC C47.123)]
2. Are net occupancy expenses or net occupancy income classified as an operating item in the statement of income?  
[SFAS 109, par. 10.09]
3. Is depreciation expense for the period(s) disclosed, accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets?  
[APB 12, par. 5 (AC D40.105)]

F. Income Taxes
1. Are the types of significant temporary differences and carryforwards disclosed?  
[SFAS 109, par. 43 (AC I27.142)]
2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed in the financial statements or the notes thereto:
   a. Current tax expense or benefit?  
   b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?  
   c. Investment tax credits?  
   d. The benefits of operating loss carryforwards?  
   e. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets, of an acquired entity?  
   f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise?  
   g. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years?  
   h. Amounts and expiration dates of operating losses and tax carryforwards for tax purposes?  
   i. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital?  
   [SFAS 109, pars. 45 and 48 (AC I27.144 and 147)]
3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35—39 of SFAS 109 (AC I27.134—138)) disclosed for each year for which those items are presented?  
[SFAS 109, par. 46 (AC I27.145)]
4. a. Is the nature of significant items for public enterprises disclosed by the use of percentages or dollars for (i) the reported amount of income tax expense attributable to continuing operations for the year to date and (ii) the amount of income tax expense that would result from applying domestic federal statutory notes to pretax income from operations?  
   b. Does a nonpublic enterprise disclose the nature of significant reconciling items (omission of numerical reconciliation is permitted)?  
   [SFAS 109, par. 47 (AC I27.146)]
5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed?  
[SFAS 109, par. 48 (AC I27.147)]
6. If the bank is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:
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<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tr>
<td>a. The aggregate amount of current and deferred tax expense for each statement of income presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of condition presented?</td>
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<td>b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in a. above are presented?</td>
<td>[SFAS 109, par. 49a—b (AC 127.148a—b)]</td>
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<td>7. a. Is the effect of initially applying SFAS 109 reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle [APB 20, paragraph 20], except for initially recognized tax benefits of the type required by SFAS 109 to be excluded from comprehensive income?</td>
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<tr>
<td>b. If the earliest year restated is not included in the financial statement presentation, is the cumulative effect, determined as of the beginning of the first year being presented, included as an adjustment of the beginning balance of retained earnings (and if necessary any other components of stockholders' equity) for the earliest year presented?</td>
<td>[SFAS 109, par. 51]</td>
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<td>8. When initially presented, do the financial statements for the year SFAS 109 is first adopted disclose the following:</td>
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<tr>
<td>a. The effect, if any, of adopting SFAS 109 on pretax income from continuing operations (e.g., the effect of adjustments for prior purchase business combinations and for regulated enterprises) for the year of adoption if restated financial statements for the prior year are not presented?</td>
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<td>b. The effect of any restatement on income from continuing operations, income before extraordinary items, and net income (and on related per share amounts) for each year for which restated financial statements are presented?</td>
<td>[SFAS 109, par. 52a—b]</td>
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<td>9. If not otherwise apparent from the disclosures made, are the nature and effect of any other significant matters affecting comparability of information for all periods presented disclosed?</td>
<td>[SFAS 109, par. 47 (AC 127.146)]</td>
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G. **Discontinued Operations**

1. Are operations of a segment that has been discontinued or is the subject of a formal plan for disposition:

   a. Reported separately from income from continuing operations for the current and prior period and as a component (including applicable income taxes) of income before extraordinary items? |   |   |   |

   b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? | [APB 30, pars. 8 and 13—18 (AC 113.101—103, .105—.106 and .108—109)] |   |   |

2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items? | [APB 30, pars. 8 and 16—18 (AC 113.102, .105 and .109)] |   |   |

3. For the period encompassing the measurement date, do notes to financial statements disclose:

   a. Identity of the segment discontinued? |   |   |   |

   b. Expected disposal date, if known? |   |   |   |

   c. Expected manner of disposal? |   |   |   |
d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?

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<th>Yes</th>
<th>No</th>
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|    |    |    |

e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date?

|    |    |    |

|    |    |    |

f. If the loss on disposal cannot be estimated within reasonable limits, is this fact disclosed?

[APB 30, par. 18, fn. 7 (AC I13.108—.109)]

|    |    |    |

4. For periods after measurement date and including the period of disposal, do notes to financial statements disclose the information in a.—e. above compared with the prior estimates?

[APB 30, par. 18 (AC I13.108)]

|    |    |    |

5. For discontinued operations or sale of a portion of a line of business that is not a segment of a business, is the gain or loss from disposal reported as a separate component of income from continuing operations and is it not reduced for income taxes (information similar to that in a.—f. above should be disclosed, and disclosure for revenues and related costs and expenses included in the income statement that relate to the disposed portion of the line of business for the period prior to the measurement date is encouraged)?

[APB 30, par. 1 (AC I22.502)]

|    |    |    |

### H. Extraordinary Items

1. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income?

[APB 30, paras. 11—12 (AC I17.102—.103)]

|    |    |    |

2. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement, if practicable?

[APB 30, par. 11 (AC I17.102)]

|    |    |    |

3. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses?

[APB 30, par. 11 (AC I17.102)]

|    |    |    |

4. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):

a. Reported as a separate component of income from continuing operations?

|    |    |    |

b. Accompanied by disclosure of the nature and financial effects of each event?

[APB 30, par. 26 (AC I22.101); TB 82-1, par. 6 (AC I25.505)]

|    |    |    |

5. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:

a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?

|    |    |    |

b. Income tax effect in the period of extinguishment?

|    |    |    |

6. For nonpublic companies, if there is a restructuring charge, is it reflected using the most meaningful income statement presentation within the framework of APB 30?

[EITF 87-4]

|    |    |    |

### I. Other

1. Are the following excluded from determination of net income or results of operations under all circumstances:

a. Adjustments or charges or credits resulting from transactions in the bank’s own capital stock?

|    |    |    |

b. Transfers to and from accounts properly designated as appropriated retained earnings?

|    |    |    |
c. Adjustments made pursuant to a quasi-reorganization?
   [APB 9, par. 28 (AC C08.101)]

Statement of Changes in Stockholders’ Equity

A. Are changes in separate component accounts of stockholders’ equity disclosed?
   [APB 12, par. 10 (AC C08.102)]
   ____________ Yes No N/A

B. Are changes in the number of shares of equity securities disclosed?
   [APB 12, par. 10 (AC C08.102)]
   ____________ Yes No N/A

C. Are prior-period adjustments limited to:
   1. Correction of an error(s) in financial statements of prior periods?
      [SFAS 16, par. 11 (AC A35.103)]
      ____________ Yes No N/A
   2. Adjustments resulting from realization of income tax benefits of pre-
      acquisition operating loss or tax credit carryforwards of purchased
      subsidiaries?
      [SFAS 109, par. 30 (AC 127.129)]
      ____________ Yes No N/A
   D. Are prior-period adjustments and their resulting effects (both gross and net of
      applicable income taxes) appropriately disclosed?
      [APB 9, par. 26 (AC A35.107)]
      ____________ Yes No N/A
   E. For a correction of an error, is the nature of the error disclosed in the period in
      which the error was discovered and corrected?
      1. Nature of the error in previously issued financial statements?
         ____________ Yes No N/A
      2. Effect of its correction on income before extraordinary items, net income, and
         related per share amounts, if applicable?
         [APB 20, par. 37 (AC A35.105)]
         ____________ Yes No N/A

Statement of Cash Flows

A. Is a statement of cash flows presented as a basic financial statement that in a
   presentation that reports on both financial position and results of operations for
   each period for which a statement of income is presented?
   [SFAS 95, par. 3 (AC C25.101)]
   ____________ Yes No N/A

B. Are cash receipts and cash payments from operating activities shown separately
   on the statement of cash flows?
   [SFAS 95, pars. 27—28 (AC C25.125—.126)]
   1. Are cash receipts and payments resulting from purchases and sales of
      securities and other assets acquired for resale and carried at market value in a
      trading account classified as operating cash flows?
      [SFAS 102, par. 8 (AC C25.122A)]
      ____________ Yes No N/A
   2. Are cash receipts and payments resulting from acquisitions and sales of loans
      if those loans are acquired specifically for resale and are carried at market
      value or the lower of cost or market classified as operating cash flows?
      [SFAS 102, par. 9 (AC C25.122B)]
      ____________ Yes No N/A

C. Are cash receipts and cash payments for the following transactions classified as
   cash flows from operating activities:
   1. Interest received on loans?
      ____________ Yes No N/A
   2. Insurance proceeds except those directly related to investing or financing
      activities?
      ____________ Yes No N/A
   3. Interest paid to creditors?
      ____________ Yes No N/A
   4. Payments to suppliers and employees?
      ____________ Yes No N/A
   5. Payments to governments for taxes, duties, fines, and other fees or penalties?
      ____________ Yes No N/A
   6. Payments to settle lawsuits?
      ____________ Yes No N/A
   7. Contributions to charities?
      [SFAS 95, par. 22—23 (AC C25.120—.121)]
      ____________ Yes No N/A
D. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows?

[SFAS 95, par. 31 (AC C25.129)]  

E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:

   1. Net change in interest bearing deposits with banks?  
   2. Net change in federal funds sold?  
   3. Proceeds from sales of investment securities?  
   4. Proceeds from maturities of held-to-maturity securities?  
   5. Purchase of investment securities?  
   6. Net change in loans?  
   7. Purchase of property and equipment?  
   8. Net change in customers' liability on acceptances outstanding?

[SFAS 95, APP. A]  

F. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows?

[SFAS 95, par. 31 (AC C25.129)]  

G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:

   1. Net change in noninterest-bearing demand, savings and NOW deposit accounts?  
   2. Net change in time deposits?  
   3. Net change in borrowed funds?  
   4. Net change in acceptances outstanding?  
   5. Repayment of long-term debt?  
   6. Dividend paid?

[AAG, APP. A]  

H. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately?

[SFAS 95, par. 25 (AC C25.123)]  

I. Is the change in cash and due from banks shown in the statement of cash flows?

[AAG, APP. A; SFAS 95, par. 26 (AC C25.124)]  

J. Is policy for defining what is a cash equivalent disclosed?

[AAG, APP. A; SFAS 95, par. 10 (AC C25.108)]  

K. Is a reconciliation of net income to net cash flow from operating activities presented, either within the statement of cash flows or in a separate schedule?

[SFAS 95, pars. 29—30 (AC C25.127—.128)]  

L. Are noncash investing and financing activities (i.e., converting debt to equity) summarized either in narrative or a separate schedule?

[SFAS 95, par. 32 (AC C25.134)]  

M. If the indirect method of reporting operating cash flows is used, are the amounts of interest paid (net of amounts capitalized) and income taxes paid disclosed in a separate schedule or footnote for each year presented (the reconciliation of net income to net cash provided by or used in operating activities, which can be presented in the statement or in a separate schedule or footnote, should separately report all major reconciling items, including at a minimum, changes in receivables, inventory, and payables pertaining to operating activities)?

[SFAS 95, par. 29 (AC C25.127)]  

N. Are the following classes of operating cash receipts and payments for banks using the direct method, at a minimum, separately disclosed:

37
a. Cash collected from customers, including lessees, licensees, and the like?  Yes  No  N/A
b. Interest and dividends received?  

c. Other operating cash receipts, if any?  

d. Cash paid to employees and other suppliers of goods or services, including suppliers of insurance, advertising and the like?  

e. Interest paid?  

f. Income taxes paid?  

g. Other operating cash payments, if any?  

[SFAS 95, par. 27 (AC C25.125)]

**Trusteed Affiliates**

A. Is one of the following accounting treatments appropriately used:

1. Consolidated financial statements?  

2. Combined financial statements?  

3. Equity method?  

[AAG, par. 20.13]

B. If material, is summarized information presented for:

1. Assets?  

2. Liabilities?  

3. Results of operations?  

[AAG, par. 20.13]

C. If a separate auditor’s report is issued on the financial statements, is the relationship of the trusteed affiliate to the parent disclosed?  

[AAG, par. 20.15]
Exhibit A—Postretirement Health Care Benefits

The effective date of SFAS 106 is for fiscal years beginning after December 15, 1992, except for plans outside the United States and for defined benefit plans of employers that (a) are nonpublic entities and (b) sponsor defined benefit postretirement plan(s) with no more than 500 plan participants in the aggregate, in which case the effective date is for fiscal years beginning after December 15, 1994. Earlier application is encouraged. Until such time, the following disclosures remain in effect:

A. Postretirement Health Care and Life Insurance Benefits

1. Do disclosures include:
   a. Description of benefits and employee groups covered? 
   b. Description of accounting and funding policies? 
   c. Cost of benefits recognized during period? 
   d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented? 
   [SFAS 81, par. 6 (AC P50.102)]

Exhibit B—Trading and Investment Securities

The effective date of SFAS 115 is for fiscal years beginning after December 15, 1993. The intended application of this statement is to be at the beginning of the bank’s fiscal year.

Banks are permitted to apply this statement for fiscal years beginning prior to December 16, 1993, if annual financial statements have not been issued. This may not be retroactively applied. Until such time, the following disclosures remain in effect:

A. Trading Securities

1. Are trading account assets stated at fair value?  
   [AAG, par. 6.05] 

2. Are major categories disclosed? 
   [AAG, par. 6.13] 

3. Are short positions shown as liabilities? 
   [AAG, par. 6.12] 

4. Is trade date accounting used for reporting transactions in the trading account? 
   [AAG, par. 6.03] 

5. Are trading securities shown as a separate line item on the balance sheet or disclosed in a note? 
   [AAG, par. 6.12] 

6. If securities are transferred from the trading account to the investment account, is the transfer recorded at market value on the date of transfer and the resulting gain or loss recognized in trading income? 
   a. Are the securities recorded in the investment account as a new acquisition? 
   [AAG, par. 6.06] 

7. If securities are transferred from the investment account to the trading account, is the transfer recorded at market value on the date of transfer and the resulting writedown from cost to estimated market value charged to investment security losses? 
   a. Is the recognition of a gain from write-up of cost to estimated market value deferred until final disposition of the securities? 
   b. When the gain is recognized, is it reported as an investment security gain? 
   [AAG, par. 6.07] 

8. Is the interest paid on short positions reported as trading securities interest expense? 
   [AAG, par. 6.10]
9. On transactions that cannot be demonstrated to be a short sale, is the resulting gain or loss recognized immediately?  
   [AAG, par. 6.11]  
10. Is interest income on trading securities reported separately from trading income?  
   [AAG, par. 6.13]  

B. Investment Securities  
1. Does carrying amount reflect:  
   a. Permanent declines in value?  
      [AAG, par. 2.30]  
   b. Unrealized losses attributable to:  
      (1) Need to dispose of in foreseeable future?  
      [AAG, par. 5.07 and 5.08]  
      (2) Specific adverse conditions for a particular security?  
      [AAG, par. 5.08]  
2. Is aggregate market value disclosed?  
   [AAG, par. 5.26]  
3. Are carrying amount and market value of pledged securities disclosed?  
   [AAG, par. 5.31]  
4. Are the following disclosures made for marketable equity securities:  
   a. As of the date of each balance sheet presented, aggregate cost and market value (each segregated between current and noncurrent portfolios when a classified balance sheet is presented) with identification as to which is the carrying amount?  
      [SFAS par. 12 (AC 189.106)]  
   b. As of the date of the latest balance sheet presented, the following, segregated between current and noncurrent portfolios, when a classified balance sheet is presented:  
      (1) Gross unrealized gains representing the excess of market value over cost for all marketable equity securities in the portfolio having such an excess?  
      (2) Gross unrealized losses representing the excess of cost over market value for all marketable equity securities in the portfolio having such an excess?  
   c. For each period for which an income statement is presented:  
      (1) Net realized gain or loss included in the determination of net income?  
      (2) The basis on which cost was determined in computing realized gain or loss (i.e., average cost or other method used)?  
      (3) The change in the valuation allowance(s) that is included in the equity section of the balance sheet during the period and, when a classified balance sheet is presented, the amount of such change included in the determination of net income?  
5. Are marketable equity securities carried at the lower of aggregate cost or estimated market value as of the balance sheet date?  
   [AAG, par. 5.29]  
6. Is the accumulated amortization account for premiums on debt securities netted against the asset account on the balance sheet?  
   [AAG, par. 5.10]  
7. For each balance sheet presented, are the amortized cost, estimated market values, gross unrealized gains and gross unrealized losses disclosed for each pertinent category of investments in debt securities held, including the following:  
   a. Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?  
   b. Debt securities issued by states of the U.S. and political subdivisions of the states?
c. Debt securities issued by foreign governments and not classified as loans?  

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d. Corporate securities?  

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e. Mortgage-backed securities?  

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f. Other debt securities?  

[SOP 90-11, par. 9]

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8. For the most recent balance sheet, is disclosure made of the amortized cost and estimated market values of debt securities due:
   a. In one year or less?  

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   b. After one year through five years?  

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</table>
   c. After five years through ten years?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</thead>
<tbody>
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</table>
   d. After ten years?  

[SOP 90-11, par. 9]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

9. For each period for which results of operations are presented, are the proceeds from sales of debt securities and gross realized gains and gross realized losses on such sales disclosed?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

10. If an allowance for market decline is provided, is it classified in the income statement with securities gains and losses?  

[AAG, par. 5.09]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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11. Consider disclosing concentrations of securities of a particular issuer?  

[SFAS 105, par. 20 (AC F25.115); AAG, par. 5.29]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

C. Mortgage Loans and Mortgage-Backed Securities Held for Sale

1. a. Are mortgage loans and mortgage-backed securities held for sale distinguished from mortgage loans and mortgage-backed securities held for long-term investment?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tr>
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</table>

[SFAS 65, par. 28 (AC Mo4.129)]

b. For loans carried at the lower of cost or market because they are held for sale, is the net loan fee not amortized until sale?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
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</table>

[SFAS 91, par. 27c (AC Mo4.122)]

2. Are mortgage loans and mortgage-backed securities held for sale reported at lower of cost or market value?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

[SFAS 65, par. 4 (AC Mo4.105)]

3. Is the method used in determining lower of cost or market value disclosed?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

[SFAS 65, par. 29 (AC Mo4.130)]
Auditors’ Reports Checklist

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

.02 Explanation of References:

SAS = AICPA Statement of Auditing Standards
AU = Reference to section number in AICPA Professional Standards (vol. 1)
SSARS = AICPA Statement on Standards for Accounting and Review Services
AR = Reference to section number in AICPA Professional Standards (vol. 2)
AAG = AICPA Audit and Accounting Guide, Audits of Banks (with conforming changes as of May 1, 1993)

.03 Checklist Questionnaire

<table>
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<th></th>
<th>Yes</th>
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1. Does the auditor’s report include appropriate:
   a. Addressee?
      [SAS 58, par. 9 (AU 508.09)]
   b. Date (or dual dates) of the report?
      [SAS 1, sec. 530 (AU 530.01); SAS 26, pars. 15–17 (AU 504.15–.17) SAS 58, par. 46 (AU 508.46)]
   c. A title that includes the word “independent”?
      [SAS 58, par. 8 (AU 508.08)]

2. If the auditor is not independent, is the appropriate disclaimer expressed regardless of the extent of services provided?
   [SAS 26, pars. 5, 9–10 (AU 504.05 and .09–.10)]

3. Does the reporting language conform with the auditor’s standard report on:
   a. Financial statements of a single year or period?
      [SAS 58, par. 8 (AU 508.08)]
   b. Comparative financial statements?
      [SAS 58, par. 8 (AU 508.08)]

4. Does the auditor’s report include appropriate language for the following:
   a. The auditor’s opinion is based in part on the report of another auditor?
      [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12–13 (AU 508.12–.13)]
   b. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading financial statement?
      [SAS 58, pars. 14–15 (AU 508.14–.15)]
   c. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation?
      [SAS 58, pars. 16–33 (AU 508.16–.33)]
   d. The auditor concludes that there is substantial doubt as to the bank’s ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase “substantial doubt about its (the bank’s) ability to continue as a going concern”?
      [SAS 64, par. 1 (AU 341.12)]
5. If the financial statements of a prior period are audited by a predecessor auditor whose report is not presented, does the successor auditor indicated in the introductory paragraph:
   a. The financial statements of the prior period are audited by another auditor? [SAS 58, paras. 34—36 (AU 508.34—36)]
   b. The date of the predecessor’s report?
   c. The type of report issued by the predecessor auditor?
   d. If the report was other than a standard report, the substantive reasons therefor?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>e. There has been a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—36)]</td>
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</table>
f. A predecessor auditor’s report is reissued? [SAS 58, pars. 80—82 (AU 508.80—82)] |     |    |     |
g. Supplemental information required by the FASB or GASB is presented outside the basic financial statements in an auditor-submitted document and are the following points considered:
   1) Supplemental information omitted? |     |    |     |
   2) Presentation of information departs materially from FASB guidelines? |     |    |     |
   3) The auditor is unable to complete prescribed procedures? |     |    |     |
   4) The auditor has substantial doubts that the information conforms to FASB guidelines? [SAS 29, par. 15 (AU 551.15)] |     |    |     |
h. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)] |     |    |     |
i. The auditor decides to emphasize a matter in the report? [SAS 58, par. 37 (AU 508.37)] |     |    |     |
j. The report on one basic financial statement and there are no scope limitations? [SAS 58, par. 48 (AU 508.48)] |     |    |     |
k. The updating of the report on comparative financial statements, including events and adequacy of informational disclosure affecting the prior period financial statements? [SAS 58, pars. 74—75 (AU 508.74—75)] |     |    |     |
l. For comparative financial statements, there is an unqualified opinion on one of the financial statements and a qualified or adverse opinion, a disclaimer, or an explanatory paragraph on one or more financial statements for one or more periods? [SAS 58, pars. 5 and 76 (AU 508.05 and .76)] |     |    |     |
m. Comparative financial statements are presented and the current opinion on the prior year’s financial statements is different from the opinion previously expressed? [SAS 58, pars. 77—78 (AU 508.77—78)] |     |    |     |
n. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14—17 (AU 504.14—17)] |     |    |     |
o. Comparative statements of income, retained earnings, and cash flows are presented without presentation of comparative balance sheets for the prior periods? [SAS 58, par. 8, fn. 7 (AU 508.08, fn. 7)] |     |    |     |
p. The auditor’s assessment of the institution’s ability to achieve its reported plan in connection with capital requirements of federal regulations? |     |    |     |
e. If the financial statements are restated, does the introductory paragraph indicate a predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, par. 83 (AU 508.83)]

f. If the successor auditor is engaged to audit and applies sufficient procedures to satisfy himself or herself as to the appropriateness of the restatement adjustments, does he or she report on it? [SAS 58, par. 83 (AU 508.83)]

6. If, following a pooling-of-interest transaction, an auditor is engaged to report on restated financial statements for one or more prior years when other auditors audited one or more of the entities included in such financial statements, does he or she include explanatory language in accordance with SAS No. 64, paragraph 3? [SAS 64, par. 3 (AU 543.03)]

7. Is a qualified opinion or disclaimer of opinion expressed if:
   a. There is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit? [SAS 31, par. 23 (AU 326.23); SAS 58, pars. 40—48 (AU 508.40—.48)]
   b. Alternative procedures are not practicable for confirmation requests returned undelivered by postal authorities? [AAG, par. 12.27]

8. Is a qualified opinion or adverse opinion expressed if the following circumstances are present:
   a. An uncertainty is not adequately disclosed in the financial statements? [SAS 58, par. 20 (AU 508.20)]
   b. The accounting principles used cause the financial statements to be materially misstated? [SAS 58, par. 21 (AU 508.21)]
   c. There are unreasonable accounting estimates that cause the financial statements to be misstated? [SAS 58, par. 22 (AU 508.22)]
   d. The financial statements contain a material departure from GAAP, inadequate disclosure, or an accounting change? [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 54, par. 18 (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 59, par. 12 (AU 341.12)]
   e. There is no evidence to support carrying amount of investment securities and an allowance to write down to market is not established? [AAG, par. 5.31]
   f. Financial statements reflect regulatory practice of immediate write-off of goodwill or other regulatory practices that differ from GAAP and the resulting difference is material? [SAS 1, AC 544.02 (AU 544.02); AAG, par. 20.04]
   g. Client representations about related-party transactions? [SAS 45, par. 12 (AU 334.12)]
   h. Clients’ voluntarily including supplementary information that has not been audited? [SAS 52, par. 3, (AU 558.03)]

9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:
   a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39, 40, 51, 68 and 71 (AU 508.39, .40, .51, .68 and .71)]
   b. Is the reporting language clear and appropriate for the:
      (1) Qualified opinion? [SAS 58, pars. 38—66 (AU 508.38—.66)]
(2) Adverse opinion?
   [SAS 58, pars. 67—69 (AU 508.67—.69)]
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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(3) Disclaimer of opinion?
   [SAS 58, pars. 70—72 (AU 508.70—.72)]
<table>
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>
10. Is a piecemeal opinion avoided?
   [SAS 58, par. 73 (AU 508.73); SAS 62, par. 12 (AU 623.12)]
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>
11. If information accompanies the basic financial statements and auditor's report in
   an auditor-submitted document:
   a. Is there a clear distinction between the client’s representation and auditor’s
      representations?
      [SAS 29, par. 20 (AU 551.20)]
   b. Does the auditor's report on the accompanying information:
      (1) State that the audit is made for the purpose of forming an opinion on the
          basic financial statements taken as a whole?
          | Yes | No | N/A |
          |-----|----|-----|
      (2) Specifically identify the accompanying information?
          | Yes | No | N/A |
          |-----|----|-----|
      (3) State that the accompanying information is presented for purposes of
          additional analysis and is not part of the basic financial statements?
          | Yes | No | N/A |
          |-----|----|-----|
      (4) State whether the additional information is subjected to the auditing
          procedures applied in auditing the basic financial statements and whether
          the appropriate expression or disclaimer of opinion is included?
          [SAS 29, pars. 6—11 (AU 551.06—.11)]
          | Yes | No | N/A |
          |-----|----|-----|
12. If an auditor-submitted document with accompanying information coexists with
   a document that includes just the basic financial statements and the auditor's
   report:
   a. Do the basic financial statements in all coexisting documents consistently
      include all the information necessary for a fair presentation in conformity
      with generally accepted accounting principles?
      [SAS 29, par. 21 (AU 551.21)]
      | Yes | No | N/A |
      |-----|----|-----|
   b. Are any additional comments or explanations by the auditor consistent with
      the description of the scope of the audit in the auditor’s standard (or
      modified) report?
      [SAS 29, par. 20 (AU 551.20)]
      | Yes | No | N/A |
      |-----|----|-----|
13. If the document contains interim financial information, is the auditor's report
   expanded, if required?
   [SAS 71, pars. 30—34 (AU 722.30—.34)]
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>
14. If supplementary information required by the FASB is presented outside the basic
   financial statements in an auditor-submitted document, is an opinion disclaimed
   on such information unless it has been audited?
   [SAS 29, par. 7 (AU 551.07)]
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>
15. If a report on "reportable conditions" observed during an audit of financial
   statements must be communicated to the audit committee or board of directors,
   does the report disclose:
   a. The purpose of the audit was to report on the financial statements and not to
      provide assurance on the internal control structure?
      | Yes | No | N/A |
      |-----|----|-----|
   b. The definition of "reportable conditions?"
      | Yes | No | N/A |
      |-----|----|-----|
   c. Restriction on distribution, audit committee, management and other internal
      persons?
      | Yes | No | N/A |
      |-----|----|-----|
   d. Reportable conditions that are material weaknesses?
      [SAS 60, pars. 11 and 15 (AU 325.11 and .15)]
      | Yes | No | N/A |
      |-----|----|-----|
16. If reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) that are derived from audited financial statements of a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency, does the auditor’s report indicate:

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<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>a.</td>
<td>The auditor has audited and expressed an opinion on the complete financial statements?</td>
<td></td>
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<tr>
<td>b.</td>
<td>The date of the report on the complete financial statements?</td>
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<tr>
<td>c.</td>
<td>The type of opinion expressed?</td>
<td></td>
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<tr>
<td>d.</td>
<td>Whether, in the auditor’s opinion, the information set forth in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived?</td>
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</table>

[SAS 42, par. 5 (AU 552.05)]

17. If, in a client-prepared document, a statement is made that names the auditor and also states that condensed financial statements are derived from audited financial statements that are not included herein and, additionally, the client is not a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency, does the auditor’s report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure?

[SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, fn. 6 (AU 552.07, fn. 6)]

18. If requested to report on selected financial data that is included in a client-prepared document that contains audited financial statements (or, with respect to a public entity, that incorporates such statements by reference to information filed with a regulatory agency) and that is derived from audited financial statements, does the auditor’s report indicate the following:

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<th>Yes</th>
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<th>N/A</th>
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<tbody>
<tr>
<td>a.</td>
<td>The auditor has audited and expressed an opinion on the complete financial statements?</td>
<td></td>
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<tr>
<td>b.</td>
<td>The type of opinion expressed?</td>
<td></td>
<td></td>
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<tr>
<td>c.</td>
<td>The specific data on which the auditor is reporting?</td>
<td></td>
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<tr>
<td>d.</td>
<td>Whether, in the auditor’s opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived?</td>
<td></td>
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</table>

[SAS 42, par. 9 (AU 552.09)]

19. If the selected financial data for any of the years presented is derived from financial statements that are audited by another independent auditor, does the auditor’s report on the selected financial data state that fact and that, therefore, the auditor cannot express an opinion on that data?

[SAS 42, par. 9 (AU 552.09)]

20. Is an explanatory paragraph added to the auditor’s report to disclose matters, such as regulatory violations, enforcement actions, litigation or failure to follow other governmental regulations and does the paragraph indicate that the outcome cannot presently be determined?

[SAS 58, pars. 31—32 (AU 508.31—.32)]

21. If a formal enforcement order is received from a governmental regulatory agency to cease and desist from unsafe and unsound practices, is that fact disclosed?

22. Are material weaknesses in internal controls resulting in governmental regulatory agency enforcement actions reported?

23. Does the auditor determine the bank’s compliance with regulatory capital requirements in considering appropriate disclosures to be made and the opinion to be rendered?

---
**Supplemental Checklist for Banks That Are SEC Registrants**

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

.02 Explanation of References

<table>
<thead>
<tr>
<th>SAB</th>
<th>SEC Staff Accounting Bulletin</th>
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<tbody>
<tr>
<td>FRR</td>
<td>SEC Financial Reporting Release</td>
</tr>
<tr>
<td>Reg. S-X</td>
<td>SEC Regulation S-X</td>
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</table>

.03 Checklist Questionnaire

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<th>Q.</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

A. Cash and Due From Banks

1. Is cash and due from banks (including all noninterest-bearing deposits with other banks) stated separately?  
   [Reg. S-X, Rule 9-03.1]  

2. Are any withdrawal and usage restrictions (including average reserve balances maintained with the Federal Reserve) or compensating balance requirements disclosed?  
   [Reg. S-X, Rule 9-03.1(a)]  

B. Investment Securities

1. Are the carrying value and market value of each of the following categories of securities disclosed [exclusive of borrowed securities and securities purchased under resale agreements or similar arrangements (consider disclosure on face of balance sheet)]:  
   a. U.S. Treasury and other U.S. Government agencies and corporations?  
   b. States of the U.S. and political subdivisions?  
   c. Other?  
   [Reg. S-X, Rule 9-03.6(a)]

2. Is disclosure made regarding the nature and extent of registrants’ repurchase and reverse repurchase agreements and the degree of risk involved in these transactions?  
   [FRR 24, Reg. S-X, Disclosure Amendment]  

C. Loans

1. Are each of the following loan categories stated separately:  
   [Reg. S-X, Rule 9-03.7(a) and (b)]  
   a. Commercial, financial and agricultural?  
   b. Real estate—construction?  
   c. Real estate—mortgage?  
   d. Installment loans to individuals?
e. Lease financing?  

f. Foreign?  

g. Other (if necessary to reflect any unusual risk concentration regardless of size)?  

[Reg. S-X, Rule 9-03.7(e)]

2. If related-party-loan disclosures are made, is an analysis of such loans for the latest fiscal year also provided (e.g., beginning balance, new loans, repayments, other charges and ending balance)?

[Reg. S-X, Rule 9-03.7(e)]

3. Are significant nonaccrual, past due, restructured, and potential problem loans disclosed?  

[Reg. S-X, Rule 9-03.7(e)(2)]

4. For liquidity problem loans in foreign countries, is a tabular summary presented showing:

   a. Aggregate loans outstanding at beginning of period?  
   b. Net change in short-term outstandings?  
   c. Additional outstandings?  
   d. Interest income accrued?  
   e. Collections of principal and interest?  
   f. Aggregate loans outstanding at end of period?  

[Reg. S-X, Rule 9-03.7(e)(2)]

5. Are disclosures about restructuring for problem loans in foreign countries made?  

[FRR 27, Reg. S-X, Disclosure Amendment]

D. Other Assets

1. For real estate other than bank premises:

   a. Is carrying basis disclosed?  
   b. Is allowance for losses deducted therefrom?  
   c. Is a summary of changes in allowance for losses presented?  
   d. Does summary show beginning balance, provision charged to income, losses charged to the allowance, and ending balance?  

[Reg. S-X, Rule 9-03.10(4a)]

E. Deposits

1. a. Are the amounts of noninterest-bearing and interest-bearing deposits stated separately?  
   b. Are foreign amounts also stated separately?  

[Reg. S-X, Rule 9-03.12]

F. Short-Term Borrowing

1. Are the following separately disclosed:

   a. Federal funds purchased and securities sold under agreements to repurchase?  
   b. Commercial paper?  
   c. Other short-term borrowings?  
   d. Unused lines of credit for short-term financing?  

[Reg. S-X, Rule 9-03.13]

---

1 For SEC purposes, related party loans made by the registrant or any of its subsidiaries to directors, executive officers, principal holders of equity securities or associates of such persons of the registrant or any of its significant subsidiaries (1-02). See Reg. S-X, Rule 9-30.7(e) for definition of "associate." Loans to any related party that do not exceed $60,000 (in aggregate) during the latest year may be excluded. [Reg. S-X, Rule 9-03.7(e)]
G. Other Liabilities

1. Is the amount of indebtedness to directors, executive officers, and principal holders of equity securities \(^2\) of the registrant or any of its significant subsidiaries [Reg. S-X, Rule 1-02], if the aggregate amount exceeds 5% of shareholders’ equity, disclosed?

   [Reg. S-X, Rule 9-03.15]  

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2. Are the following liabilities in excess of 30% of shareholder’s equity disclosed separately:

   a. Income taxes payable?
   b. Referred income taxes?
   c. Indebtedness to affiliates and other persons, the investments in which are accounted for by the equity method?  
   [Reg. S-X, Rule 9-03.15]  

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H. Interest and Fees on Loans

1. Are interest and fees on loans stated separately?  
   [Reg. S-X, Rule 9-04.1]  

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<th>Yes</th>
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I. Interest and Dividends on Investment Securities

1. Are the following amounts for investment securities stated separately:

   a. Taxable interest income?
   b. Nontaxable interest income?
   c. Dividends?  
   [Reg. S-X, Rule 9-04.2]  

<table>
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</table>

J. Income Statement Captions

1. Are the following captions in the income statement stated separately:

   a. Trading account interest?
   b. Other interest income?
   c. Total interest income (including a and b above)?
   d. Interest on deposits?
   e. Interest on short-term borrowings?
   f. Interest on long-term debt?
   g. Total interest expense (d through f)?
   h. Net interest income (line c, less line g)?
   i. Provision for loan losses?
   j. Net interest income after provision for loan losses?
   k. Other income?
   l. Other expense?
   m. Income or loss before income tax expense?
   n. Income tax expense?
   o. Income or loss before extraordinary items and cumulative effects of changes in accounting principles?
   p. Extraordinary items, less applicable taxes?
   q. Cumulative effects of changes in accounting principles?
   r. Net income or loss?
   s. Earning per share data?  
   [Reg. S-X, Rule 9-03.3—.21]  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

\(^2\) See Reg. S-X, Rule 9-03.7(e) for disclosures of related-party terms.
K. Other Income

1. Are any of the following amounts that exceed one percent of the aggregate of total interest income and other income stated separately:
   a. Commissions and fees from fiduciary activities (i.e., trust department income)?
   b. Commissions, brokers’ fees and markups on securities underwriting and other securities activities?
   c. Insurance commissions, fees and premiums?
   d. Fees for customer services?
   e. Trading account profit or loss?
   f. Equity in earnings of unconsolidated subsidiaries and 50% or less owned persons?
   g. Gains or losses on the disposition of equity investees or 50% or less owned persons?
   h. Other:
      (1) For investment security gains or losses:
         (i) Are investment securities gains or losses shown separately regardless of amount?
         (ii) Is method followed in determining cost of investments sold disclosed?
         (iii) Are related taxes disclosed in a footnote or parenthetically as a part of income tax expense?
            [Reg. S-X, Rule 9-04.13]

L. Other Expenses

1. Are any of the following amounts that exceed 1% of the aggregate of total interest income and other income stated separately:
   a. Salaries and employee benefits?
   b. Net occupancy expense of premises?
   c. Goodwill amortization?
   d. Net cost of operation of other real estate (including provisions for losses, rental income and gains and losses on sales)?
   e. Minority interest in income of consolidated subsidiaries?
   f. Other?
      [Reg. S-X, Rule 9-04.14]

M. Income Taxes

1. Is disclosure made of:
   a. Components of income (loss) before income tax expense (benefit, domestic or foreign)?
   b. Components of income tax expense, including:
      (1) Taxes currently payable?
      (2) Net tax effects of temporary differences?
     c. If other than the U.S. federal corporate income tax rate, the rate used and the basis for using such rate?
     d. The nature and tax effect of selected temporary differences?

2. Is a reconciliation of the reported income tax expense with the “computed expected” 3 tax amount?
   [Reg. S-X, Rule 4-08(h)]

---

3 The “computed expected” tax amount is defined as the amount determined by multiplying the financial statement income before income tax by the applicable statutory federal income tax rate. The reconciliation may be presented in percentages, in dollar amounts or both.
N. Condensed Financial Information of Parent Company Only

1. Is disclosure in a footnote made of the parent company's condensed balance sheet, income statement and statement of cash flows for the periods that correspond with the consolidated financial statements presented?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

2. Is the following condensed parent company information stated separately:
   a. Investments in bank subsidiaries?
   b. Indebtedness of and to bank subsidiaries?
   c. Cash dividends paid to the registrant by bank subsidiaries?  
      [Reg. S-X, Rule 9-06]
   d. Mandatory dividend or redemption requirements of redeemable stock?
   e. Guarantees?  
      [Reg. S-X, Rule 12-04(a)]

3. Is each of the following disclosed unless stated separately in the consolidated statements:
   a. Material contingencies?
   b. Significant provisions of long-term debt obligations?
   c. A five-year schedule of debt maturities?
   d. Mandatory dividend or redemption requirements of redeemable stock?
   e. Guarantees?  
      [Reg. S-X, Rule 12-04(a)]

4. Is separate disclosure made of cash dividends paid to the parent for each of the last three years by subsidiaries and investees accounted for by the equity method?  
   [Reg. S-X, Rule 12-04(b)]

O. Foreign Activities

Complete Items 1 to 5 if one or more of the following amounts associated with "foreign activities" exceed 10% of the related consolidated amounts as reported in the financial statements:

   a. Assets?
   b. Revenue?
   c. Income (loss) before income tax expenses?
   d. Net income (loss)?  
      [Reg. S-X, Rule 9-05(a)]

1. For each balance sheet, disclose total identifiable assets (net of valuation allowances) associated with foreign activities?  
   [Reg. S-X, Rule 9-05(b-1)]

2. For each income statement, disclose revenue, income (loss) before taxes, and net income (loss) associated with foreign activities?  
   [Reg. S-X, Rule 9-05(b-2)]

3. Disclose the information required by items 1 and 2 for each significant geographic area and in the aggregate for the other geographic areas not deemed significant?  
   [Reg. S-X, Rule 9-05(b-3)]

4. Disclose any significant estimates and assumptions, including those related to the cost of capital, used in allocating revenue and expenses to foreign activities?  
   [Reg. S-X, Rule 9-05(b-2)]

5. Disclose the nature and effects of any changes in estimates and assumptions referred to in item 4 that have a significant impact on interperiod comparability?  
   [Reg. S-X, Rule 9-05(b-2)]

---

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

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

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

1. When aggregate amounts guaranteed are material to the consolidated equity or where there is a material effect on results of operations before income taxes, are the following disclosures made:
   a. A general description of the type of obligations guaranteed (e.g., corporate, municipal general obligation, industrial revenue, etc.), the relative amount and range of maturity dates of each, and the degree of risk involved?
   b. The amount of exposure with respect to the debts of others guaranteed at the date of each balance sheet presented, including a discussion of how the participation by other parties and other factors that may reduce exposure are treated in determining the amount reported?
   c. The manner in which the registrant recognizes revenue with respect to the guarantees?
   d. The amount of unearned premiums as of the date of each balance sheet?
   e. Whether the registrant provides an allowance for losses by charges against income and, if so, the basis for the reserve and its amount at each balance-sheet date?
   f. Any other information that may be necessary to adequately describe the nature and extent of the obligations guaranteed and the degree of risk related to the guarantees?
   [SAB 60]

Q. Quarterly Information

1. For registrants required to include selected quarterly financial data, are the following captions, at a minimum, disclosed:
   a. Interest income?
   b. Interest expense?
   c. Provision for loan losses?
   d. Security gains or losses?
   e. Net income?
   f. Earnings per share?
   [SAB Topic 6.G.]

R. Foreign Debt Exchanges

1. If the registrant is involved in a “Mexican Debt Exchange,” are the following disclosures considered:
   a. Carrying value and terms of obligations exchanged?
   b. Face value, carrying value, market value and terms of bonds received?
   c. The effect of the transaction on the allowance for loan losses and the provision for loan losses?
   d. Annual interest income on the obligations exchanged and the annual interest income on the bonds received?
   [SAB 75]

S. Schedules

1. Is the following schedule filed if required (Schedule Number I refers to Reg. S-X, Rule 9-07 and Reg. S-X, Rule 12-05):
   a. Indebtedness to Related Parties—[filed in support of subcaption (Reg. S-X, Rule 9-03.15(4))—Indebtedness to directors, executive officers, and principal holders of equity securities of the registrant or any of its significant subsidiaries]?

---

7 Rule 12-05 provides instructions for the schedule, “Indebtedness of and to Related Parties.” Portions of that schedule relating to “indebtedness of” related parties may be omitted because that information is required to be disclosed under Rule 9-03.7(c) of Regulation S-X.
2. Is the following schedule filed if required (Schedule Number II refers to Reg. S-X, Rule 9-07 and Reg. S-X, Rule 12-08):

   a. Guarantees of Securities of Other Issuers—[filed with respect to any guarantees of securities of other issuers by the person for which the statement is being filed]?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

T. Other SEC Related Disclosures

1. Have the following Staff Accounting Bulletins been considered for disclosure items:

   a. SAB Topic 11-K, added by SAB 69, expressing the staff’s views on the use of Article 9 and Industry Guide 3 as guidance for disclosure purposes by registrants that are not bank holding companies?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   b. SAB Topic 1-F, added by SAB No. 50, reflecting the staff’s views on the financial statement requirements in filings involving the formation of a one-bank holding company?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   c. SAB Topic 11-G, discussing the use of tax-equivalent-adjusted amounts in financial statements?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   d. SAB Topic 11-I, added by SAB 56, expressing the staff’s views about the reporting of Allocated Transfer Risk Reserve (ATRR) provisions established when federal banking agencies determine that such reserves are necessary?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   e. SAB Topic 5-V, added by SAB No. 82, discussing the staff’s views regarding the accounting for transfers of nonperforming assets by financial institutions? (See also SAB Topic 5-E)

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   f. SAB Topic 11-N, also added by SAB No. 82, expressing the staff’s views regarding the required disclosure by a financial institution that receives financial assistance from a federal regulatory agency?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   g. SAB Topic 5-X, added by SAB No. 91, discussing the staff’s views regarding accounting for income tax benefits associated with bad debts of thrifts?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
Illustrative Financial Statements

.01 The following are some additional disclosures not included in the illustrative bank financial statements but could be found in typical bank financial statements.

- Consolidation policy and accounting for equity investments.
- Basis of translation for foreign currency assets and liabilities and foreign exchange gains and losses.
- Description of any business combination, the method of accounting for such combinations, its effect on current and prior financial statements, and other pertinent details.
- Amounts of restricted cash, including legally restricted compensating balances.
- Foreign loans reported as governments and official institutions; banks and other financial intermediaries; commercial and industrial; and other.
- Disclosure of loans to less developed countries (LDC loans), loan loss allowances established, and the accrual of interest income on those loans.
- Amounts for net investment in and certain details about direct financing leases.
- The dollar amount of assets that have been restructured because of borrowers' financial difficulties and the effect on income of such troubled debt including disclosure of commitments to advance additional funds to such debtors.
- An analysis of changes in the allowance for loan losses showing, by category of loans, amounts charged against and recoveries credited to the allowance, as well as provisions charged to operations, for both the consolidated total allowance and for the portion of the allowance applicable to loans related to foreign activities.
- Disclosure of the allocation of the period-end allowance for loan losses by loan type.
- Separate identification of non-interest-bearing versus interest-bearing deposits and deposits taken in domestic banking offices versus deposits taken in foreign offices, average balances, rates paid for deposits (domestic and foreign), and disclosure of time certificates of $100,000 or more (domestic and foreign).
- Disclosure of unused lines of credit, including fees and conditions that could cause them to be withdrawn.
- Disclosure of each outstanding debt issue or type of obligation and pertinent details such as interest rate, maturity, convertibility, priority, and any contingent repayment terms, together with disclosure of the aggregate maturities and sinking fund requirements for each of the five years following the balance sheet date and, if significant, details regarding unused commitments for long-term debt.
- Disclosure of the amount of long-term debt qualifying as primary or secondary capital.
- For SEC purposes, redeemable preferred stock with mandatory redemption features or redemption features outside the control of the issuer, should be disclosed in a caption preceding and not included in the shareholders' equity accounts.
- Description of major provisions and pertinent details regarding stock option plans, including the security issues involved, the number of shares under option, and the number of shares related to options granted, exercised, exercisable, and expired, showing dates, option prices, and market prices.
• Disclosure of identifiable assets and revenue and expense attributable to foreign operation in the aggregate and by significant geographic area.

• Accounting treatment of interest rate swaps, futures, options, and risk participations.

• Notional principal amounts outstanding under interest rate swap agreements, forward and future contracts, outstanding exposure on banker's acceptance and commitments to purchase loans.

• Disclosure of option contracts and income or expense recognition.

• Disclosure of fiduciary fees.
The following report of the independent CPA and financial statements illustrate one form of currently acceptable practice. The CPA should be guided by existing auditing standards concerning the report. Other forms of financial statements are acceptable. More or less detail should appear in the financial statements or in the notes depending on the circumstances.

.02

Independent Auditor's Report

The Board of Directors and Shareholders

Sample National Bank:

We have audited the accompanying consolidated statements of financial condition of Sample National Bank and Subsidiary as of December 31, 19X2 and 19X1, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sample National Bank and Subsidiary at December 31, 19X2 and 19X1, and the consolidated results of their operations and their cash flows for each of the years then ended, in conformity with generally accepted accounting principles.

__________________________________________
Auditor's Signature

Anytown, Anystate

January XX, 19X3
Sample National Bank and Subsidiary

Consolidated Statements of Financial Condition

December 31, 19X2 and 19X1

<table>
<thead>
<tr>
<th>Assets</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and due from banks</td>
<td>$3,815,158</td>
<td>$2,496,836</td>
</tr>
<tr>
<td>Interest-bearing deposits with banks</td>
<td>4,558,992</td>
<td>4,443,446</td>
</tr>
<tr>
<td>Federal funds sold</td>
<td>1,066,170</td>
<td>152,930</td>
</tr>
<tr>
<td>Trading account securities</td>
<td>30,374</td>
<td>30,118</td>
</tr>
<tr>
<td>Investment securities (market value of $8,360,340 in 19X2 and $6,626,990 in 19X1)</td>
<td>8,198,266</td>
<td>6,727,274</td>
</tr>
<tr>
<td>Loans</td>
<td>30,063,281</td>
<td>29,670,820</td>
</tr>
<tr>
<td>Less allowance for credit losses</td>
<td>(597,769)</td>
<td>(582,438)</td>
</tr>
<tr>
<td>Net loans</td>
<td>29,465,512</td>
<td>29,088,382</td>
</tr>
<tr>
<td>Properties and equipment</td>
<td>750,859</td>
<td>693,141</td>
</tr>
<tr>
<td>Customers' liability on acceptances</td>
<td>85,569</td>
<td>55,725</td>
</tr>
<tr>
<td>Accrued income and other assets</td>
<td>1,691,592</td>
<td>1,198,395</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$49,662,492</strong></td>
<td><strong>$44,886,247</strong></td>
</tr>
</tbody>
</table>

Liabilities and Shareholders' Equity

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand deposits</td>
<td>$9,073,765</td>
<td>$8,068,695</td>
</tr>
<tr>
<td>Savings and NOW deposits</td>
<td>8,266,877</td>
<td>8,416,705</td>
</tr>
<tr>
<td>Other time deposits</td>
<td>24,173,312</td>
<td>21,908,521</td>
</tr>
<tr>
<td><strong>Total deposits</strong></td>
<td><strong>41,513,954</strong></td>
<td><strong>38,393,921</strong></td>
</tr>
<tr>
<td>Federal funds purchased and securities sold under agreements to repurchase</td>
<td>2,846,105</td>
<td>1,946,451</td>
</tr>
<tr>
<td>Other borrowed funds</td>
<td>648,207</td>
<td>490,183</td>
</tr>
<tr>
<td>Acceptances outstanding</td>
<td>85,569</td>
<td>55,725</td>
</tr>
<tr>
<td>Accrued expenses and other liabilities</td>
<td>1,129,842</td>
<td>920,086</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>330,740</td>
<td>343,461</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>46,554,417</strong></td>
<td><strong>42,149,827</strong></td>
</tr>
</tbody>
</table>

Shareholders' equity

<table>
<thead>
<tr>
<th>Common stock—$1 par value</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized—1,000,000 shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding—734,480 and 727,200 shares</td>
<td>734,480</td>
<td>727,200</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>316,204</td>
<td>280,649</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>2,061,771</td>
<td>1,733,284</td>
</tr>
<tr>
<td>Unrealized depreciation on equity securities</td>
<td>(4,380)</td>
<td>(4,713)</td>
</tr>
<tr>
<td><strong>Total shareholders' equity</strong></td>
<td><strong>3,108,075</strong></td>
<td><strong>2,736,420</strong></td>
</tr>
</tbody>
</table>

**Total liabilities and shareholders' equity**

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$49,662,492</strong></td>
<td><strong>$44,886,247</strong></td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
```
Sample National Bank and Subsidiary

Consolidated Statements of Income
December 31, 19X2 and 19X1

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and fees on loans</td>
<td>$3,303,613</td>
<td>$2,784,548</td>
</tr>
<tr>
<td>Interest on investment securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable</td>
<td>518,945</td>
<td>362,730</td>
</tr>
<tr>
<td>Exempt from Federal income tax</td>
<td>153,837</td>
<td>162,815</td>
</tr>
<tr>
<td></td>
<td>672,782</td>
<td>525,545</td>
</tr>
<tr>
<td>Interest on trading account securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on federal funds sold</td>
<td>4,641</td>
<td>15,819</td>
</tr>
<tr>
<td>Interest on deposits with banks</td>
<td>231,007</td>
<td>135,027</td>
</tr>
<tr>
<td>Total interest income</td>
<td>4,579,423</td>
<td>3,797,583</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on deposits</td>
<td>2,500,222</td>
<td>1,912,015</td>
</tr>
<tr>
<td>Interest on federal funds purchased and securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>sold under agreements to repurchase</td>
<td>351,175</td>
<td>324,356</td>
</tr>
<tr>
<td>Interest on other borrowed funds</td>
<td>39,434</td>
<td>30,567</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>32,873</td>
<td>30,012</td>
</tr>
<tr>
<td>Total interest expense</td>
<td>2,923,704</td>
<td>2,296,950</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td>1,655,719</td>
<td>1,500,633</td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>(174,871)</td>
<td>(139,345)</td>
</tr>
<tr>
<td>Net interest income after provision for credit losses</td>
<td>1,480,848</td>
<td>1,361,288</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from fiduciary activities</td>
<td>241,799</td>
<td>212,843</td>
</tr>
<tr>
<td>Service charges on deposit accounts</td>
<td>162,270</td>
<td>152,901</td>
</tr>
<tr>
<td>Other service charges and fees</td>
<td>145,371</td>
<td>118,958</td>
</tr>
<tr>
<td>Net trading account profits or losses</td>
<td>2,181</td>
<td>3,107</td>
</tr>
<tr>
<td>Net investment securities gains</td>
<td>2,938</td>
<td>806</td>
</tr>
<tr>
<td>Other income</td>
<td>168,512</td>
<td>173,323</td>
</tr>
<tr>
<td>Total other income</td>
<td>723,071</td>
<td>661,938</td>
</tr>
<tr>
<td><strong>Other expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>877,535</td>
<td>806,995</td>
</tr>
<tr>
<td>Occupancy expense</td>
<td>146,741</td>
<td>138,385</td>
</tr>
<tr>
<td>Equipment expense</td>
<td>97,769</td>
<td>96,336</td>
</tr>
<tr>
<td>Other expense</td>
<td>438,785</td>
<td>407,779</td>
</tr>
<tr>
<td>Total other expense</td>
<td>1,560,830</td>
<td>1,449,495</td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>643,089</td>
<td>573,731</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>125,538</td>
<td>109,367</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$517,551</td>
<td>$464,364</td>
</tr>
<tr>
<td>Net income per share of common stock</td>
<td>$0.70</td>
<td>$0.63</td>
</tr>
<tr>
<td>Average shares outstanding</td>
<td>734,480</td>
<td>734,480</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
```
Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 19X2 and 19X1

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Capital Surplus</th>
<th>Retained Earnings</th>
<th>Unrealized Depreciation on Equity Securities</th>
<th>Total Shareholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at December 31, 19X0</strong></td>
<td>$720,002</td>
<td>$255,698</td>
<td>$1,423,202</td>
<td>($2,353)</td>
<td>$2,396,549</td>
</tr>
<tr>
<td>Net income for 19X1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash dividends paid—$0.170 per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1% Stock dividend—7,198 shares of common stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net change in unrealized depreciation on equity securities</td>
<td>7,198</td>
<td>24,951</td>
<td></td>
<td>(32,149)</td>
<td>(2,360)</td>
</tr>
<tr>
<td><strong>Balance at December 31, 19X1</strong></td>
<td>727,200</td>
<td>280,649</td>
<td>1,733,284</td>
<td>(4,713)</td>
<td>2,736,420</td>
</tr>
<tr>
<td>Net income for 19X2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash dividends paid—$0.201 per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1% Stock dividend—7,280 shares of common stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net change in unrealized depreciation on equity securities</td>
<td>7,280</td>
<td>35,555</td>
<td></td>
<td>(42,835)</td>
<td>333</td>
</tr>
<tr>
<td><strong>Balance at December 31, 19X2</strong></td>
<td>$734,480</td>
<td>$316,204</td>
<td>$2,061,771</td>
<td>($4,380)</td>
<td>$3,108,075</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Consolidated Statements of Cash Flows

Years Ended December 31, 19X2 and 19X1

Increase (Decrease) in Cash and Equivalents

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>$517,551</td>
<td>$464,364</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>87,633</td>
<td>82,857</td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>174,871</td>
<td>139,345</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(4,366)</td>
<td>(15,211)</td>
</tr>
<tr>
<td>Net investment securities gains</td>
<td>(2,938)</td>
<td>(806)</td>
</tr>
<tr>
<td>Net (increase) decrease in trading account securities</td>
<td>(256)</td>
<td>(23,321)</td>
</tr>
<tr>
<td>Increase in accrued income and other assets</td>
<td>(493,198)</td>
<td>(51,374)</td>
</tr>
<tr>
<td>Increase in accrued expenses and other liabilities</td>
<td>209,755</td>
<td>137,927</td>
</tr>
<tr>
<td>Other Net</td>
<td>(97,732)</td>
<td>(74,848)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>(126,231)</td>
<td>194,569</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>391,320</td>
<td>658,933</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net (increase) decrease in interest bearing deposits with banks</td>
<td>(115,542)</td>
<td>14,386</td>
</tr>
<tr>
<td>Net (increase) decrease in federal funds sold</td>
<td>(913,240)</td>
<td>1,039,487</td>
</tr>
<tr>
<td>Proceeds from sales of investment securities</td>
<td>261,755</td>
<td>308,528</td>
</tr>
<tr>
<td>Proceeds from maturities of investment securities</td>
<td>2,575,689</td>
<td>1,190,063</td>
</tr>
<tr>
<td>Purchases of investment securities</td>
<td>(4,681,518)</td>
<td>(3,905,005)</td>
</tr>
<tr>
<td>Net increase in loans</td>
<td>(73,549)</td>
<td>(639,842)</td>
</tr>
<tr>
<td>Purchases of properties and equipment</td>
<td>(145,351)</td>
<td>(144,010)</td>
</tr>
<tr>
<td>Net (increase) decrease in customers liability on acceptances outstanding</td>
<td>(29,844)</td>
<td>25,820</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(3,121,603)</td>
<td>(2,110,573)</td>
</tr>
<tr>
<td>Cash flows from financing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase in non-interest bearing demand savings and NOW deposit accounts</td>
<td>855,242</td>
<td>92,482</td>
</tr>
<tr>
<td>Net increase in time deposits</td>
<td>2,264,792</td>
<td>3,326,016</td>
</tr>
<tr>
<td>Net increase (decrease) in borrowed funds</td>
<td>1,057,678</td>
<td>(2,666,223)</td>
</tr>
<tr>
<td>Net increase (decrease) in acceptances outstanding</td>
<td>29,844</td>
<td>(25,820)</td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(12,722)</td>
<td>(16,465)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(146,229)</td>
<td>(122,133)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>4,048,605</td>
<td>567,857</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and due from banks</td>
<td>1,318,322</td>
<td>(883,783)</td>
</tr>
<tr>
<td>Cash and due from banks at January 1</td>
<td>2,496,836</td>
<td>3,380,619</td>
</tr>
<tr>
<td>Cash and due from banks at December 31</td>
<td>$3,815,158</td>
<td>$2,496,836</td>
</tr>
<tr>
<td>Interest paid</td>
<td>$2,801,929</td>
<td>$2,159,024</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>$111,909</td>
<td>$32,506</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.
Sample National Bank and Subsidiary

Notes to Consolidated Financial Statements

Years Ended December 31, 19X2 and 19X1

Note A

Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements of Sample Bank (the Bank) include the accounts of the Bank and its wholly owned subsidiary which owns all of the Bank’s premises. Significant intercompany transactions and amounts have been eliminated.

Investment Securities

Investment debt securities are those securities which the Bank has the ability and intent to hold to maturity. These securities are stated at cost adjusted for amortization of premium and accretion of discount, computed by the interest method. Generally, such securities are sold only to meet liquidity needs. Gains and losses on the sale of investment securities are computed on the basis of specific identification of the adjusted cost of each security. The investment marketable equity security is carried at the lower of cost or market value.

Trading Account Securities

Trading account securities are valued at estimated market value. Trading account gains and losses and fee income are included in other income.

Allowance for Credit Losses

The allowance is maintained at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual credits, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Credits deemed uncollectible are charged to the allowance. Provisions for credit losses and recoveries on loans previously charged off are added to the allowance.

Properties and Equipment

Properties and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed principally by the straight-line method.

Interest Income on Loans

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.
Loan Origination Fees and Costs

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

Pension Costs

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

Postretirement Benefits

Postretirement health care and life insurance benefits are charged to salaries and employee benefits expense when paid. In December, 1990, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Under SFAS No. 106, beginning in 1993, postretirement benefits other than pensions must be accounted for in a manner similar to current standards for accounting for pensions. SFAS No. 106 will require that the accumulated postretirement benefit obligation be either charged in the income statement as a cumulative effect of a change in accounting in the period of adoption or delayed and amortized over future periods as part of future postretirement benefit costs. The Bank has not yet determined the impact on net income in the year of adoption. The amount paid for such benefits in 19X2 was $23,542.

Income Taxes

Provisions for income taxes are based on amounts reported in the statements of income (after exclusion of non-taxable income such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Deferred taxes are computed on the liability method as prescribed in SFAS No. 109, "Accounting for Income Taxes."

Net Income Per Share of Common Stock

Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period, after giving retroactive effect to stock dividends.

Trust Fees

Trust fees are recorded on the accrual basis.

Off Balance Sheet Financial Instruments

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

Cash and Cash Equivalents

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

#### Investment Securities

The carrying amounts of investment securities as shown in the consolidated balance sheets of the Bank and their approximate market values at December 31 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Carrying Amount</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 19X2:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government and agency securities</td>
<td>$5,584,802</td>
<td>$165,862</td>
<td>$43,834</td>
<td>$5,706,830</td>
</tr>
<tr>
<td>State &amp; municipal securities</td>
<td>2,251,945</td>
<td>43,735</td>
<td>4,258</td>
<td>2,291,422</td>
</tr>
<tr>
<td>Other securities</td>
<td>361,519</td>
<td>569</td>
<td>0</td>
<td>362,088</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,198,266</strong></td>
<td><strong>$210,166</strong></td>
<td><strong>48,092</strong></td>
<td><strong>$8,360,340</strong></td>
</tr>
</tbody>
</table>

| December 31, 19X1:   |                 |                  |                   |              |
| U.S. Government and agency securities | $4,083,389 | $14,586 | $97,063 | $4,000,912 |
| State & municipal securities       | 2,279,983 | 14,775 | 33,194 | 2,261,564 |
| Other securities                 | 363,902 | 612 | 0 | 364,514 |
| **Total**                       | **$6,727,274** | **$29,973** | **130,257** | **$6,626,990** |

Assets, principally securities, carried at approximately $5,466,000 at December 31, 19X2 and $2,895,000 at December 31, 19X1, were pledged to secure public deposits and for other purposes required or permitted by law. Included in other securities is one marketable equity security with an original cost of $98,560 and market values of $94,180 at December 31, 19X2 and $93,847 at December 31, 19X1.

Gross realized gains and gross realized losses on sales of securities were:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government and agency securities</td>
<td>$5,648</td>
<td>$2,230</td>
</tr>
<tr>
<td>State &amp; municipal securities</td>
<td>1,813</td>
<td>1,261</td>
</tr>
<tr>
<td>Other securities</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government and agency securities</td>
<td>$3,919</td>
<td>$1,399</td>
</tr>
<tr>
<td>State &amp; municipal securities</td>
<td>604</td>
<td>1,286</td>
</tr>
<tr>
<td>Other securities</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The maturities of investment securities at December 31, 19X2 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Carrying Amount</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in one year or less</td>
<td>$2,435,358</td>
<td>$2,519,666</td>
</tr>
<tr>
<td>Due from one to five years</td>
<td>2,291,509</td>
<td>2,438,578</td>
</tr>
<tr>
<td>Due from five to ten years</td>
<td>1,987,676</td>
<td>1,975,466</td>
</tr>
<tr>
<td>Due after ten years</td>
<td>1,389,543</td>
<td>1,332,450</td>
</tr>
<tr>
<td>Marketable equity security</td>
<td>94,180</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,001,244</strong></td>
<td><strong>$7,256,160</strong></td>
</tr>
</tbody>
</table>
Note C

Loans

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

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>$17,348,688</td>
<td>$17,552,801</td>
</tr>
<tr>
<td>Real estate construction</td>
<td>991,181</td>
<td>1,093,953</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>2,720,650</td>
<td>2,476,617</td>
</tr>
<tr>
<td>Residential real estate</td>
<td>3,975,595</td>
<td>3,820,523</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30,063,281</strong></td>
<td><strong>$29,670,820</strong></td>
</tr>
</tbody>
</table>

Note D

Allowance for Credit Losses

An analysis of the change in the allowance for credit losses follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1</td>
<td>$582,438</td>
<td>$542,232</td>
</tr>
<tr>
<td>Credits charged off</td>
<td>(190,618)</td>
<td>(126,324)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>31,078</td>
<td>27,185</td>
</tr>
<tr>
<td><strong>Net credits charged off</strong></td>
<td>(159,540)</td>
<td>(99,139)</td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>174,871</td>
<td>139,345</td>
</tr>
<tr>
<td>Balance at December 31</td>
<td>$597,769</td>
<td>$582,438</td>
</tr>
</tbody>
</table>

Note E

Properties and Equipment

Components of properties and equipment included in the consolidated balance sheets at December 31, 19X2 and 19X1 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$ 78,188</td>
<td>$ 72,895</td>
</tr>
<tr>
<td>Bank premises</td>
<td>520,817</td>
<td>503,179</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>666,684</td>
<td>560,724</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>125,046</td>
<td>115,301</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td>1,390,735</td>
<td>1,252,099</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(639,876)</td>
<td>(558,958)</td>
</tr>
<tr>
<td><strong>Net book value</strong></td>
<td>$ 750,859</td>
<td>$ 693,141</td>
</tr>
</tbody>
</table>

The Bank's main office building, which has a net book value of $186,981, is pledged to collateralize the 9.25% mortgage payable.

Certain Bank facilities and equipment are leased under various operating leases. Rental expense was $55,811 in 19X2 and $56,610 in 19X1. Future minimum rental commitments under noncancelable leases are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>19X3</td>
<td>$28,931</td>
</tr>
<tr>
<td>19X4</td>
<td>27,016</td>
</tr>
<tr>
<td>19X5</td>
<td>15,968</td>
</tr>
<tr>
<td>19X6</td>
<td>14,029</td>
</tr>
<tr>
<td>19X7</td>
<td>11,603</td>
</tr>
<tr>
<td>Thereafter</td>
<td>78,154</td>
</tr>
</tbody>
</table>

| Total | $175,701  |
Note F

Short-Term Borrowings

Federal funds purchased and securities sold under agreements to repurchase generally mature within one to four days from the transaction date. Other borrowed funds consist of term federal funds purchased and treasury tax and loan deposits and generally mature within one to 120 days from the transaction date.

Note G

Long-Term Debt

Long-term debt consisted of the following at year-end:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Floating rate notes due 19X6</td>
<td>$290,000</td>
<td>$290,000</td>
</tr>
<tr>
<td>9.25% mortgage</td>
<td>15,444</td>
<td>19,746</td>
</tr>
<tr>
<td>9% subordinated term loan 20X4</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Total Bank</td>
<td>320,444</td>
<td>324,746</td>
</tr>
<tr>
<td>Notes of subsidiary</td>
<td>10,296</td>
<td>18,715</td>
</tr>
<tr>
<td></td>
<td>$330,740</td>
<td>$343,461</td>
</tr>
</tbody>
</table>

In 19X9, the Bank issued $290,000 of floating rate notes due in 19X6 in a private placement with an insurance company. Interest is calculated semiannually at the rate of 3/4% over the six-month Eurodollar deposit rate (9 3/4% at December 31, 19X2). In September, 19X4, the notes may be redeemed without premium, in whole or in part at the option of the Bank. A portion of the notes qualifies as capital for bank regulatory purposes, which may limit the Bank's ability to repay the notes prior to maturity. At December 31, 19X2, $174,000 qualified as capital.

The 9% mortgage is payable in equal annual installments of $6,128 on December 15 each year through 19X5. The Bank may prepay between $2,400 and $6,128 annually without penalty and, in addition, may redeem the remaining notes at declining premiums (2.92% at December 31, 19X2).

The 9% subordinated term loan due May 31, 20X4, is from a non-affiliated bank and may not be repaid prior to June 30, 19X6.

The notes of the Bank's subsidiary represent amounts due to prior owners of certain of the Bank's premises. Such notes mature at various dates through 19X5. These notes are unsecured and have interest rates from 9.5% to 11%.

Except for the floating rate notes due in 19X6, there are no significant amounts of long-term debt due in any one year.

Note H

Employee Benefits

The Bank has a defined contribution pension plan in effect for substantially all full-time employees. Salaries and employee benefits expense includes $26,493 in 19X2, and $24,053 in 19X1, for such plans. Contributions under the defined contribution plan are made at the discretion of the Board of Directors, but have amounted to 4% of gross salaries for the past five years.
Note I

Income Taxes

The consolidated provision for income taxes consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currently payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$119,392</td>
<td>$90,967</td>
</tr>
<tr>
<td>State</td>
<td>1,780</td>
<td>3,189</td>
</tr>
<tr>
<td></td>
<td>121,172</td>
<td>94,156</td>
</tr>
<tr>
<td>Deferred federal</td>
<td>4,366</td>
<td>15,211</td>
</tr>
<tr>
<td></td>
<td>$125,538</td>
<td>$109,367</td>
</tr>
</tbody>
</table>

The provision for federal income taxes is less than that computed by applying the federal statutory rate of 34% in 19X2, and 19X1, as indicated in the following analysis:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax based on statutory rate</td>
<td>$218,652</td>
<td>$195,071</td>
</tr>
<tr>
<td>Effect of tax-exempt income</td>
<td>(73,701)</td>
<td>(67,053)</td>
</tr>
<tr>
<td>Recognition of previously unrecognized tax benefits on loan loss provisions</td>
<td>(17,373)</td>
<td>(20,518)</td>
</tr>
<tr>
<td>Dividends received deduction</td>
<td>(3,049)</td>
<td>(2,769)</td>
</tr>
<tr>
<td>Interest and other nondeductible expenses</td>
<td>4,733</td>
<td>4,882</td>
</tr>
<tr>
<td>Other (net)</td>
<td>(3,724)</td>
<td>(246)</td>
</tr>
<tr>
<td></td>
<td>$125,538</td>
<td>$109,367</td>
</tr>
</tbody>
</table>

The components of deferred income taxes were principally related to the allowance for credit losses, to depreciation, to loan origination fees and costs, and to employee benefits.

Note J

Related Parties

The Bank has entered into transactions with its directors, significant shareholders and their affiliates (Related Parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties at December 31, 19X2, was $443,850. During 19X2, new loans to such related parties amounted to $127,400 and repayments amounted to $122,100.

Note K

Contingent Liabilities and Commitments

The Bank's consolidated financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit, commercial letters of credit, and standby letters of credit. A summary of the Bank's commitments and contingent liabilities at December 31, 19X2, is as follows:
Commitments to extend credit, credit card arrangements, commercial letters of credit, and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Bank’s credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded on the consolidated statements of condition. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Bank. The Bank’s experience has been that approximately sixty percent of loan commitments are drawn upon by customers. While approximately 90% of commercial letters of credit are utilized, a significant portion of such utilization is on an immediate payment basis. The remainder are secured by the goods acquired by the customer with the letter of credit. The Bank has not been required to perform on any financial guarantees during the past two years. The Bank has not incurred any losses on its commitments in either 19X2 or 19X1.

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

**Note L**

**Concentrations of Credit**

All of the Bank’s loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank’s market area. All such customers are depositors of the Bank. Investments in state and municipal securities also involve governmental entities within the Bank’s market area. The concentrations of credit by type of loan are set forth in Note C. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of $500,000.

**Note M**

**Regulatory Matters**

The Bank, as a National Bank is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year’s earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends, as of December 31, 19X2, that the Bank could declare, without the approval of the Comptroller of the Currency, amounted to approximately $635,000. The Bank is also required to maintain minimum amounts of capital to total "risk weighted" assets, as defined by the banking regulators. At December 31, 19X2, the Bank is required to have minimum Tier 1 and Total capital ratios of 4.00% and 8.00% respectively. The Bank’s actual ratios at that date were 7.85% and 9.20% respectively. The Bank’s leverage ratio at December 31, 19X2, was 7.00%.

<table>
<thead>
<tr>
<th>Commitments to extend credit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit card arrangements</td>
<td>12,000</td>
</tr>
<tr>
<td>Commercial letters of credit</td>
<td>25,000</td>
</tr>
<tr>
<td>Standby letters of credit</td>
<td>50,000</td>
</tr>
</tbody>
</table>
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