
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

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS IN THE SERIES

Checklists and Illustrative Financial Statements for Corporations

Checklist Supplements and Illustrative Financial Statements
Checklist Supplement and Illustrative Financial Statements for Construction Contractors
Checklist Supplement and Illustrative Financial Statements for Investment Companies
Checklist Supplement and Illustrative Financial Statements for Real Estate Ventures

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
Checklists and Illustrative Financial Statements for Credit Unions
Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans
Checklists and Illustrative Financial Statements for Employee Health and Welfare Benefit Plans
Checklists and Illustrative Financial Statements for Finance Companies
Checklists and Illustrative Financial Statements for Health Care Providers
Checklists and Illustrative Financial Statements for Life Insurance Companies
Checklists and Illustrative Financial Statements for Not-for-Profit Organizations
Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies
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

Checklists and Illustrative Financial Statements for Banks has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.
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FSP Section 6000
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. 94-1, AICPA Audit and Accounting Guide, Audits of Banks (with conforming changes as of May 1, 1994), and EITF consensuses adopted up to and including the May 19, 1994, 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 the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

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Note: This publication was extracted from sections 6,000 through 6,600 of the AICPA Financial Statement Preparation Manual (FSP).
FSP Section 6100

Introduction

.01 The U.S. banking system operates under comprehensive state and Federal rules and regulations. These rules and regulations greatly influence 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 features 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.
- 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 Audit and Accounting Guide, Audits of Finance Companies, apply.
FSP Section 6200
Checklists—General

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

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

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

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

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

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

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

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.
FSP Section 6300

Financial Statements and Notes Checklist

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

.02 Explanation of References:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARB</td>
<td>AICPA Accounting Research Bulletin</td>
</tr>
<tr>
<td>APB</td>
<td>AICPA Accounting Principles Board Opinion</td>
</tr>
<tr>
<td>SFAS</td>
<td>FASB Statement of Financial Accounting Standards</td>
</tr>
<tr>
<td>SAS</td>
<td>AICPA Statement of Auditing Standards</td>
</tr>
<tr>
<td>FASBI</td>
<td>FASB Financial Accounting Standards Board Interpretation</td>
</tr>
<tr>
<td>TB</td>
<td>Technical Bulletin issued by the staff of the FASB ¹</td>
</tr>
<tr>
<td>AC</td>
<td>Reference to section number in FASB Accounting Standards—Current Text</td>
</tr>
<tr>
<td>AU</td>
<td>Reference to section number in AICPA Professional Standards (vol. 1)</td>
</tr>
<tr>
<td>AAG-BNK</td>
<td>AICPA Audit and Accounting Guide, Audits of Banks (with conforming changes as of May 1, 1994)</td>
</tr>
<tr>
<td>SOP</td>
<td>AICPA Statement of Position</td>
</tr>
<tr>
<td>EITF</td>
<td>Emerging Issues Task Force Consensus</td>
</tr>
<tr>
<td>Reg. S-X</td>
<td>SEC Regulation S-X</td>
</tr>
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</table>

.03 Checklist Questionnaire

<table>
<thead>
<tr>
<th>General</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>A. Titles and References</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1. Are the financial statements suitably titled?</td>
<td></td>
<td></td>
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<tr>
<td>[SAS 62, par. 7 (AU 623.07)]</td>
<td></td>
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<tr>
<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></td>
<td></td>
</tr>
<tr>
<td>[Generally Accepted]</td>
<td></td>
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<tr>
<td>B. Disclosure of Accounting Policies</td>
<td></td>
<td></td>
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<tr>
<td>1. Is a description of all significant accounting policies of the bank presented as an integral part of the financial statements?</td>
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<tr>
<td>[APB 22, par. 8 (AC A10.102)]</td>
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<tr>
<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?</td>
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<tr>
<td>[APB 22, par. 12 (AC A10.105)]</td>
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</tbody>
</table>

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 financial statements and notes thereto) so duplication of details is avoided?  
[APB 22, par. 14 (AC A10.107)]

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

C. Accounting Changes
1. For an accounting change, does disclosure in the period of the change include:
   a. Nature of the change?  
   b. Justification for the change including a clear explanation of why the newly adopted principle is preferable?  
   c. Effect on income before extraordinary items and net income?  
[APB 20, par. 17 (AC A06.113)]

2. For all changes in accounting principles, except those concerning a change in entity:
   a. Are financial statements included for prior periods, for comparative purposes, as previously reported?  
   b. Is the effect of the new accounting principle on income before extraordinary items and on net income and the related earnings-per-share amounts disclosed in the period of the change?  
   c. Are income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected?  
[APB 20, pars. 19—21 and 25 (AC A0115—117)]

3. If appropriate, is the cumulative effect of a change in accounting principle shown separately between the captions "extraordinary items" and "net income"?  
[APB 20, pars. 18—26 (AC A06.114—112 and E09.104)]

4. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:
   a. Nature of the error in previously issued financial statements?  
   b. Effect of its correction on income before extraordinary items, net income, and related per-share amounts?  
[APB 20, pars. 36—37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)]

5. Is the reason for not reporting the cumulative effect of the change and not disclosing the pro forma amounts for prior years disclosed if it is impossible to determine such effect?  
[APB 20, pars. 25 and 26 (AC A06.121 and 122)]

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

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

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, are the following disclosed:
   [APB 16, pars. 45—48 (AC B50.104—107)]
   a. Names and descriptions of companies involved; number of shares of stock issued; details of operations for the part of the year before the pooling; adjustments to adopt common accounting principles; effect on prior net income; details of equity changes if fiscal year change; and reconciliation of revenue and net income previously reported to amounts now reported? Yes No N/A

2. If a business combination does not meet the specified conditions for a pooling-of-interests, are the following disclosed:
   a. 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? Yes No N/A

3. In connection with the acquisition of a banking or thrift institution, are the nature and amounts of any regulatory financial assistance disclosed? Yes No N/A

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? Yes No N/A

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? Yes No N/A

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, and the subsidiary has not yet been disposed of, are the following disclosed:
   a. A description of the operations held for sale, the method used to assign amounts to those assets, the method used to account for those assets, and the expected disposal date? Yes No N/A
   b. The operation’s profit or loss that has been excluded from the consolidated income statement and a schedule reconciling that amount to the earnings received or losses funded by the parent that are accounted for as an adjustment to the carrying amount of the assets (the amount of allocated interest cost should be separately identified)? Yes No N/A
   c. Any gain or loss on the ultimate disposition that is treated as an adjustment of the original purchase price allocation? Yes No N/A
   d. Consideration that is issued or issuable at the end of the contingency period or that is held in escrow? [APB 16, par. 78 (AC B50.136)] Yes No N/A
   e. If applicable, the purchase price allocation that is tentative or preliminary? Yes No N/A

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? Yes No N/A
   b. An explanation of the adjustment including: Yes No N/A
(1) The carrying amount of the operations held for sale that will be allocated to the current fair values of its identifiable assets and liabilities (the explanation should include the amount of operating profit or losses and interest capitalized in obtaining the current fair value)?

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

EITF 90-6

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)]
   c. If the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations recognized?
      [ARB 51, par. 4 (AC C51.107)]

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?

3. In consolidated bank holding company financial statements, is goodwill written off by bank subsidiaries reinstated by an adjustment in consolidation?
   [AAG-BNK, par. 20.04]

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

G. Related-Party Transactions and Economic Dependency

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

2. If the bank is part of a group that files a consolidated tax return, is the amount of current and deferred tax expense disclosed for each of the periods for which income statements are presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented?
   [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?
   [SFAS 30, par. 6 (AC S20.145)]
5. Is the nature of a controlled relationship disclosed, even though there are no
transactions between the enterprises, if the reporting bank and one or more other
enterprises are under common ownership or management control, and the
existence of the control could result in operating results or financial position of
the reporting bank being significantly different from those that would have been
obtained if the bank was autonomous?
SFAS 57, par. 4 (AC R36.104)

6. Is a review made of selected related-party transactions to determine whether any
representation in the financial statement that related-party transactions are on an
arm’s-length basis 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:

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 H.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 SFAS 105, the 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)]

1. 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-BNK, 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 (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 (FIN 39)]

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); FASB 34, pars. 2—3 (AC C59.114)]

4. Are gain contingencies adequately disclosed and misleading implications about likelihood of realization avoided?
   [SFAS 5, par. 17 (AC C59.118)]

5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans?
   [SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80); AAG-BNK, par. 2.30]

6. Are unused commercial letters of credit reported as commitments and not as liabilities?
   [AAG-BNK, par. 22.23]

7. Is disclosure made if a subsidiary bank has guaranteed parent company debt?
   [SFAS 57, par. 1 (AC R36.101)]
8. If the bank as guarantor "lends" its credit worthiness to another party (borrower) for a fee, is the guarantee disclosed in a note, if material? [EITF 85-20]  

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)]

10. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]

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, sec. 560.03 (AU 560.03)]

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

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 nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 54a (AC P16.150a)]
   
   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)]
   
   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)]
   
   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?
      (2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?
      (3) The amount of unrecognized prior service cost?
      (4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?
      (5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87, paragraph 36 (AC P16.130)?

---

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

(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)?

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

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?

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

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?

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

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)?

h. If more than one defined benefit plan exists:

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

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

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

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

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

b. The amount of cost recognized during the period?

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

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?

(2) If answer is yes, are disclosures required for a defined benefit plan made?

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

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?

b. The amount of cost recognized during the period?

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

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

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

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:
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:

For a defined contribution plan:

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

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

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

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

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

For an ESOP:

a. If the excess contribution is not allocated to individual participants, are the unallocated shares of the employer's own common stock recorded as a reduction of stockholders' equity, as if they were treasury stock? 

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

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

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

(1) The fair value of plan assets?
(2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?
(3) The amount of unrecognized prior-service cost?
(4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?
(5) The amount of any remaining unrecognized transition obligation or transition asset?
(6) The amount of net postretirement benefit asset or liability recognized in the statement of condition, which is the net result of combining the preceding five items?

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

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

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

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

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

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

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

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

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

k. The transition provisions required under SFAS 106?

[SFAS 106, pars. 108—113 (AC App. C pp. 17—21)]

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

(Footnote Continued)

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).
a. Are the disclosures required by Step 1. above aggregated for all of an 
employer's single-employer defined benefit postretirement plans or 
disaggregated in groups so as to provide the most useful information (except 
for purposes of the disclosures required by Step 1.c. above, the aggregate plan 
assets and the aggregate accumulated postretirement benefit obligation of the 
underfunded plans shall be separately disclosed)?
[SFAS 106, par. 77 (AC P40.172)]

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

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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. 78 (AC P40.173)]

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?

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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. 82 (AC P40.178)]

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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?

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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)]

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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?

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b. The amount of cost recognized during the period?
[SFAS 106, par. 106 (AC P40.198)]

N. Employee Stock Ownership Plan

1. If an employer sponsors an ESOP, do the employer's disclosures include:
a. A description of the plan, the basis for determining contributions, including 
the employee groups covered, and the nature and effecting of significant 
matters affecting comparability of information for all periods presented?
(1) For leveraged ESOPs and pension reversion ESOPs, does the description include the basis for releasing shares and how dividends on allocated and unallocated shares are used?

b. A description of the accounting policies followed for ESOP transactions, including the method of measuring compensation, the classification of dividends on ESOP shares, and the treatment of ESOP shares for EPS computations?

(1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, are the accounting policies for both blocks of shares disclosed?

c. The amount of compensation cost recognized during the period?

d. The number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date?

(1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, is the above disclosure made separately for both blocks of shares?

e. The fair value of unearned ESOP shares at the balance-sheet date for shares accounted for under SOP 93-5

f. The existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance-sheet date, which are subject to a repurchase obligation?

[SOP 93-6, par. 53]

2. Are all the items listed in Step 1, above disclosed even if the bank does not adopt SOP 93-6 for shares held by the ESOP on December 31, 1992?

[SOP 93-6, par. 55]

3. For leveraged ESOPs and for nonleveraged ESOPs where the assets from a terminated defined benefit pension plan are used by the ESOP to purchase shares, when the employer reports the issuance of shares or the sale of treasury shares to the ESOP is the charge to unearned ESOP shares presented as a separate item in the balance sheet as a contra-asset account?

[SOP 93-65, pars. 13 and 46]

4. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and is the receivable from the ESOP not reported on the employer’s balance sheet?

[SOP 93-6, par. 26]

5. If the employer sponsors an ESOP with an employer loan, is the ESOP’s note payable and the employer’s note receivable from the ESOP not reported in the employer’s balance sheet?

[SOP 93-6, par. 27]

O. 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)]

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

4 Employers may wish to disclose additional information about the obligation, particularly information about the timing of payments. [SOP 93-6, par. 95]
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?  

P. Other Matters
1. If required for SEC registrants (SFAS 21 (AC S20)), does the financial statement presentation include segment and major customer information?
[SFAS 14 (AC S20); SFAS 24, par. 5 (AC S20.109—110); SFAS 30, par. 6 (AC S20.145)]

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 involves 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 EITF 88—19 for conditions that would determine economic separability)?  
   b. If all or a portion of the note receivable from the governmental agency is offset against the equity from the securities issued to the agency, are subsequent dividend payments to the governmental agency on the equity securities netted against cash receipts from the governmental agency for interest payments on the note, and the net amount recorded as regulatory assistance?  
   [EITF 88-19]

Q. 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))]

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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(2))]  
   
   
   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?
   [SFAS 13, par. 16b (AC L10.112b)]  
   
   
   3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals?
   [SFAS 13, par. 16c (AC L10.112c)]  
   
   
   4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:
      a. Basis for determination of contingent rentals?
      b. Terms of any renewal or purchase and options or escalation clauses?
      c. Restrictive covenants?
   [SFAS 13, par. 16d (AC L10.112d); for amendments of SFAS 13, see SFAS 22, 23, 27, 28, 29, 77, 91, and 109; for Interpretations, see FASBs 19, 21, 23, 24, 26 and 27; for Technical Bulletins, see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(R), 85-3, 86-2, and 88-1]  
   
   
   5. If the conditions of EITF 90-15 are met, does the lessee consolidate special-purpose entities established for both the construction and subsequent lease of an asset and does consolidation occur at the inception of the lease rather than at the beginning of the lease term?
   [EITF 90-15]  
   
   
R. Nonmonetary Transactions

1. Are the following disclosures for nonmonetary transactions made:
   a. Nature of transactions?
   b. Basis of accounting?
   c. Gain or loss on transfer?
   [APB 29, par. 28, fn. 7 (AC C11.102, AC N35.120)]  
   
   
Statement of Condition

A. General

1. Are trust assets excluded?
   [AAG-BNK, par. 18.02]  
   
   
2. Is the tax equivalent basis of reporting in the primary financial statements of income from tax-exempt securities avoided?
   [AAG-BNK, par. 5.28]  
   
   
21
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-BNK, par. 2.16]

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B. **Cash and Due From Banks**

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

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

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

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

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5. Are “due to” debit balances reclassified to loans?  
[AAG-BNK, par. 4.12]

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

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C. **Interest-Bearing Deposits in Other Banks**

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

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D. **Federal Funds Sold and Securities Purchased Under Resale Agreements**

1. Are such amounts presented gross and not netted (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-BNK, par. 9.09]

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E. **Investment Securities**

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?  
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   b. Gross unrealized holding gains and losses?  
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   c. Amortized cost basis?  
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   d. Disclosure of major-security types including:
      
      (1) Equity securities?  
      | Yes | No | N/A |
      |-----|----|-----|

      (2) Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?  
      | Yes | No | N/A |
      |-----|----|-----|

      (3) Debt securities issued by the states of the U.S. and political subdivisions of the states?  
      | Yes | No | N/A |
      |-----|----|-----|

      (4) Debt securities issued by foreign governments?  
      | Yes | No | N/A |
      |-----|----|-----|

      (5) Corporate debt securities?  
      | Yes | No | N/A |
      |-----|----|-----|

      (6) Mortgage-backed securities?  
      | Yes | No | N/A |
      |-----|----|-----|

      (7) Other debt securities?  
      [SFAS 115, par. 19 (AC 180.118)]  
      | Yes | No | N/A |
      |-----|----|-----|

2. For investments in debt securities classified as available-for-sale or held-to-maturity, is:
<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>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)?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>b. Disclosure made of the fair value and the amortized cost of debt securities in at least four maturity groupings:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Within one year?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) After one year through 5 years?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) After five years through 10 years?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) After 10 years?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. A security not due at a single date may be disclosed separately?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. For each period for which an earnings statement is presented, are the following disclosures made:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. The proceeds from sales of available-for-sale securities and gross realized gains and losses those sales?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. The basis on which cost was determined in computing realized gain or loss (i.e., specified identification, average cost, or other method used)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. The change in net unrealized holding gain or loss on trading securities that has been included in earnings during the period?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Amortized cost amount of the sold or transferred security?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Related realized or unrealized gain or loss?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. The circumstances leading to the decision to sell or transfer the security?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. If investments in high-risk CMOs are significant, are the following disclosures made in the annual financial statements:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>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)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. The carrying amount and fair value of investments in high-risk CMOs?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. If market quotations are not available, are estimates of fair value made?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

7. Are the carrying amount and market value of pledged securities disclosed? [AAG-BNK, par. 5.31]

F. **Mortgage Loans and Mortgage-Backed Securities Held for Sale**

1. If right to service mortgage loans is acquired, is the following information disclosed:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Amount capitalized during period in acquiring right to service?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Method of amortizing capitalized amount?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
c. Amount of amortization for the period?
   [SFAS 65, par. 30 (AC Mo4.131)]
   
   d. The amount of the servicing portfolio maintained by the institution, if material?
   
   e. A roll-forward of deferred loan sale premium or discount activity (scheduled amortization, amortization due to changes in prepayment assumptions, and changes due to loan sale activity, if material) for each year of operations presented?
   
   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?
   
   g. The amount of aggregate gains on sales of servicing included in operations?
   
   h. A roll-forward of purchased servicing activity (purchases, sales and amortization, etc.) for each year of operations presented?
   
   i. The nature and extent of off-balance-sheet escrow accounts?
   [AAG-BNK, par. 19.14—.20]

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?
   
   b. Financial institutions?
   
   c. Real estate—construction?
   
   d. Real estate—other?
   
   e. Consumer installment?
   
   f. Lease financing?
   
   g. Foreign?
   
   h. Agricultural loans?
   [AAG-BNK, par. 7.43]

2. Are maturities and sinking fund requirements for each category considered for disclosure?
   [AAG-BNK, par. 7.43]

3. Is the amount of loans at fixed interest rates considered for disclosure?
   [AAG-BNK, par. 7.43]

4. Is the amount of loans at variable interest rates considered for disclosure?
   [AAG-BNK, par. 7.43]

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

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

7. For troubled debt restructurings, are the following disclosed by major category of loans for each balance sheet presented:
   a. Aggregate recorded investment?
   
   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?
   
   c. Amount of interest income included in net income?
   
   d. Amounts of any commitment to lend additional funds to debtors owing restructured troubled loans?
   [SFAS 15, pars. 40—41 (AC D22.136—.137)]
8. Are overdrafts classified as loans?  
[AAG-BNK, par. 12.04]  

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

9. Is the unamortized balance of loan commitment originations and other fees and costs including purchase premiums or discounts that are being recognized as yield adjustments being reported as part of the loan balance to which they relate?  
[SFAS 91, par. 21 (AC L.20.120); AAG-BNK par. 7.49]  

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

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

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

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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-BNK, par. 7.48]  

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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 L.10.119a)]  
      |     |    |     |
      |     |    |     |

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

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4. Are leasing arrangements described?  
[SFAS 13, par. 23c (AC L.10.119c); for amendments of SFAS 13, see SFASs 22, 23, 27, 28, 29, 76, 77, 91, 94, 98 and 109; for Interpretations, see FASBs 19, 21, 23, 24, 26 and 27; for Technical Bulletins, see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2 and 88-1]  

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</tbody>
</table>

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:  
      (1) Rental receivable?  
      |     |    |     |
      |     |    |     |
(2) A receivable for the amount of investment tax credit to be realized on the transaction?  

(3) Estimated residual value of the leased asset?  

(4) Unearned and deferred income?  

[SFAS 13, par. 47 (AC L10.149)]

I. Allowance for Loan Losses

1. Is the allowance shown on the balance sheet as a deduction from loans and lease finance receivables?  

   [AAG-BNK, par. 7.44; APB 12, par. 3 (AC V18.102)]

2. Is the method of providing for loan losses disclosed?  

   [AAG-BNK, 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-BNK, par. 8.06]

4. Does the bank disclose in the financial statements or notes, the following information:

   Note: 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, the recorded investment in the loans, for which impairment is recognized in accordance with this SFAS 114, and the total allowance for credit losses related to those impaired loans?  
      
   b. For each period for which results of operations are presented, 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 recoveries of amounts previously charged off?  
      
   c. The income recognition policy, dealing with the periodic changes in present value of impaired loans (a bank that recognizes income in accordance with this policy should also disclose the amount of interest recognized in accordance with the policy)?  
      
   [SFAS 114, par. 20(AC l80.118); AAG-BNK, par. 8.06]

J. Premises and Equipment

1. Are fixed assets shown on the balance sheet net of accumulated depreciation?  

   [AAG-BNK, par. 10.08]

2. Is the carrying basis disclosed?  

   [AAG-BNK, par. 10.08]

3. Are the balances of major classes of depreciable assets disclosed?  

   [APB 12, par. 5b (AC D40.105b); AAG-BNK, 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 interest cost capitalized during each period disclosed?  

   [SFAS 34, par. 21 (AC l67.118)]

6. Is property acquired but not used in operations and presented as other assets, such as repossessed collateral, classified within other assets?  

   [AAG-BNK, par. 10.08]
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-BNK, par. 10.05]  
   Yes  No  N/A

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?
      [AAG-BNK, par. 10.06]  
      Yes  No  N/A

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]  
   Yes  No  N/A

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-BNK, par. 10.09]  
    Yes  No  N/A

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-BNK, par. 11.01]  
      Yes  No  N/A

2. Are other assets presented as the last item or items on the balance sheet?
   [AAG-BNK, par. 11.01]  
   Yes  No  N/A

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]  
      Yes  No  N/A
   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]  
      Yes  No  N/A
   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]  
      Yes  No  N/A
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]  

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

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 is made? [SOP 92-3, par. 16]  

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

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. 17]  

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

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

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

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

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?  

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

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?  

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

d. Are legal fees and other direct costs incurred in a foreclosure included in expenses when they are incurred? [AAG-BNK, pars. 11.05 and 11.07]  

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

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 I50.508)]  

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

L. Deposits  

1. Are amounts disclosed separately for:  

a. Domestic demand deposits?  

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

b. Domestic time deposits?  

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

c. Foreign demand deposits?  

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<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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d. Foreign time deposits?  

<table>
<thead>
<tr>
<th>Yes</th>
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<th>N/A</th>
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f. Certificates of deposit of $100,000 or more?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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f. NOW accounts? [AAG-BNK, par. 12.18]  

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<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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2. Is disclosure made as to deposits received on unusual terms or from related parties? [AAG-BNK, par. 12.18]  

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<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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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)]  

<table>
<thead>
<tr>
<th>Yes</th>
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2. Are the components of the total of net deferred tax liability or asset recognized in the statement of condition disclosed?  

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<tr>
<th>Yes</th>
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a. The total of all deferred tax liabilities?  

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b. The total of all deferred tax assets?  

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c. The total valuation allowance for deferred tax assets? [SFAS 109, par. 43 (AC I27.142)]  

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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-BNK, par. 13.04]  

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

3. Are federal funds purchased and securities sold under repurchase agreements included as other borrowings?
   [AAG-BNK, par. 9.09]  

4. Are 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-BNK, pars.13.08—.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?
   [AAG-BNK, par. 14.01]  

4. Are short-sale proceeds presented as a liability?
   [AAG-BNK, par. 6.11]  

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-BNK, par. 7.43]  

6. For loans sold with recourse, is disclosure made for each period for which an income statement is presented, of the the amount of proceeds?
   [SFAS 77, par. 9 (AC R20.109)]
### 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)]
   
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<th>Yes</th>
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2. Are conversion features appropriately accounted for and disclosed?  
   [APB 15, par. 19 (AC E09.110)]
   
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3. For troubled debt restructuring occurring during the period for which financial statements are presented, do disclosures include:
   a. Description of the principal changes in terms, the major features of settlement, or both?  
   
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<th>Yes</th>
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   b. Aggregate gain on restructuring of payables and the related income tax effect?  
   
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<th>Yes</th>
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   c. Aggregate net gain or loss on transfers of assets recognized during the period?  
   [SFAS 15, par. 25 (AC D22.121)]
   
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<th>Yes</th>
<th>No</th>
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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?  
   
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<th>Yes</th>
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   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)]
   
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<th>Yes</th>
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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?  
   
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<th>Yes</th>
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   b. The amount of debt that is considered extinguished as long as the debt remains outstanding?  
   [SFAS 76, par. 6 (AC D14.108)]
   
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<th>Yes</th>
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6. Is debt considered extinguished for financial reporting purposes because:
   a. The debtor paid the creditors and is released of all its obligations with regard to the debt?  
   
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<th>Yes</th>
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   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?  
   
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<th>Yes</th>
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   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)]
   
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<th>Yes</th>
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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) SFAS 84, par. 5 (AC D14.100)]
   
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<th>Yes</th>
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   b. Identified as a separate or extraordinary item?  
   [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC D14.105)]
   
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<th>Yes</th>
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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?  
   
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<th>Yes</th>
<th>No</th>
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   b. Income tax effect in the period of extinguishment?  
   [SFAS 64, par. 9 (AC D14.107)]
   
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<th>Yes</th>
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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, paragraph 20 and the gain or loss classified pursuant to SFAS 4, Reporting Gains and Losses from Extinguishment of Debt APB 26, paragraph 20 and SFAS 4, paragraph 8 (AC D14.103 and .105)?

\[\text{EITF 90-19}\]

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:

\(b.\) The period for which the violation has been waived?

\[\text{SAS 1, (AU 560.06); EITF 86-20}\]

12. If a long-term obligation that is or will be callable by the creditor because of a loan 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?

\[\text{SFAS 78, par. 5b (AC B05.109A(b))}\]

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?

\[\text{APB 12, par. 10 (AC C8.102)}\]

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)?

\[\text{APB 15, par. 19 (AC E09.110)}\]

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?

\[\text{SFAS 47, par. 10 (AC C32.105)}\]

4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate, either parenthetically or “in short”?

\[\text{APB 10, par. 10 (AC C16.101)}\]

5. For preferred stock, do disclosures include:

\(b.\) The aggregate and per share amounts of arrearages in cumulative preferred dividends?

\[\text{APB 10, par. 11 and APB 15, par. 50, fn. 16 (AC C16.102)}\]

6. For stock option and stock purchase plans, do disclosures include:

\(c.\) The number of shares as to which options are exercisable?

\[\text{APB 43, Ch. 13B, par. 15 (AC C47.123)}\]
7. Are the carrying basis and the cost of shares disclosed for treasury stock?  
   [APB 6, pars. 12b (AC C23.103)]

8. 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)]

9. 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-BNK, App. A]

S. Retained Earnings
1. Is the amount of retained earnings shown separately on the balance sheet?  
   [AAG-BNK, 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-BNK, 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-BNK, 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-BNK, 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-BNK, 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-BNK, par. 15.06]

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

11. Are appropriated and unappropriated retained earnings shown separately?  
    [SFAS 5, par. 15 (AC C59.117 and AC R70.103)]

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, pars. 1—3 (AC C23.501—.503)]

2. Is the valuation allowance for marketable equity securities separately disclosed, including the bank’s policy for discontinuing accrual of interest on nonperforming loans and the treatment of loan fees and costs? [SFAS 12, par. 11 (AC I89.105)]

Income Statement

A. Interest Income

1. Is the method of recognizing interest income from loans disclosed, including the bank’s policy for discontinuing accrual of interest on nonperforming loans and the treatment of loan fees and costs? [AAG-BNK, par. 7.50]

2. Are amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield reported as part of interest income? [SFAS 9, par. 22 (AC C20.120)]

B. Interest Expense

1. If significant, is interest on short positions disclosed? [AAG-BNK, par. 6.11]

2. If no interest is capitalized during the period, are the amount of interest cost and charge to expense disclosed? [SFAS 34, par. 21 (AC I67.118a)]

C. Provision for Credit Losses

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

2. Are commitment fees amortized on a straight-line basis over the commitment period or included in income when the commitment expires, reported as service fee income? [SFAS 91, par. 22 (AC I22.121)]

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

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) The number of shares involved and the option price for the options exercised during the period? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]

2. Are net occupancy expenses or net occupancy income classified as an operating item in the statement of income? [AAG-BNK, par. 10.09]
3. Is depreciation expense for each period disclosed, accompanied by a general description of the method used for the major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]

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4. Do disclosures for advertising costs include:
   a. The accounting policy selected from the two alternatives appearing in the beginning of paragraph 26 of SOP 93-7 for reporting advertising, indicating whether such costs are expensed as incurred or the first time the advertising takes place?
   b. A description of the direct-response advertising reported as assets (if any), the accounting policy for it, and the amortization period?
   c. The total amount charged to advertising expense for each income statement presented, with separate disclosure of amounts, if any, representing a write-down to net realizable value?
   d. The total amount of advertising reported as assets in each balance sheet? [SOP 93-7, par. 49]

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F. Income Taxes

1. Are the types of significant temporary differences and carryforwards disclosed? [SFAS 109, par. 43 (AC 127.142)]

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2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed:
   a. Current tax expense or benefit?
   b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?
   c. Investment tax credits?
   d. The benefits of operating loss carryforwards?
   e. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets, of an acquired entity?
   f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise?
   g. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years?
   h. Amounts and expiration dates of operating losses and tax carryforwards for tax purposes?
   i. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital? [SFAS 109, pars. 45 and 48 (AC 127.144 and .147)]

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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 127.134—.138)) disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC 127.145)]

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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 127.146)]

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5. If the bank is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:
   a. The aggregate amount of current and deferred tax expense for each statement of income presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of condition presented?  
   b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in a. above are presented?  
   [SFAS 109, par. 49a—b (AC 127.148a—b)]

6. 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?  
   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?  
   [SFAS 109, par. 51]

7. Do the financial statements for the year SFAS 109 is first adopted disclose the following:
   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?  
   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?  
   [SFAS 109, par. 52a—b]

8. 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?  
   [SFAS 109, par. 47 (AC 127.146)]

G. Discontinued Operations

1. Are operations of a segment that is discontinued or is the subject of a formal plan for disposition:
   a. Reported separately from income from continuing operations for the current and prior period and as a component (including applicable income taxes) of income before extraordinary items?  
   b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations?  
   [APB 30, pars. 8 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?  

Yes  No  N/A

---

d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?

---

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

---

f. The fact that the loss on disposal cannot be estimated within reasonable limits, if applicable?  

[APB 30, par. 18, fn. 7 (AC II13.108—.109)]

---

4. For periods after measurement date and including the period of disposal, do notes to financial statements disclose the information in Steps 3.a.—e. above compared with the prior estimates?  

[APB 30, par. 18 (AC II13.108)]

---

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 Steps 3.a.—f. above should be disclosed, and disclosure for revenues and related costs and expenses included in the income statement that relate to the disposed portion of the line of business for the period prior to the measurement date is encouraged)?  

[APN—APB 30, par. 1 (AC II22.502)]

---

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, par. 11 (AC II17.102)]

---

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 II17.102)]

---

3. Do disclosures include descriptions of an extraordinary event or transaction and the principal items entering into determination of an extraordinary gain or loss?  

[APB 30, par. 11 (AC II17.102)]

---

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 II22.101)]

---

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?  

[SFAS, par. 9 (AC II17.104)]

---

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

[EITF 87-4]

---

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? Yes No N/A

c. Adjustments made pursuant to a quasi-reorganization? Yes No N/A

[APB 9, par. 28 (AC C08.101)]

Statement of Changes in Stockholders’ Equity

A. Are changes in separate component accounts of stockholders’ equity disclosed? Yes No N/A

[APB 12, par. 10 (AC C08.102)]

B. Are changes in the number of shares of equity securities disclosed? Yes No N/A

[APB 12, par. 10 (AC C08.102)]

C. Are prior-period adjustments limited to:

1. Correction of an error in financial statements of prior periods? Yes No N/A

[SFAS 109, par. 288m (AC A35.103)]

2. Adjustments resulting from realization of income tax benefits of pre-acquisition operating loss or tax credit carryforwards of purchased subsidiaries? Yes No N/A

[SFAS 109, par. 30 (AC I27.129)]

D. Are prior-period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed? Yes No N/A

[APB 9, par. 26 (AC A35.107)]

E. For a correction of an error, is the nature of the error disclosed in the period in which the error was discovered and corrected? Yes No N/A

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? Yes No N/A

[APB 20, par. 37 (AC A35.105)]

Statement of Cash Flows

A. Is a statement of cash flows presented as a basic financial statement in a presentation in which reports on both financial position and results of operations for each period for which a statement of income is presented? Yes No N/A

[SFAS 95, par. 3 (AC C25.101)]

B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? Yes No N/A

[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? Yes No N/A

[SFAS 102, par. 8 (AC C25.122A)]

2. Are cash receipts and payments resulting from acquisitions and sales of loans if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market classified as operating cash flows? Yes No N/A

[SFAS 102, par. 9 (AC C25.122B)]

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? 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)]

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

D. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows?  
[SFAS 95, par. 31 (AC C25.129)]

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

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 held-to-maturity securities?  
   |   |   |   |
4. Proceeds from maturities of held-to-maturity securities and available-for-sale securities?  
   |   |   |   |
5. Purchase of and proceeds from sales of available-for-sale securities?  
   |   |   |   |
6. Net change in loans?  
   |   |   |   |
7. Purchase of property and equipment?  
   |   |   |   |
8. Net change in customers’ liability on acceptances outstanding?  
   [AAG-BNK, 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)]

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

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. Issuance and repayment of long-term debt?  
   |   |   |   |
6. Dividend paid?  
   |   |   |   |
7. Issuance of stock?  
   [AAG-BNK, 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)]

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

I. Is the change in cash and due from banks shown in the statement of cash flows?  
[AAG-BNK, App. A; SFAS 95, par. 26 (AC C25.124)]

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

J. Is policy for defining what is a cash equivalent disclosed?  
[AAG-BNK, App. A; SFAS 95, par. 10 (AC C25.108)]

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

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)]

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

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)]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</thead>
</table>
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:
1. Cash collected from customers, including lessees, licensees, and the like?
2. Interest and dividends received?
3. Other operating cash receipts, if any?
4. Cash paid to employees and other suppliers of goods or services, including
suppliers of insurance, advertising, and the like?
5. Interest paid?
6. Income taxes paid?
7. Other operating cash payments, if any?
[SFAS 95, par. 27 (AC C25.125)]

**Trusteed Affiliates**

A. Is one of the following accounting treatments appropriately used:
1. Consolidated financial statements?
2. Combined financial statements?
3. Equity method?
   [AAG-BNK, par. 20.13]

B. If material, is summarized information presented for:
1. Assets?
2. Liabilities?
3. Results of operations?
   [AAG-BNK, par. 20.13]

C. If a separate auditor’s report is issued on the financial statements, is the
relationship of the trusteed affiliate to the parent disclosed?
[AAG-BNK, 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)]
FSP Section 6400

Auditors’ Reports Checklist

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

.02 Explanation of References:

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>SAS</td>
<td>AICPA Statement of Auditing Standards</td>
</tr>
<tr>
<td>AU</td>
<td>Reference to section number in AICPA Professional Standards (vol. 1)</td>
</tr>
<tr>
<td>SSARS</td>
<td>AICPA Statement on Standards for Accounting and Review Services</td>
</tr>
<tr>
<td>AR</td>
<td>Reference to section number in AICPA Professional Standards (vol. 2)</td>
</tr>
<tr>
<td>AAG-BNK</td>
<td>AICPA Audit and Accounting Guide, Audits of Banks (with conforming changes as of May 1, 1994)</td>
</tr>
</tbody>
</table>

.03 Checklist Questionnaire

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

1. Does the auditor’s report include appropriate:
   a. Addressee?  
      [SAS 58, par. 9 (AU 508.09)]
   b. Date (or dual dates) of the report?  
      [SAS 1, sec. 530.05 (AU 530.05)]
   c. A title that includes the word “independent”?  
      [SAS 58, par. 8a (AU 508.08a)]

2. If the auditor is not independent, is a compilation report the highest level of service performed?  
   [SAS 26, par. 10 (AU 504.10)]

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

4. Does the report include appropriate language for the following situations:
   a. Only one basic financial statement is presented and there are no scope limitations?  
      [SAS 58, pars. 47—48 (508.47—.48)]
   b. Audited and unaudited financial statements are presented in comparative form?  
      [SAS 26, pars. 14—17 (AU 504.14—17)]

5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:
   a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor’s report?  
      [SAS 58, pars. 16—33 (508.16—.33)]

Note: Consult the Topical Index to the AICPA Professional Standards under “Uncertainties” for additional references to specific types of uncertainties.
b. There is substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase “substantial doubt about its (the entity’s) ability to continue as a going concern”?
   [SAS 64, par. 1 (AU 341.12—13)]

c. There is a material change between periods in accounting principles or in the method of their application?
   [SAS 58, pars. 34—36 (AU 508.34—36)]

d. In an update report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed?
   [SAS 58, pars. 77—78 and 81—82 (AU 508.77—78 and 81—82)]

e. The prior period financial statements are audited by a predecessor auditor whose report is not presented?
   [SAS 64, par. 2 (AU 508.83)]

f. The auditor’s opinion is based in part on the report of another auditor?
   [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—13)]

g. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation?
   [SAS 58, pars. 14—15 (AU 508.14—15)]

h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements?
   [SAS 8, par. 4 (AU 550.04)]

i. The auditor decides to emphasize a matter in the report?
   [SAS 58, par. 37 (AU 508.37); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]

j. The auditor’s assessment of the bank’s ability to achieve its reported plan in connection with capital requirements of federal regulations?

6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances?
   [SAS 58, pars. 40—45 (AU 508.40—45); SAS 31, par. 22 (AU 326.23); SAS 19, par. 12 (AU 333.12)]

   Note: Consult the Topical Index to the AICPA Professional Standards under “Scope of Audit—Limitations” for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

7. Is a qualified opinion or adverse opinion expressed:
   a. If a lack of conformity with GAAP (including inadequate disclosure) is present?
      [SAS 58, pars. 49—66 (AU 508.49—66); SAS 32, par. 3 (AU 431.03)]

   b. Alternative procedures are not practicable for confirmation requests returned undelivered by postal authorities?
      [AAG-BNK, par. 12.27]

   c. There is no evidence to support carrying amount of investment securities and an allowance to write down to market is not established?
      [AAG-BNK, par. 5.31]

   d. Financial statements reflect regulatory practice of immediate write-off of goodwill or other regulatory practices that differ from GAAP and the resulting difference is material?
      [SAS 1, AC 544.02 (AU 544.02); AAG-BNK, par. 20.04]

   Note: Consult the Topical Index to the AICPA Professional Standards under “Departures from Established Principles,” “Adverse Opinions,” and “Qualified Opinions” for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.
8. Is a qualified or adverse opinion expressed if the entity specifically requests the
auditor to report on prior-period financial statements that are incomplete (e.g.,
prior-period totals only)? [SAS 58, fn. 27 (AU 508, fn. 27)]

9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are
all the substantive reasons for the opinion or disclaimer disclosed and is the
reporting language appropriately modified? [SAS 58, pars. 39, 68—69 and 71 (AU 508.39, .68—.69, and .71)]

10. If information accompanies the basic financial statements and auditor's report in
an auditor-submitted document, does the report on the accompanying
information:
   a. State that the audit is performed for the purpose of forming an opinion on the
      basic financial statements taken as a whole?
   b. Specifically identify the accompanying information?
   c. State that the accompanying information is presented for purposes of
      additional analysis and is not a required part of the basic financial statements?
   d. State whether the accompanying information is subject to the auditing
      procedures applied in the audit of the basic financial statements and the
      appropriate expression of opinion or disclaimer? [SAS 29, pars. 6—11 (AU 551.06—.11)]

11. Is the reporting form and content of SAS 60, paragraphs 9—19, followed when
communicating internal control structure related matters noted in an audit? ¹ [SAS 60, pars. 9—19 (AU 325.09—.19)]

12. Is an explanatory paragraph added to the auditor's report to disclose matters,
such as regulatory violations, enforcement actions, litigation or failure to follow
other governmental regulations and does the paragraph indicate that the
outcome cannot presently be determined? [SAS 58, pars. 31—32 and 37 (AU 508.31—.32 and .37)]

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

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

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

---

¹ Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing to Senior
management and the board of trustees or its audit committee. [SAS 60]
FSP Section 6500

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 covers only SEC disclosures for banks and not general SEC disclosures and does not repeat SEC required disclosures if such disclosures are generally required and included in the Financial Statements and Notes Checklists. Many of these disclosures are routinely made by banks even though they are not covered under the Securities Exchange Act of 1934.

.02 Explanation of References

SAB = SEC Staff Accounting Bulletin
FRR = Financial Reporting Release
Reg. S-X = SEC Regulation S-X

.03 Checklist Questionnaire

<table>
<thead>
<tr>
<th>A. Cash and Due From Banks</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is cash and due from banks (including all noninterest-bearing deposits with other banks) stated separately?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Reg. S-X, Rule 9-03.1]</td>
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<tr>
<td>2. Are any withdrawal and usage restrictions (including average reserve balances maintained with the Federal Reserve) or compensating balance requirements disclosed?</td>
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<tr>
<td>[Reg. S-X, Rule 9-03.1(a)]</td>
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<tr>
<th>B. Investment Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is disclosure made regarding the nature and extent of registrants' repurchase and reverse repurchase agreements and the degree of risk involved in these transactions?</td>
</tr>
<tr>
<td>[FRR 24, Reg. S-X, Disclosure Amendment]</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>C. Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Are each of the following loan categories stated separately:</td>
</tr>
<tr>
<td>[Reg. S-X, Rule 9-03.7(a) and (b)]</td>
</tr>
<tr>
<td>a. Commercial, financial and agricultural?</td>
</tr>
<tr>
<td>b. Real estate—construction?</td>
</tr>
<tr>
<td>c. Real estate—mortgage?</td>
</tr>
<tr>
<td>d. Installment loans to individuals?</td>
</tr>
<tr>
<td>e. Lease financing?</td>
</tr>
<tr>
<td>f. Foreign?</td>
</tr>
<tr>
<td>g. Other (if necessary to reflect any unusual risk concentration regardless of size)?</td>
</tr>
<tr>
<td>[Reg. S-X, Rule 9-03.7(a)]</td>
</tr>
</tbody>
</table>
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 with such other information necessary to an understanding of the effects of the transactions on the financial statements?  
[Reg. S-X, Rule 9-03.7(e)(2)]

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

D. Other Assets

1. Are the following assets or any other asset, the amount of which exceeds 30 percent of stockholders' equity, disclosed separately on the balance sheet or in a note (the remaining assets may be shown as one amount):
   a. Excess of cost over tangible and identifiable intangible assets acquired (net of amortization)?
   b. Other intangible assets (net of amortization)?
   c. Investments in and indebtedness of affiliates and other persons?
   d. Other real estate, including the:
      (1) Carrying basis disclosed?
      (2) Allowance for losses deducted therefrom?
      (3) Summary of changes in allowance for losses (including beginning balance, provision charged to income, losses charged to the allowance, and ending balance)?  
[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]

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]

2. Are the following liabilities in excess of 30% of shareholder’s equity disclosed separately:
   a. Income taxes payable?
   b. Deferred income taxes?

---

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)]

2 See Reg. S-X, Rule 9-03.7(e) for disclosures of related-party terms.
c. Indebtedness to affiliates and other persons, the investments in which are accounted for by the equity method?  
   Yes  No  N/A

d. Accounts payable and accrued interest?  
   Yes  No  N/A

e. Other?  
   Yes  No  N/A  
   [Reg. S-X, Rule 9-03.15]

H. Interest and Fees on Loans

1. Are interest and fees on loans stated separately?  
   Yes  No  N/A  
   [Reg. S-X, Rule 9-04.1]

I. Interest and Dividends on Investment Securities

1. Are the following amounts for investment securities stated separately:  
   a. Taxable interest income?  
      Yes  No  N/A
   b. Nontaxable interest income?  
      Yes  No  N/A
   c. Dividends?  
      Yes  No  N/A  
      [Reg. S-X, Rule 9-04.2]

J. Income Statement Captions

1. Are the following captions in the income statement stated separately:  
   a. Trading account interest?  
      Yes  No  N/A
   b. Other interest income?  
      Yes  No  N/A
   c. Total interest income (including a and b above)?  
      Yes  No  N/A
   d. Interest on deposits?  
      Yes  No  N/A
   e. Interest on short-term borrowings?  
      Yes  No  N/A
   f. Interest on long-term debt?  
      Yes  No  N/A
   g. Total interest expense (d through f)?  
      Yes  No  N/A
   h. Net interest income (line c, less line g)?  
      Yes  No  N/A
   i. Provision for loan losses?  
      Yes  No  N/A
   j. Net interest income after provision for loan losses?  
      Yes  No  N/A
   k. Other income?  
      Yes  No  N/A
   l. Other expense?  
      Yes  No  N/A
   m. Income or loss before income tax expense?  
      Yes  No  N/A
   n. Income tax expense?  
      Yes  No  N/A
   o. Income or loss before extraordinary items and cumulative effects of changes in accounting principles?  
      Yes  No  N/A
   p. Extraordinary items, less applicable taxes?  
      Yes  No  N/A
   q. Cumulative effects of changes in accounting principles?  
      Yes  No  N/A
   r. Net income or loss?  
      Yes  No  N/A
   s. Earning per share data?  
      Yes  No  N/A  
      [Reg. S-X, Rule 9-04]

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)?  
      Yes  No  N/A
   b. Commissions, brokers' fees and markups on securities underwriting and other securities activities?  
      Yes  No  N/A
   c. Insurance commissions, fees and premiums?  
      Yes  No  N/A
   d. Fees for customer services?  
      Yes  No  N/A

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<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
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<tbody>
<tr>
<td>e. Trading account profit or loss?</td>
<td></td>
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<tr>
<td>f. Equity in earnings of unconsolidated subsidiaries and 50% or less owned persons?</td>
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<tr>
<td>g. Gains or losses on the disposition of equity investees or 50% or less owned persons?</td>
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<tr>
<td>h. Other:</td>
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<tr>
<td>(1) For investment security gains or losses:</td>
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<tr>
<td>(i) Are investment securities gains or losses shown separately regardless of amount?</td>
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<tr>
<td>(ii) Is method followed in determining cost of investments sold disclosed?</td>
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<tr>
<td>(iii) Are related taxes disclosed in a footnote or parenthetically as a part of income tax expense? [Reg. S-X, Rule 9-04.13]</td>
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<tr>
<td>L. Other Expenses</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>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?</td>
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<tr>
<td>b. Net occupancy expense of premises?</td>
<td></td>
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<tr>
<td>c. Goodwill amortization?</td>
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<tr>
<td>d. Net cost of operation of other real estate (including provisions for losses, rental income and gains and losses on sales)?</td>
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<td></td>
</tr>
<tr>
<td>e. Minority interest in income of consolidated subsidiaries?</td>
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<td></td>
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<tr>
<td>M. Income Taxes</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1. Is a reconciliation of the reported income tax expense with the &quot;computed expected&quot; tax amount disclosed? [Reg. S-X, Rule 4-08(h)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N. Condensed Financial Information of Parent Company Only</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Is the following condensed parent company information stated separately: a. Investments in bank subsidiaries?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Indebtedness of and to bank subsidiaries?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Cash dividends paid to the registrant by bank subsidiaries? [Reg. S-X, Rule 9-06]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Is each of the following disclosed unless stated separately in the consolidated statements or on Article 12 schedule: a. Material contingencies?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Significant provisions of long-term debt obligations?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. A five-year schedule of debt maturities?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Mandatory dividend or redemption requirements of redeemable stock?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.
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.
e. Guarantees?
[Reg. S-X, Rule 12-04(a)]
Yes No N/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 (assets, revenue, income (loss) before income tax expense, and net income (loss)) associated with "foreign activities" exceed 10% of the related consolidated amounts as reported in the financial statements:

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)]

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

Q. Quarterly Information
1. For registrants required to include selected quarterly financial data, are the following captions, at a minimum, disclosed:

---

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.
a. Interest income?  
   Yes  No  N/A
b. Interest expense?  
   Yes  No  N/A
c. Provision for loan losses?  
   Yes  No  N/A
d. Security gains or losses?  
   Yes  No  N/A
e. Net income?  
   Yes  No  N/A
f. Earnings per share?  
   Yes  No  N/A
   [SAB Topic 6.G.]

R. 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 7—[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]?  
      Yes  No  N/A

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]?  
      Yes  No  N/A

S. Other SEC Related Disclosures
1. Are the following Staff Accounting Bulletins 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 but that are engaged in similar lending and deposit activities?  
      Yes  No  N/A
   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?  
      Yes  No  N/A
   c. SAB Topic 11-G, discussing the use of tax-equivalent-adjusted amounts in financial statements and MDA?  
      Yes  No  N/A
   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?  
      Yes  No  N/A
   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)  
      Yes  No  N/A
   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?  
      Yes  No  N/A

---

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.
FSP Section 6600  
*Illustrative Financial Statements*

**Introduction**

.01 The consolidated financial statements that follow have been designed to portray one example of compliance with the minimum disclosure requirements for a banking organization under generally accepted accounting principles. These consolidated financial statements are not intended to cover all possible disclosures that generally accepted accounting principles might require in regard to any specific banking organization or specific situation. Issuers of financial statements and practitioners should refer to the appropriate professional literature for guidance regarding disclosures required for specific transactions, balances, events and/or conditions.

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

.03 The example financial statements that follow include disclosures required by accounting standards issued through May 1, 1994.

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

- 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.

• Disclosure of option contracts and income or expense recognition.

• Disclosure of fiduciary fees.
Independent Auditor's Report

The Board of Directors and Shareholders
Sample National Bank

We have audited the accompanying consolidated statements of 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
## 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 securities</td>
<td>30,374</td>
<td>30,118</td>
</tr>
<tr>
<td>Securities available for sale</td>
<td>6,148,700</td>
<td>5,045,456</td>
</tr>
<tr>
<td>Securities to be held to maturity</td>
<td>2,049,566</td>
<td>1,681,818</td>
</tr>
<tr>
<td>Loans, net of allowance for credit losses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of $597,769 in 19X2 and $582,438 in 19X1</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>$49,662,492</td>
<td>$44,886,247</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Shareholders' Equity</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<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>41,513,954</td>
<td>38,393,921</td>
</tr>
<tr>
<td>Federal funds purchased and securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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>46,554,417</td>
<td>42,149,827</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shareholders' equity</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock—$1 par value</td>
<td></td>
<td></td>
</tr>
<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>2,054,799</td>
<td>1,725,823</td>
</tr>
<tr>
<td>Net unrealized appreciation on securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>available for sale, net of tax of $1,728</td>
<td>2,592</td>
<td>2,748</td>
</tr>
<tr>
<td>in 19X2 and $1,832 in 19X1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>3,108,075</td>
<td>2,736,420</td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td>$49,662,492</td>
<td>$44,886,247</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
SAMPLE NATIONAL BANK AND SUBSIDIARY

Consolidated Statements of Income

Years Ended December 31, 19X2 and 19X1

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</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 securities available for sale</td>
<td>504,587</td>
<td>394,159</td>
</tr>
<tr>
<td>Interest on securities to be held to maturity</td>
<td>168,195</td>
<td>131,386</td>
</tr>
<tr>
<td>Interest on trading securities</td>
<td>4,641</td>
<td>15,819</td>
</tr>
<tr>
<td>Interest on federal funds sold</td>
<td>231,007</td>
<td>135,027</td>
</tr>
<tr>
<td>Interest on deposits with banks</td>
<td>367,380</td>
<td>336,644</td>
</tr>
<tr>
<td><strong>Total interest income</strong></td>
<td><strong>4,579,423</strong></td>
<td><strong>3,797,583</strong></td>
</tr>
<tr>
<td>Interest Expense</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 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><strong>Total interest expense</strong></td>
<td><strong>2,923,704</strong></td>
<td><strong>2,296,950</strong></td>
</tr>
<tr>
<td>Net Interest Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>(174,871)</td>
<td>(139,345)</td>
</tr>
<tr>
<td><strong>Net interest income after provision for credit losses</strong></td>
<td><strong>1,480,848</strong></td>
<td><strong>1,361,288</strong></td>
</tr>
<tr>
<td>Other Income</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 gain on trading securities</td>
<td>2,181</td>
<td>3,107</td>
</tr>
<tr>
<td>Net realized gains on sales of securities available for sale</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><strong>Other expenses</strong></td>
<td>723,071</td>
<td>661,938</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>1,560,341</strong></td>
<td><strong>1,449,495</strong></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>643,578</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><strong>$ 518,040</strong></td>
<td><strong>$ 464,364</strong></td>
</tr>
<tr>
<td><strong>Net income per share of common stock</strong></td>
<td><strong>$ 0.71</strong></td>
<td><strong>$ 0.64</strong></td>
</tr>
<tr>
<td>Average shares outstanding</td>
<td>730,840</td>
<td>723,601</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
<table>
<thead>
<tr>
<th>Net Unrealized Appreciation on Available for Sale Securities</th>
<th>Total Shareholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock</td>
<td>Capital Surplus</td>
</tr>
<tr>
<td><strong>Balance at December 31, 19X0</strong></td>
<td>$720,002</td>
</tr>
<tr>
<td>Net income for 19X1</td>
<td></td>
</tr>
<tr>
<td>Cash dividends paid—$0.170 per share</td>
<td>(122,133)</td>
</tr>
<tr>
<td>1% Stock dividend—7,198 shares of common stock</td>
<td>7,198</td>
</tr>
<tr>
<td>Net change in unrealized appreciation on securities available for sale, net of taxes of $61</td>
<td></td>
</tr>
<tr>
<td><strong>Balance at December 31, 19X1</strong></td>
<td>727,200</td>
</tr>
<tr>
<td>Net income for 19X2</td>
<td></td>
</tr>
<tr>
<td>Cash dividends paid—$0.201 per share</td>
<td>(146,229)</td>
</tr>
<tr>
<td>1% Stock dividend—7,280 shares of common stock</td>
<td>7,280</td>
</tr>
<tr>
<td>Net change in unrealized appreciation on securities available for sale, net of taxes of $104</td>
<td></td>
</tr>
<tr>
<td><strong>Balance at December 31, 19X2</strong></td>
<td><strong>$734,480</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
## SAMPLE NATIONAL BANK AND SUBSIDIARY

### Consolidated Statements of Cash Flows

**Years Ended December 31, 19X2 and 19X1**

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 518,040</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 realized gains on securities available for sale</td>
<td>(2,938)</td>
<td>(806)</td>
</tr>
<tr>
<td>Net (increase) decrease in trading securities</td>
<td>(256)</td>
<td>(32,321)</td>
</tr>
<tr>
<td>Increase in accrued income and other assets</td>
<td>(493,197)</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>(482,713)</td>
<td>(105,270)</td>
</tr>
<tr>
<td><strong>Total adjustments</strong></td>
<td>(502,479)</td>
<td>194,569</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>15,561</td>
<td>658,933</td>
</tr>
</tbody>
</table>

| Cash flows from investing activities: |          |          |
| Net (increase) decrease in interest bearing deposits with banks | (115,546) | 14,386 |
| Net (increase) decrease in federal funds sold | (913,240) | 1,039,487 |
| Purchases of securities available for sale | 3,136,617 | (2,616,353) |
| Proceeds from sales of securities available for sale | 261,752 | 308,528 |
| Proceeds from maturities of securities available for sale | 1,774,299 | 793,375 |
| Purchases of securities to be held to maturity | (1,132,462) | (1,288,652) |
| Proceeds from maturities of securities held to maturity | 764,714 | 396,688 |
| Net increase in loans | (73,549) | (639,842) |
| Purchases of properties and equipment | (145,351) | (144,010) |
| Net (increase) decrease in customers' liability on acceptances outstanding | (29,844) | 25,820 |
| **Net cash used in investing activities** | (2,745,844) | (2,110,573) |

| Cash flows from financing activities: |          |          |
| Net increase in non-interest bearing demand, savings and NOW deposit accounts | 855,242 | 92,482 |
| Net increase in time deposits | 2,264,791 | 3,326,016 |
| Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase | 899,654 | (1,002,435) |
| Net increase (decrease) in borrowed funds | 158,024 | (1,683,788) |
| Net increase (decrease) in acceptances outstanding | 29,844 | (25,820) |
| Repayment of long-term debt | (12,721) | (16,465) |
| Dividends paid | (146,229) | (122,133) |
| **Net cash provided by financing activities** | 4,048,605 | 567,857 |

| Net increase (decrease) in cash and due from banks | 1,318,322 | (883,783) |
| Cash and due from banks at January 1 | 2,496,836 | 3,380,619 |
| Cash and due from banks at December 31 | $ 3,815,158 | $ 2,496,836 |
| Interest paid | $ 2,801,929 | $ 2,159,024 |
| Income taxes paid | $ 111,909 | $ 32,506 |

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

Investments in Securities. The Bank’s investments in securities are classified in three categories and accounted for as follows.

- Trading Securities. Government bonds held principally for resale in the near term and mortgage-backed securities held for sale in conjunction with the Bank’s mortgage banking activities are classified as trading securities and recorded at their fair values. Unrealized gains and losses on trading securities are included in other income.

- Securities to Be Held to Maturity. Bonds, notes and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

- Securities Available for Sale. Securities available for sale consist of bonds, notes, debentures, and certain equity securities not classified as trading securities nor as securities to be held to maturity.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary have resulted in write-downs of the individual securities to their fair value. The related write-downs have been included in earnings as realized losses.

Unrealized holding gains and losses, net of tax, on securities available for sale are reported as a net amount in a separate component of shareholders’ equity until realized.

Gains and losses on the sale of securities available for sale are determined using the specific-identification method.

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.

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

Financial Instruments. The Bank accounts for various financial instruments to which it is a party in the following manner—

Interest-Rate Exchange Agreements. Interest-rate exchange agreements (swaps) used in asset/liability management activities are accounted for using the accrual method. Gains or losses on the sales of swaps used in asset/liability management activities are deferred and amortized into interest income or expense over the maturity period of the swap. Net interest income (expense) resulting from the differential between exchanging floating and fixed-rate interest payments is recorded on a current basis.

Financial Futures. Interest-rate futures contracts are entered into by the Bank as hedges against exposure to interest-rate risk and are not for speculation purposes. Changes in the market value of interest-rate futures contracts are deferred and amortized into interest income or expense over the maturity period of the hedged assets or liabilities.

Financial Options. Option premiums received for writing puts and calls are recorded as a liability representing the market value of the option. The liability is subsequently marked to market at each balance-sheet date.

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

Fair Values of Financial Instruments.

The following methods and assumptions were used by the Bank in estimating fair values of financial instruments as disclosed herein:

Cash and cash equivalents—The carrying amounts of cash and short-term instruments approximate their fair value.

Trading securities—Fair values for trading account securities which also are the amounts recognized in the consolidated balance sheet, are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments except in the case of certain options and swaps where pricing models are used.
Securities to be held to maturity and securities available for sale—Fair values for investment securities, excluding restricted equity securities, are based on quoted market prices. The carrying values of restricted equity securities approximate fair values.

Loans receivable—For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit liabilities—The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings—The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within 90 days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Bank’s current incremental borrowing rates for similar types of borrowing arrangements.

Long-term debt—The fair values of the Bank’s long-term debt are estimated using discounted cash flow analyses based on the Bank’s current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest—The carrying amounts of accrued interest approximate their fair values.

Off-balance-sheet instruments—Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing.

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 fair values at December 31 were as follows:

<table>
<thead>
<tr>
<th>Securities available for sale—</th>
<th>Amortized Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>December 31, 19X2:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>289,199</td>
<td>16</td>
<td></td>
<td>289,215</td>
</tr>
<tr>
<td>U.S. Government and agency securities</td>
<td>4,545,082</td>
<td>4,797</td>
<td>1,268</td>
<td>4,548,611</td>
</tr>
<tr>
<td>State and municipal securities</td>
<td>1,237,799</td>
<td>854</td>
<td>83</td>
<td>1,238,570</td>
</tr>
<tr>
<td>Other securities</td>
<td>72,300</td>
<td>4</td>
<td></td>
<td>72,304</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,144,380</td>
<td>$5,671</td>
<td>$1,351</td>
<td>$6,148,700</td>
</tr>
</tbody>
</table>

| **December 31, 19X1:**        |                |                        |                        |            |
| Equity securities             | 291,151        | 29                     |                        | 291,122    |
| U.S. Government and agency securities | 3,303,536   | 4,718                  | 709                    | 3,307,545  |
| State and municipal securities | 1,373,401      | 1,096                  | 488                    | 1,374,009  |
| Other securities              | 72,787         | 7                      |                        | 72,780     |
| **Total**                     | $5,040,875     | $5,813                 | $1,233                 | $5,045,456 |

<table>
<thead>
<tr>
<th>Securities to be held to maturity—</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>December 31, 19X2:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government and agency securities</td>
<td>$1,036,191</td>
<td>8,133</td>
<td>$1,058,832</td>
</tr>
<tr>
<td>State and municipal securities</td>
<td>1,013,375</td>
<td>1,916</td>
<td>1,031,140</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,049,566</td>
<td>$10,049</td>
<td>$2,089,972</td>
</tr>
</tbody>
</table>

| **December 31, 19X1:**        |                        |                        |            |
| U.S. Government and agency securities | $775,844               | 18,442                 | $760,173   |
| State and municipal securities | 905,974                | 14,937                 | 897,686    |
| **Total**                     | $1,681,818             | $33,379                | $1,657,859 |

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.

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

<table>
<thead>
<tr>
<th>Gross realized gains:</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 and municipal securities</td>
<td>$7,461</td>
<td>$3,491</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gross realized losses:</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 and municipal securities</td>
<td>$4,523</td>
<td>$2,685</td>
</tr>
</tbody>
</table>
The scheduled maturities of securities to be held to maturity and securities available for sale at December 31, 19X2 were as follows:

<table>
<thead>
<tr>
<th>Due in one year or less</th>
<th>$615,914</th>
<th>$653,426</th>
<th>$1,712,280</th>
<th>$1,713,624</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due from one year to five years</td>
<td>579,535</td>
<td>609,612</td>
<td>1,621,572</td>
<td>1,622,759</td>
</tr>
<tr>
<td>Due from five to ten years</td>
<td>502,694</td>
<td>493,840</td>
<td>1,483,939</td>
<td>1,484,982</td>
</tr>
<tr>
<td>Due after ten years</td>
<td>351,423</td>
<td>333,094</td>
<td>1,037,390</td>
<td>1,038,120</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,049,566</strong></td>
<td><strong>$2,089,972</strong></td>
<td><strong>$5,855,181</strong></td>
<td><strong>$5,859,485</strong></td>
</tr>
</tbody>
</table>

Note C: Loans

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

<table>
<thead>
<tr>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>$17,348,688</td>
</tr>
<tr>
<td>Real estate construction</td>
<td>991,181</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>2,720,650</td>
</tr>
<tr>
<td>Residential real estate</td>
<td>3,975,595</td>
</tr>
<tr>
<td>Consumer</td>
<td>5,027,167</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30,063,281</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>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1</td>
<td>$582,438</td>
</tr>
<tr>
<td>Credits charged off</td>
<td>(190,618)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>31,078</td>
</tr>
<tr>
<td>Net credits charged off</td>
<td>(159,540)</td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>174,871</td>
</tr>
<tr>
<td>Balance at December 31</td>
<td>$597,769</td>
</tr>
</tbody>
</table>

Impairment of loans having carrying values of $1,238,657 in 19X2 and $1,089,563 in 19X1 has been recognized in conformity with FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan. The total allowance for credit losses related to those loans was $321,549 and $303,752 in 19X2 and 19X1, respectively. For impairment recognized in conformity with FASB Statement No. 114, the entire change in present value of expected cash flows is reported as bad debt expense in the same manner in which impairment initially was recognized or as a reduction in the amount of bad debt expense that otherwise would be reported.
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><strong>1,390,735</strong></td>
<td><strong>1,252,099</strong></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><strong>$750,859</strong></td>
<td><strong>$693,141</strong></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></th>
<th>19X3</th>
<th>19X4</th>
<th>19X5</th>
<th>19X6</th>
<th>19X7</th>
<th>Thereafter</th>
<th>Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$28,931</td>
<td>27,016</td>
<td>15,968</td>
<td>14,029</td>
<td>11,603</td>
<td>78,154</td>
<td>$175,701</td>
</tr>
</tbody>
</table>

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 due 20X4</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Total Bank</strong></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><strong>Total</strong></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 19Y6 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 9.25% 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 Federal</td>
<td>$119,392</td>
<td>$ 90,967</td>
</tr>
<tr>
<td></td>
<td>State</td>
<td>1,780</td>
</tr>
<tr>
<td></td>
<td></td>
<td>121,172</td>
</tr>
<tr>
<td>Deferred Federal</td>
<td>4,366</td>
<td>15,211</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$125,538</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>Statutory rate</td>
<td>34.0%</td>
<td>34.0%</td>
</tr>
<tr>
<td>Increase (decrease) resulting from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of tax-exempt income</td>
<td>(14.2%)</td>
<td>(15.3%)</td>
</tr>
<tr>
<td>Dividends received deduction</td>
<td>( .5%)</td>
<td>( .5%)</td>
</tr>
<tr>
<td>Interest and other nondeductible expenses</td>
<td>(.7%)</td>
<td>(.9%)</td>
</tr>
<tr>
<td>Other (net)</td>
<td>( .5%)</td>
<td>_______</td>
</tr>
<tr>
<td></td>
<td>19.5%</td>
<td>19.1%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax liability: Federal</td>
<td>$(18,315)</td>
<td>$(24,079)</td>
</tr>
<tr>
<td></td>
<td>State</td>
<td>$(3,051)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$(21,366)</td>
</tr>
<tr>
<td>Deferred tax asset: Federal</td>
<td>28,453</td>
<td>39,093</td>
</tr>
<tr>
<td>State</td>
<td>6,132</td>
<td>4,132</td>
</tr>
<tr>
<td></td>
<td></td>
<td>34,585</td>
</tr>
<tr>
<td>Net deferred tax asset</td>
<td>$13,219</td>
<td>$ 17,585</td>
</tr>
</tbody>
</table>

The tax effects of each type of significant item that gave rise to deferred taxes are:
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 described in Note M—Financial Instruments.

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: Financial Instruments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, options written, standby letters of credit and financial guarantees, interest-rate caps and floors written, interest-rate swaps, and futures contracts. Those instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statement of financial position. The contract or notional amounts of those instruments reflect the extent of the Bank’s involvement in particular classes of financial instruments.

The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest-rate caps, floors, and swap transactions; forward and futures contracts; and options written, the contract or notional amounts do not represent exposure to credit loss. The Bank controls the credit risk of its interest-rate

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized appreciation on securities available for sale</td>
<td>$(1,728)</td>
<td>$(1,832)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(18,320)</td>
<td>(16,156)</td>
</tr>
<tr>
<td>Deferred loan fees</td>
<td>3,968</td>
<td>5,026</td>
</tr>
<tr>
<td>Allowance for credit losses</td>
<td>30,409</td>
<td>31,275</td>
</tr>
<tr>
<td>Other</td>
<td>(1,110)</td>
<td>(728)</td>
</tr>
<tr>
<td>Net deferred tax asset</td>
<td>$13,219</td>
<td>$17,585</td>
</tr>
</tbody>
</table>
swap agreements and forward and futures contracts through credit approvals, limits, and monitoring procedures.

Unless noted otherwise, the Bank does not require collateral or other security to support financial instruments with credit risk.

**Interest-Rate Exchange Agreements.** The Bank enters into a variety of interest-rate contracts—including interest-rate caps and floors written, interest-rate options written, and interest-rate swap agreements—in its trading activities and in managing its interest-rate exposure. Interest-rate caps and floors written by the Bank enable customers to transfer, modify, or reduce their interest-rate risk. Interest-rate options are contracts that allow the holder of the option to purchase or sell a financial instrument from the seller or “writer” of the option at a specified price and within a specified period of time. As a writer of options, the Bank receives a premium at the outset and then bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Interest-rate swap transactions generally involve the exchange of fixed and floating-rate interest-payment obligations without the exchange of the underlying principal amounts. Though swaps are also used as part of asset and liability management, most of the interest-rate swap activity arises when the Bank acts as an intermediary in arranging interest-rate swap transactions for customers. The Bank typically becomes a principal in the exchange of interest payments between the parties and, therefore, is exposed to loss should one of the parties default. The Bank minimizes this risk by performing normal credit reviews on its swap customers, and minimizes its exposure to the interest-rate risk inherent in intermediated swaps by entering into offsetting swap positions that essentially counterbalance each other.

Entering into interest-rate swap agreements involves not only the risk of dealing with counterparties and their ability to meet the terms of the contracts but also the interest-rate risk associated with unmatched positions. Notional principal amounts often are used to express the volume of these transactions, but the amounts potentially subject to credit risk are much smaller.

During 19X2 and 19X1, the Bank entered into agreements to assume fixed-rate interest payments in exchange for variable market-indexed interest payments (interest-rate swaps). The notional principal amounts of interest-rate swaps outstanding were $500,000 and $300,000 at December 31, 19X2 and 19X1, respectively. The original terms are all 3 years. The weighted-average fixed-payment rates were 8.0% and 8.10% at December 31, 19X2 and 19X1, respectively. Variable-interest payments received are based on 90-day commercial paper. At December 31, 19X2, the weighted-average rate of variable market-indexed interest payment obligations to the Bank was 7.95%. The effect of these agreements was to lengthen short-term variable-rate liabilities into longer term fixed-rate liabilities. The net costs of these agreements were $15,000 and $25,000, for the years ended December 31, 19X2 and 19X1, respectively, which were amortized to income.

**Financial Futures.** Futures contracts are contracts for delayed delivery of securities or money-market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in securities values and interest rates.

The Bank uses financial futures contracts to hedge interest-rate exposure generally on secondary mortgage market operations. Short futures positions held in treasury note contracts at December 31, 19X2 were $200,000. No positions were held at, or during the year ended, December 31, 19X1. The net unrealized loss paid on maintenance of margin deposits relating to open positions was $14,344 at December 31, 19X2. Net unamortized gains on positions closed during 19X2 were $12,983.

The cost of U.S. Treasury bills pledged as collateral for initial margin on open futures contracts was $50,000 at December 31, 19X2.
Financial Options. The Bank writes call options (obligations to sell a fixed quantity of securities at the holder's request at a stated price within a specified term) and put options (obligations to purchase a fixed quantity of securities at the holder's request at a stated price within a specified term). The Bank generally owns, or has entered into commitments to purchase, the underlying securities for all call options written.

At December 31, 19X2, the Bank had options extending through February 19X3, which could require the Bank to purchase $2 million and sell $2 million of mortgage-backed certificates.

Commitments to Extend Credit and Financial Guarantees. At December 31, 19X2, the Bank was exposed to credit risk on commitments to extend credit having contract amounts of $560,000 and standby letters of credit and financial guarantees written of $87,000. The Bank also has financial instruments whose notional or contract amounts exceed the amount of credit risk, including futures contracts of $200,000 and interest-rate swaps whose notional amounts total $500,000.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank’s experience has been that approximately 60% 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 Bank evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management’s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable; inventory, property, plant, and equipment; and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Except for short-term guarantees of approximately $250,000, most guarantees extend for more than five years and expire in decreasing amounts through 20XX. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds marketable securities as collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 19X2, varies from 5% to 10%; the average amount collateralized is 9%.

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 estimated fair values of the Bank’s financial instruments were as follows—

<table>
<thead>
<tr>
<th></th>
<th>December 31, 19X2</th>
<th>December 31, 19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Amount</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Financial assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and due from banks,</td>
<td>8,564,994</td>
<td>8,564,994</td>
</tr>
<tr>
<td>interest-bearing deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>with banks, and federal</td>
<td>875,326</td>
<td>876,413</td>
</tr>
<tr>
<td>funds sold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities purchased</td>
<td>6,148,700</td>
<td>5,045,456</td>
</tr>
<tr>
<td>under agreements</td>
<td>2,049,566</td>
<td>1,657,859</td>
</tr>
<tr>
<td>to resell</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities available for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>sale</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities to be held to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>maturity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

67
<table>
<thead>
<tr>
<th></th>
<th>December 31, 19X2</th>
<th>Fair Value</th>
<th>December 31, 19X1</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit liabilities</td>
<td>(41,513,954)</td>
<td>(42,031,663)</td>
<td>(38,393,921)</td>
<td>(38,856,321)</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>(3,579,881)</td>
<td>(3,745,006)</td>
<td>(2,492,359)</td>
<td>(2,753,710)</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>(330,740)</td>
<td>(332,288)</td>
<td>(343,461)</td>
<td>(351,232)</td>
</tr>
<tr>
<td>Off-balance-sheet</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>instruments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commitments to extend</td>
<td>(47,122)</td>
<td>(45,132)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>credit</td>
<td>(1,392)</td>
<td>(1,862)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial letters</td>
<td>(2,034)</td>
<td>(1,915)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of credit</td>
<td>(4,735)</td>
<td>(4,851)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standby letters of</td>
<td>(2,156)</td>
<td>(1,032)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A summary of the Bank's commitments and contingent liabilities at December 31, 19X2, is as follows:

<table>
<thead>
<tr>
<th>Commitments</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>to extend credit</td>
<td>$560,000</td>
</tr>
<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>

**Note N: 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%.
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