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

American Institute of Certified Public Accountants. Technical Information Division

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Checklists and Illustrative Financial Statements for Banks and Savings Institutions

A Financial Accounting and Reporting Practice Aid

DECEMBER 1995 EDITION

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

Checklists and Illustrative Financial Statements for Corporations

Checklist Supplements and Illustrative Financial Statements
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Checklists and Illustrative Financial Statements for Banks and Savings Institutions
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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 Personal Financial Statement Engagements
Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies
Checklists and Illustrative Financial Statements for State and Local Governmental Units
Checklists and Illustrative Financial Statements for Banks and Savings Institutions

A Financial Accounting and Reporting Practice Aid

Edited by
Neil Selden, CPA
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Checklists and Illustrative Financial Statements for Banks and Savings Institutions 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 AND SAVINGS INSTITUTIONS

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

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

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

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

¹ The AICPA has released an exposure draft of a proposed Audit and Accounting Guide, Banks and Savings Institutions. The final guide, which is expected to be issued in early 1996, will supersede the AICPA Audit and Accounting Guide, Audits of Savings Institutions, the AICPA Industry Guide, Audits of Banks, Statement of Position 83-1, Reporting by Banks of Investment Securities Gains or Losses, Statement of Position 90-3, Definition of the Term Substantially the Same for Holders of Debt Instruments, as Used in Certain Audit Guides and a Statement of Position, Statement of Position 90-5, Inquiries of Representatives of Financial Institution Regulatory Agencies, Statement of Position 90-6, Directors' Examinations of Banks, Statement of Position 90-11, Disclosures of Certain Information by Financial Institutions About Debt Securities Held as Assets, Exhibits C, D, E, G, and H of Practice Bulletin 1, Purpose and Scope of AcSEC Practice Bulletins and Procedures for Their Issuance, and the AICPA Auditing Procedure Study, Auditing the Allowance for Credit Losses of Banks.
FSP Section 6100

Introduction

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

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

.03 Common accounting and reporting features of banks include:

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

.04 If a bank owns a captive finance company, the accounting provisions of the AICPA Audit and Accounting Guide, Audits of Finance Companies, apply.
FSP Section 6200
Checklists—General

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

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

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

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

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

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

Financial Statements and Notes Checklist

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

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

.02 Explanation of References:

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

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

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

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

.03 Checklist Questionnaire

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

Place √ by
Sections Not Applicable

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

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

• Statement of Changes in Shareholders’ Equity

• Statement of Cash Flows

• Auditor’s Report Checklist

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

General

A. Titles and References
  1. Are the financial statements suitably titled?
     [SAS 62, par. 7 (AU 623.07)]

  2. Does each statement include a general reference to the notes that are an integral part of the financial statement presentation?
     [Generally Accepted]

B. Disclosure of Accounting Policies
  1. Is a description of all significant accounting policies of the bank presented as an integral part of the financial statements?
     [APB 22, par. 8 (AC A10.102)]

  2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods?
     [APB 22, par. 12 (AC A10.105)]
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the financial statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]

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

C. Accounting Changes

1. For an accounting change, does disclosure in the period of the change include:
   a. Nature of the change?
   b. Justification for the change including a clear explanation of why the newly adopted principle is preferable?
   c. Effect on income before extraordinary items and net income? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]
   d. Effect on related per-share amounts?

2. For all changes in accounting principles, except those concerning a change in entity:
   a. Are financial statements for prior periods, included for comparative purposes, presented as previously reported?
   b. Is the effect of the new accounting principle on income before extraordinary items and on net income and the related earnings-per-share amounts disclosed in the period of the change?
   c. Are income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected? [APB 20, pars. 19—21 and 25 (AC A06.115—.117 and .121)]

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

4. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:
   a. Nature of the error in previously issued financial statements?
   b. Effect of its correction on income before extraordinary items, net income, and related per-share amounts? [APB 20, pars. 36—37 (AC A35.105); SFAS 109, par. 288(n) (AC A35.103)]

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

D. Comparative Financial Statements

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

2. Are the disclosures included in the prior years' financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?
[ARB 43, Ch. 2A, par. 3 (AC F43.103)]

E. Business Combinations

1. If a business combination occurred during the period and met the specified conditions for a pooling of interests, do the statements and notes include the names and descriptions of companies involved; number of shares of stock issued; details of operations for the part of the year before the pooling; adjustments to adopt common accounting principles; effect on prior net income; details of equity changes if fiscal year change; and reconciliation of revenue and net income previously reported to amounts now reported?
[APB 16, pars. 61—65 (AC B50.122—.124)]

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

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

3. Is any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill and other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36 of SFAS 109, AC section 127.129 and .135) disclosed?
[SFAS 109, par. 48 (AC I27.147)]

4. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired, are the method and period of amortization disclosed?
[APB 17, par. 30 (AC I60.111)]

5. Where the bank has purchased an enterprise and applied guidance outlined in EITF 87-11 regarding the intended disposition of a subsidiary in accounting for the purchase, and the subsidiary has not yet been disposed of, are the following disclosed:
   a. A description of the operations held for sale, the method used to assign amounts to those assets, the method used to account for those assets, and the expected disposal date?
   b. The operation's profit or loss that has been excluded from the consolidated income statement and a schedule reconciling that amount to the earnings received or losses funded by the parent that are accounted for as an adjustment to the carrying amount of the assets (the amount of allocated interest cost should be separately identified)?
   c. Any gain or loss on the ultimate disposition that is treated as an adjustment of the original purchase price allocation?
[EITF 90-6]
   d. Consideration that is issued or issuable at the end of the contingency period or that is held in escrow?
[APB 16, par. 78 (AC B50.136)]
6. If, after the end of the holding period as defined, a decision not to sell a line of business or a portion of a line of business is made, does disclosure include:
   a. The reason for the decision not to sell?
   b. An explanation of the adjustment including:
      (1) The carrying amount of the operations held for sale that will be allocated to the current fair values of its identifiable assets and liabilities (the explanation should include the amount of operating profit or losses and interest capitalized in obtaining the current fair value)?
      (2) The effect on comparability of the reporting periods?
   [EITF 90-6]
7. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired, are the method and period of amortization disclosed?
   [FASBI 9, par. 8 (AC I60.131); APB 17, par.30 (AC I60.111)]
8. If financial statements for prior years are restated, are all purchase business combinations that were consummated in those prior years remeasured in accordance with the requirements of SFAS No. 109?
   [SFAS 109, par. 53]
9. If a financial institution was acquired pursuant to an assistance agreement between the acquiror and a government agency, are the following considered:
   a. If part of the governmental agency assistance involved a note receivable from the agency, is a portion of the note receivable, equal to the fair value of the equity securities sold to the governmental agency, offset against the equity securities (unless it can be demonstrated that the equity security is economically separable, as defined, from the note)? (See EITF No. 88-19 for conditions that would determine economic separability.)
   b. If all or a portion of the note receivable from the governmental agency is offset against the equity from the securities issued to the agency, are subsequent dividend payments to the governmental agency on the equity securities netted against cash receipts from the governmental agency for interest payments on the note, and the net amount recorded as regulatory assistance?
   [EITF 88-19; AAG-BNK, pars.16.13 and 16.19]
10. If a material liability is recognized by the combined company for costs incurred to (1) exit an activity, (2) involuntarily terminate employees of an acquired company, or (3) relocate employees of an acquired company, are disclosures made in accordance with EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination, in addition to the disclosures required by paragraphs 95 and 96 in APB Opinion No. 16, Business Combinations?
   [EITF 95-3]

F. Consolidations
1. If consolidated statements are presented:
   a. Is the consolidation policy disclosed?
      [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]
   b. Are material intercompany balances and transactions eliminated?
      [ARB 51, par. 6 (AC C51.109)]
   c. If the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations recognized?
      [ARB 51, par. 4 (AC C51.107); FASB 13, pars. 5 and 6 (AC I89.120—.122)]
2. Are the accounts of majority-owned subsidiaries consolidated?  
[SFAS 94, par. 13 (AC C51.103)]

3. If the bank owns a captive finance company, are the provisions of the AICPA Audit and Accounting Guide, *Audits of Finance Companies*, applied?

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

G. **Related-Party Transactions and Economic Dependency**

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

2. If the bank is part of a group that files a consolidated tax return, is the amount of current and deferred tax expense disclosed for each of the periods for which income statements are presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented?  
[SFAS 109, par. 49 (AC C51.108A)]

3. Are the principal provisions of the method in which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which income statements are presented?  
[SFAS 109, par. 49 (AC C51.108A)]

4. Is information about economic dependency disclosed when necessary for a fair presentation?  
[SFAS 21, par. 9]

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

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

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

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

1. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS No. 105), are the following disclosed either in the body of the financial statements or in the notes by category of financial instrument:

   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, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)]

2. Do the disclosures in steps 1a. and b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading?

[SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)]

3. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS No. 105), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial instrument:

   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?

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3 SFAS No. 119 is effective for fiscal years ending after December 15, 1994. For entities with less than $150 million in total assets in the current statement of financial condition, the effective date is for fiscal years ending after December 15, 1995. However, earlier application is encouraged.

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

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

6 See footnote 5. If the entity has not adopted SFAS 119, the disclosures in Step 3 should be made by class of financial instrument rather than by category.
b. The bank’s policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the bank’s access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?

[SFAS 105, par. 18, as amended by SFAS 119, par. 14 (AC F25.113)]

4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether off-balance-sheet risk or from individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase contracts and pension obligations), include:

a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?

b. The amount of the accounting loss due to credit risk the institution would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and if the collateral or other security, if any, for the amount due proved to be of no value to the institution?

c. The institution’s policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the institution's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?

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

NOTE: For financial institutions with less than $150 million in total assets in the current statement of financial position, the effective date for SFAS No. 107 disclosures is for financial statements issued for fiscal years ending after December 15, 1995.

5. Is the fair value of financial instruments, for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS No. 107), disclosed, together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial condition?  

[SFAS 107, par. 10 as amended by SFAS 119, par. 15 (AC F25.115C)]

6. Do the disclosures in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading?  

[SFAS 107, par. 10 as amended by SFAS 119, par. 15, (AC F25.115C)]

7. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed?

[SFAS 107, par. 10 (AC F25.115C)]

8. If it is not practicable to estimate the fair market value of a financial instrument, do the disclosures include:

a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?

b. The reasons why it is not practicable to estimate fair value?

[SFAS 107, par. 14 (AC F25.115G)]

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

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

9 See footnote 8.
9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, does the institution, in disclosing the fair value of a derivative financial instrument, not:\(^\text{10}\)
   a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?
   b. Net the fair value with the fair value of other derivative financial instruments?  
   [SFAS 107, par. 13 as amended by SFAS 119, par. 15 (AC F25.115)]

10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a statement of financial position is presented for comparative purposes?  
   [SFAS 107, par.17]

1. Derivatives

   SFAS No. 119 is effective for financial statements issued for fiscal years ending after December 15, 1994, except for entities with less than $150 million in total assets. For those entities, the Statement is effective for financial statements issued for fiscal years ending after December 15, 1995.

1. For options held and other derivative financial instruments not within the scope of SFAS No. 105 that do not have off-balance-sheet risk, are the following disclosures made by category of financial instrument:
   a. The face or contract amount (or notional principal amount if there is no face or contract amount)?
   b. The nature and terms, including a discussion of:
      (1) Credit and market risk?
      (2) Cash requirements?
      (3) Related accounting policy as required by APB Opinion No. 22?
   c. Do disclosures in Steps 1.a. and b. above distinguish between financial instruments held or issued for:
      (1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?
      (2) Purposes other than trading?  
   [SFAS 119, pars. 8 and 9]

2. Does the institution that holds or issues derivative financial instruments for trading purposes disclose:
   a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?
   b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement?
      (1) If the disaggregation is other than by class, did the bank also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?
   c. The average fair value for assets and liabilities from the trading of other types of financial instruments or non financial assets? (This disclosure is encouraged but not required.)  
   [SFAS 119, par.10]

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\(^{10}\) See footnote 8.
3. Does an institution that holds or issues derivative financial instruments for purposes other than trading disclose:
   a. A description of:
      (1) The objectives for holding or issuing?  
      (2) The context needed to understand those objectives? 
      (3) The strategies for achieving those objectives? 
      (4) The classes of derivative financial instruments used?  
   b. A description of how each class of derivative financial instrument is reported in the financial statements, including:
      (1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments? 
      (2) When recognized, where the instruments and related gains and losses are reported? 
   c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:
      (1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence? 
      (2) A description of the classes of derivative financial instruments used to hedge? 
      (3) The amount of explicitly deferred hedging gains and losses? 
      (4) A description of the transaction or events that result in recognition in earnings of the deferred gains or losses? 
  [SFAS 119, par.11]

4. Are the following encouraged, but not required, quantitative disclosures made:
   a. Interest rate?  
   b. Foreign exchange? 
   c. Commodity price?  
   d. Other market risks consistent with management’s strategies? 
   e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments?  
  [SFAS 119, pars. 12 and 13]

J. Futures Contracts
1. If a futures contract is accounted for as a hedge, does the disclosure include:
   a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?

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11 Suggested methods of disclosure of the above include:

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

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

2. Does the analysis of changes during the period in the separate component of equity for cumulative translation adjustments disclose:
   a. Beginning and ending amount of cumulative translation adjustments?

   b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?

   c. The amount of income taxes for the period allocated to translation adjustments?

   d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity?
   [SFAS 52, par. 31 (AC F60.141)]

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

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

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

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

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

   d. The combined realized and unrealized net gain or loss deferred as of each balance-sheet date on currency options, option combinations, or similar instruments that are designated as hedges of anticipated transactions for which there is no firm commitment?
   [EITF 91-4]

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

   a. A right of setoff exists only when all of the following conditions are met:
      (1) Each of two parties owes the other determinable amounts?

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

      (3) The reporting party intends to set off?
(4) The right of setoff is enforceable at law?  
[FASBI 39, par. 5 (AC B10.101)]

7. Are foreign currency translation disclosures encouraged (but not required) to be supplemented with an analysis and discussion of the effects of rate changes on reported results of operations?  
[SFAS 52, par. 144 (AC F60.143)]

**L. Contingencies and Commitments**

1. Are the nature and amount of accrued loss contingencies, including those related to environmental matters, litigation, claims, and assessments, disclosed as necessary to keep the financial statements from being misleading?  
[SFAS 5, par. 9 (AC C59.108)]

2. For loss contingencies not accrued including environmental matters, do disclosures indicate:
   a. Nature of the contingency?
   b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?  
   [SFAS 5, par. 10 (AC C59.109 and .111)]

3. Are the nature and amount of guarantees disclosed (e.g., obligations under standby letters of credit, guarantees to repurchase loans that have been sold and commitments to originate loans)?  
[SFAS 5, par. 12 (AC C59.113); 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, unused letters of credit, and for funding of loans?  
[SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80); AAG-BNK, par. 3.46]

6. Is disclosure made if a subsidiary bank has guaranteed parent company debt?  
[SFAS 57, par. 1 (AC R36.101)]

7. If the bank as guarantor “lends” its credit worthiness to another party (borrower) for a fee, is the guarantee disclosed in a note, if material?  
[EITF 85-20]

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

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

**M. Subsequent Events**

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date?  
[SFAS 5, par. 8 (AC C59.115); SAS 1, secs. 560.03, .04 and .07 (AU 560.03, .04, .07 and 561.01—.10)]

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

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

1. If there is a defined benefit plan, do disclosures include:
   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. Measurement of plan assets and obligations within three months of the balance-sheet date using a consistent date from year to year (estimates may be necessary)? [SFAS 87, par. 52 (AC P16.148)]

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

12 The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS No. 87 (AC P16). That net total includes:
   a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).
   b. Amortization of the net gain or loss from earlier periods.
   c. Amortization of unrecognized prior service cost.
   d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16).
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<td>g. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 35 (AC P16.120 and .127), and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 (AC P16.135)? [SFAS 87, par. 54e (AC P16.150e)]</td>
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<td>h. If more than one defined benefit plan exists:</td>
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<td>(1) Are the disclosures required by Step 1 above aggregated for all of the employer’s single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?</td>
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<td>(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?</td>
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<td>(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]</td>
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<td>2. If there is a defined contribution plan, do disclosures include:</td>
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<td>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?</td>
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<td>b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]</td>
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<td>3. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:</td>
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<td>a. Is the substance of the plan to provide a defined benefit?</td>
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<td>b. If answer is yes, are disclosures required for a defined benefit plan made? [SFAS 87, par. 66 (AC P16.163)]</td>
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<td>4. If there is a multiemployer plan, do disclosures include:</td>
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<td>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?</td>
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<td>b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]</td>
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<td>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)]</td>
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<td>5. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such a plan, do disclosures include:</td>
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<td>a. A description of the nature of the event(s)?</td>
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<td>b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]</td>
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<td>6. If the bank terminates a defined benefit plan and (1) contributes the assets withdrawn to either a defined contribution plan or an ESOP, (2) the amount contributed is in excess of the employer’s required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, are the following disclosures considered: For a defined contribution plan:</td>
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<td>a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds?</td>
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b. Is the unallocated amount treated as if it were part of the employer's investments portfolio and recorded as an asset?  
(1) Is the income attributed to such securities including dividends, interest and realized gains and losses reported in a manner consistent with the employer's reporting of similar items?  
c. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?  
d. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements?  
[EITF 86-27]

For an ESOP:

a. If the excess contribution is not allocated to individual participants, are the unallocated shares of the employer's own common stock reported as a reduction of stockholders' equity, as if they were treasury stock?  
b. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?  
c. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements?  
[EITF 86-27]

7. If an employer sponsors an ESOP, do the employer's disclosures include:

a. A description of the plan, the basis for determining contributions, including the employee groups covered, and the nature and effect of significant matters affecting comparability of information for all periods presented?  
(1) For leveraged ESOP's and pension reversion ESOP's, does the description include the basis for releasing shares and how dividends on allocated and unallocated shares are used?  
b. A description of the accounting policies followed for ESOP transactions, including the method of measuring compensation, the classification of dividends on ESOP shares, and the treatment of ESOP shares for EPS computations?  
(1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, are the accounting policies for both blocks of shares disclosed?  
c. The amount of compensation cost recognized during the period?  
d. The number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date?  
(1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, is the above disclosure made separately for both blocks of shares?  
e. The fair value of unearned ESOP shares at the balance-sheet date, for shares accounted for under SOP 93-6?  
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]

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

14 Employers may wish to disclose additional information about the obligation, particularly information about the timing of payments.
8. Are all the items listed in Step 7 above disclosed even if the bank does not adopt SOP 93-6 for shares held by the ESOP on December 31, 1992? [SOP 93-6, par. 55]  

9. For leveraged ESOPs and for nonleveraged ESOPs where the assets from a terminated defined benefit pension plan are used by the ESOP to purchase shares, when the employer reports the issuance of shares or the sale of treasury shares to the ESOP is the charge to unearned ESOP shares presented as a separate item in the balance sheet as a contra-asset account? [SOP 93-6, pars. 13 and 46]  

10. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and is the receivable from the ESOP not reported as an asset on the employer’s balance sheet? [SOP 93-6, par. 26]  

11. If the employer sponsors an ESOP with an employer loan, is the ESOP’s note payable and the employer’s note receivable from the ESOP not reported in the employer’s balance sheet? [SOP 93-6, par. 27]  

O. Postretirement Health Care and Life Insurance Benefits  

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

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

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

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

      (1) The fair value of plan assets?  

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

      (3) The amount of unrecognized prior-service cost?  

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

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

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

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

   b. Amortization of unrecognized prior-service cost.  

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

   d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61 of SFAS No. 106).
(6) The amount of net postretirement benefit asset or liability recognized in the statement of condition, which is the net result of combining the preceding five items?

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

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

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

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

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

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

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

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

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j. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)? [SFAS 106, par. 74a—j (AC P40.169a—j)]

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k. If applicable, the transition provisions required under SFAS 106? [SFAS 106, pars. 108—113 (AC App. C, pgs. 13-15)]

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

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

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

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c. Are plans inside the U.S. and plans outside the U.S. separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans? [SFAS 106, par. 78 (AC P40.173)]

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3. If there is a multiemployer plan, do disclosures include:
   a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefits provided (defined benefits or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?  
   [SFAS 106, par. 82 (AC P40.178)]  
   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)?  
   [SFAS 106, par. 83 (AC P40.179)]  
   c. Are the provisions of SFAS No. 5, Accounting for Contingencies, applied if the situation arises where withdrawal from a multiemployer plan may result in an employer’s having an obligation to the plan for a portion of the plan’s unfunded accumulated postretirement benefit obligation, and it is either probable or reasonably possible that:
      (1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?  
      or
      (2) An employer’s contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage?  
   [SFAS 106, par. 106 (AC P40.198)]  

4. If there are one or more defined contribution postretirement plans, are the following items disclosed separately from defined benefit postretirement plan disclosures:
   a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?  
   b. The amount of cost recognized during the period?  
   [SFAS 106, par. 106 (AC P40.198)]  

P. Other Matters  
1. If required for SEC registrants (SFAS 21 (AC S20)), is segment information presented in the financial statements?  
   [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 Opinion No. 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]  

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. 16.a.i. (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 16.a.ii. (AC L10.106 and .112a(2))]
c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16.a.iii. (AC L10.112a(3))]

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d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16.a.iv. (AC L10.112a(4))]

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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))]

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2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:
   a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?
   b. The total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]

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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)]

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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)]

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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]

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R. Nonmonetary Transactions
1. Are the following disclosures for nonmonetary transactions made:
   a. Nature of transactions?
   b. Basis of accounting?
   c. Gain or loss recognized on the transfer? [APB 29, par. 28, fn. 7 (AC C11.102, AC N35.120); FASBI 30 (AC N35.114—.119)]

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S. Risks and Uncertainties (SOP No. 94-6, Disclosure of Certain Significant Risks and Uncertainties, is effective for financial statements issued for fiscal years ending after December 15, 1995, and for interim periods in fiscal years subsequent to the year for which this SOP is first applied.)
1. Is a description of the major products and services the institution sells or provides and the principal markets, including the location of those markets, disclosed? [SOP 94-6, par. 10]

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2. If the institution operates in more than one business, are the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed? [SOP 94-6, par. 10]

3. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statements? [SOP 94-6, par. 11]

4. Is the disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that both of the following criteria have been met:
   a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
   b. The effect of the change will be material. [SOP 94-6, par. 13]

5. Does the disclosure in Step 4 above indicate the nature of the uncertainty and include an indication that it is reasonably possible that a change in estimate will occur in the near term? 16

6. If the estimate in Step 4 above involves a loss contingency covered by SFAS No. 5, Accounting for Contingencies, do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made? 17 [SOP 94-6, pars. 13-14]

7. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 of SOP 94-6 are met? [SOP 94-6, pars. 21-22]

8. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside of the entity's home country that meet the criteria of paragraph 21 of SOP 94-6, are the following specific items disclosed:
   a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year?
   b. The carrying amounts of net assets and the geographic areas in which they are located for operations located outside the entity's home country? [SOP 94-6, par. 24]

9. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered? [SOP 94-6, par. 10]

T. Costs to Exit an Activity

1. If a material liability is recognized for certain employee termination benefits in accordance with section A of EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), are the following disclosures made in all periods until the plan of termination is completed:
   a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement?

---

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

17 See footnote 16.
b. The number of employees to be terminated?  
   Yes    No    N/A
   ____   ____   ____

c. A description of the employee group(s) to be terminated?  
   ____    ____   ____

d. The amount of actual termination benefits paid and charged against the 
   liability and the number of employees actually terminated as a result of the  
   plan to terminate employees?  
   ____    ____   ____

e. The amount of any adjustment(s) to the liability?  
   ____    ____   ____

2. If management commits to an exit plan that meets the criteria in Section B of EITF  
   94-3, are the following reporting requirements followed:
   a. Reporting the income statement effect of recognizing a liability at the  
      commitment date in income from continuing operations and not on the face  
      of the income statement net of taxes?  
      ____    ____   ____
   b. No disclosure made on the face of the income statement for earnings per  
      share effect?  
      ____    ____   ____
   c. Revenue and related costs and expenses of activities that will not be  
      continued should not be combined and reported as a separate component of  
      income?  
      ____    ____   ____
   [EITF 94-3, Section B]

3. If the activities that will not be continued are significant to the enterprise's  
   revenue or operating results, or if the exit costs recognized at the commitment  
   date are material, are the following disclosures made in all periods until the exit  
   plan is completed:
   a. A description of the major actions comprising the exit plan, activities that will  
      not be continued, including the method of disposition, and the anticipated  
      date of completion?  
      ____    ____   ____
   b. A description of the type and amount of exit costs recognized as liabilities and  
      the classification of those costs in the income statement?  
      ____    ____   ____
   c. A description of the type and amount of exit costs paid and charged against  
      the liability?  
      ____    ____   ____
   d. The amount of any adjustment(s) to the liability?  
      ____    ____   ____
   e. For all periods presented, the revenue and net operating income or losses  
      from activities that will not be continued if those activities have separately  
      identifiable operations?  
      ____    ____   ____
   [EITF 94-3, Section B]

U. Regulatory Matters

The disclosure requirements that follow should be presented for holding  
companies and all significant subsidiaries.

1. Have the following disclosures relating to Federal regulatory capital requirements  
   been included in the financial statements:
   a. A description of regulatory capital requirements for capital adequacy  
      purposes and established by the prompt corrective action provisions of  
      Section 38 of the Federal Deposit Insurance Act?  
      ____    ____   ____
   b. The actual or possible material effects of noncompliance with such  
      requirements?  
      ____    ____   ____
   c. Whether the institution is in compliance with the regulatory capital  
      requirements, including the following with respect to quantitative measures:18  
      (1) The institution's required and actual ratios and amounts of Tier I leverage,  
          Tier I risk-based, and total risk-based capital and (for savings institutions)  
          tangible capital?  
      ____    ____   ____

18 These amounts may be presented in either narrative or tabular form.
(2) Factors that may significantly affect capital adequacy such as potentially volatile components of capital, qualitative factors, and regulatory mandates?

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[AA-G-BNK, par. 2.50]

2. If, as of the most recent balance sheet presented, the institution is either not in compliance with capital adequacy requirements, or considered less than adequately capitalized under prompt corrective action provisions or both, are the possible material effects of such conditions and events on amounts and disclosures in the financial statements disclosed?

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[AA-G-BNK, par. 2.50]

3. When one or more of the institution's actual ratios are nearing noncompliance, has the institution made the disclosures required in Step 2 above?

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4. Has the institution disclosed the following information in situations where there is substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time:

a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time?

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b. The possible effect of such conditions and events?

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c. Management's evaluation of the significance of those conditions and events and any mitigating factors?

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d. Possible discontinuance of operations?

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e. Management's plans (including relevant prospective financial information)?

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f. Information about the recoverability or classification of recorded asset amounts or classification of liabilities?

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[AA-G-BNK, par. 2.51]

5. If other regulatory limitations exist, are the following disclosures made:

a. Noncompliance with laws and regulations?

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b. Supervisory actions or regulatory changes that place limitations or restrictions on operating activities?

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c. Classification of the institution under prompt corrective action provisions of the F.D.I. Act?

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d. The continued existence of conditions that brought about previous regulatory actions or restrictions?

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e. Effects of scheduled increases in deposit insurance premiums?

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f. Failure to meet regulatory capital requirements?

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g. Limitations on availability of borrowings through the Federal Reserve Bank window?

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h. Exposure to the institution posed by transactions with correspondent banks and related limitations on interbank liabilities?

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[AA-G-BNK, pars. 2.79 and 2.80]

6. Has the bank included notification of any planned rapid growth in filing of regulatory financial reports?

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[AA-G-BNK, par. 13.23]
**Statement of Condition**

### A. General
1. Are trust assets excluded from the financial statements?
   [AAG-BNK, par. 17.12]

### B. Cash and Due From Banks
1. Does cash and due from banks include cash on hand, clearing and exchange, cash items and due from banks?
   [AAG-BNK, par. 4.1]
2. Have interest-bearing deposits with other depository institutions (domestic and foreign) been disclosed separately on the statement of financial condition?
   [AAG-BNK, par. 4.6]
3. Are overdrafts and other demand deposits that represent borrowings rather than outstanding drafts reclassified as liabilities?
   [AAG-BNK, par. 4.7]
4. Are reciprocal “due to/from” balances offset for balance sheet presentation?
   [AAG-BNK, par. 4.7]
5. Are any withdrawal and usage restrictions or compensating balance arrangements with other financial institutions disclosed?
   [S-X Rule 9-03.1(a)]

### C. Federal Funds and Repurchase Agreements
1. Are federal funds and repurchase agreements presented gross, except where a right of offset exists and the conditions described in FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*, have been met?
   [AAG-BNK, par. 12.22]
   a. Are federal funds sold and securities purchased under agreements to resell disclosed after interest bearing deposits with banks on the balance sheet?
      [AAG-BNK, par. 19.9]
   b. Are federal funds purchased and securities sold under agreements to repurchase disclosed after deposits on the balance sheet?
      [AAG-BNK, par. 19.9]
2. Are the following disclosures for repos during the period included in the financial statements:
   a. The maximum amount of outstanding agreements at any month-end during the period?
   b. The average amount of outstanding agreements for the period and the basis for averaging (that is, whether the amounts averaged were monthly or daily amounts)?
   c. A statement of whether the securities underlying the agreements were under the institution’s control?
      [AAG-BNK, par. 12.33b]

### D. Investment Securities
1. Is an explanation of the institution’s accounting policies for securities, including the basis for classification, included in the notes to financial statements?
   [AAG-BNK, par. 5.86]
2. Are debt and equity securities classified as (a) held-to-maturity, (b) available-for-sale, or (c) trading?
   [SFAS 115, par. 6 (AC 180.103)]
3. Is Federal Home Loan Bank Stock classified as a restricted security, carried at cost, and evaluated for impairment?
   [AAG-BNK, par. 5.82]
4. At the time of acquisition, all corporate debt acquired or held was rated in one of the four highest rating categories by at least one nationally recognized statistical rating organization? [AAG-BNK, par. 5.48]

5. For securities classified as available-for-sale or held-to-maturity, are the following disclosures made, by major-security type, for each statement of financial condition presented:
   a. Aggregate fair value?
   b. Gross unrealized holding gains and losses?
   c. Amortized cost basis?
   d. Disclosure of major-security types including:
      (1) Equity securities?
      (2) Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?
      (3) Debt securities issued by the states of the U.S. and political subdivisions of the states?
      (4) Debt securities issued by foreign governments?
      (5) Corporate debt securities?
      (6) Mortgage-backed securities?
      (7) Other debt securities? [SFAS 115, par. 19 (AC 180.118); AAG-BNK, par. 5.87]

6. For investments in debt securities classified as available-for-sale or held-to-maturity, is:
   a. Is disclosure made about their contractual maturities as of the date of the latest statement of financial condition date presented (maturity information may be combined in appropriate groupings)?
   b. Is disclosure made of the fair value and the amortized cost of debt securities in at least four maturity groupings:
      (1) Within one year?
      (2) After one year through 5 years?
      (3) After five years through 10 years?
      (4) After 10 years?
   c. Are securities not due at a single date disclosed separately rather than allocated over several maturity groupings unless the basis for allocation is also disclosed? [SFAS 115, par. 20 (AC 180.119)]

7. For each period for which an income statement is presented, are the following disclosures made:
   a. The proceeds from sales of available-for-sale securities and gross realized gains and losses those sales?
   b. The basis on which cost was determined in computing realized gain or loss (i.e., specified identification, average cost, or other method used)?
   c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?
   d. The change in net unrealized holding gain or loss on available-for-sale securities that has been included in the separate component of shareholders' equity during the period?
e. The change in net unrealized holding gain or loss on trading securities that has been included in earnings during the period? [SFAS 115, par. 21 (AC 180.120; AAG-BNK, par. 5.88)]

8. For any sales of, or transfers from, securities classified as held-to-maturity, is disclosure made of the following for each period an earnings statement is presented:
   a. Amortized cost amount of the sold or transferred security?
   b. Related realized or unrealized gain or loss?
   c. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC 180.121; AAG-BNK, par. 5.88)]

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

10. Are concentrations of securities of a particular issuer disclosed? [SFAS 105, par. 20 (AC F25.115); AAG-BNK, par. 5.29]

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

### E. Mortgage Loans and Mortgage-Backed Securities Servicing Rights

1. For loans held for investment:
   a. Are mortgage loans held for investment reported separately in the statement of financial condition? [SFAS 65, par. 28 (AC Mo4.129)]
   b. Are the fair value and the method(s) and significant assumptions used to estimate the fair value disclosed? [SFAS 107, par. 10 (AC F25.115C)]

2. For loans held for sale:
   a. Are mortgage loans held-for-sale reported separately in the statement of financial condition at the lower of cost or market value? [SFAS 65, par. 4 and 28 (AC Mo4.105 and 129); AAG-BNK, par. 6.46]
      (1) Is the method used in determining lower of cost or market value disclosed (i.e. individual vs. aggregate method)? [SFAS 65, par. 29 (AC Mo4.130); AAG-BNK, par. 8.29]
   b. For the right to service mortgage loans, do disclosures include:19
      (1) The amount capitalized during the period in connection with purchasing or originating the right to service mortgage loans?
      (2) The method of amortizing the capitalized servicing rights?
      (3) Amount of amortization for the period? [SFAS 65, par. 30, as amended by SFAS 122, par. 3h (AC Mo4.131)]
      (4) The amount of the servicing portfolio maintained by the institution, if material?

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19 For banks that have not adopted SFAS 122, Steps b. (1)-(9) apply only to purchased loans.
(5) A roll-forward of deferred loan sale premium or discount activity (scheduled amortization, amortization due to changes in prepayment assumptions, and changes due to loan sale activity, if material) for each year of operations presented?

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

(7) The amount of aggregate gains on sales of servicing included in operations?

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

(9) The nature and extent of off-balance-sheet escrow accounts?

[AAG-BNK, par. 8.29]

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

(10) The fair value of capitalized mortgage servicing rights and the methods and significant assumptions used to estimate that fair value?

(11) The reasons why it is not practicable to estimate the fair values of the mortgage servicing rights and mortgage loans (without the mortgage servicing rights), if no cost is allocated to the mortgage servicing rights?

[SFAS 122, par. 3i (AC Mo4.133)]

(12) The risk characteristics of the underlying loans used to stratify capitalized mortgage servicing rights for the purposes of measuring impairment?

[SFAS 122, par. 3i (AC Mo4.133)]

(13) For each period for which an income statement is presented, the activity in the valuation allowances for capitalized mortgage servicing rights:

(a) Opening balance?

(b) Additions charged and reductions credited to operations?

(c) Direct write-downs charged against the allowances?

(d) Ending balance?

[SFAS 122, par. 3i (AC Mo4.134)]

F. Loans Receivable

1. Are the following disclosed in the summary of significant accounting policies:

   a. The basis of accounting for loans and lease financings, both held in a portfolio and held for sale?

   b. The method of determining carrying amounts of loans held for sale?

   c. The method and significant assumptions used to estimate the fair value of loans?

   d. The method of estimating credit losses?

   e. The method of recognizing interest income on loans, including a statement about the institution’s policy for the treatment of loan fees and costs, including the method of amortizing net deferred fees or costs?

   [AAG-BNK, par. 6.70]
2. Are loans held for sale disclosed separately on the statement of financial condition?

[AAG-BNK, par. 6.71]

a. Have loans held for sale been reported at the lower of cost or market?

[AAG-BNK, par. 6.46]

3. Are the following disclosed separately either in the statement of financial condition or in the notes to the financial statements:

a. Major categories of loans?

b. The allowance for credit losses, unearned income, unamortized premiums and discounts, and net unamortized deferred fees and costs?

c. Undisbursed portion of loans receivable (loans in process)?

d. Loans that have been restructured in a troubled debt restructuring?

[AAG-BNK, par. 6.71]

4. Is the total carrying value of loans pledged disclosed?

[AAG-BNK, par. 6.72]

5. Are loans to related parties disclosed?

[AAG-BNK, par. 6.77; SFAS 57, par.2 (AC R36.102)]

6. Have commitments to originate loans been disclosed?

[AAG-BNK, par. 6.67]

7. Have outstanding loans whose terms have been modified in trouble debt restructurings been accounted for in accordance with FASB No. 114, as amended by FASB No. 118?

[AAG-BNK, par. 6.74]

8. Is the unamortized balance of loan commitments, originations and other fees and costs including purchase premiums or discounts that are being recognized as yield adjustments being reported as part of the loan balance to which they relate?

[SFAS 91, par. 21 (AC L20.120); AAG-BNK par. 7.49]

G. Loans—Lease Finance

1. Have leases been accounted for in accordance with FASB No. 13, Accounting for Leases, as amended by FASB No. 98, Accounting for Leases: Sales-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, Initial Direct Costs of Direct Financing Leases?

[AAG-BNK, par.6.62]

2. Are the following disclosed in the financial statements:

a. The following components of the net investment in leases disclosed as of the date of each balance sheet presented:

   (1) Future minimum lease payments to be received, with separate disclosures for:

      (a) Executory costs, including any profit thereon?

      (b) The accumulated allowance for uncollectible minimum lease payments receivable?

   (2) Unguaranteed residual values accruing to the benefit of the lessor?

   (3) For direct financing leases only, initial direct costs?

   (4) Unearned income?

b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?

c. Total contingent rentals included in income for each period for which an income statement is presented?

[SFAS 13, par. 23a as amended by SFAS 91 par. 25d (AC L10.119a)]
3. Is the method of amortizing deferred investment credits retained on lease transactions disclosed? [AAG-BNK, par. 14.30]  
4. Are leasing arrangements described? [SFAS 13, par. 23c (AC L10.119c)]
5. Are the following disclosures made for leveraged leases:
   a. The deferred taxes related to the investment in a leveraged lease shall be presented separately from the remainder of the net investment?
   b. Pretax income from leveraged leases?
   c. Tax effect of pretax income?
   d. Amount of investment tax credit recognized as income during the period, if any? [SFAS 13, par. 47 (AC L10.149)]
6. If leveraged leases are significant, the following additional disclosure should be made as to the investment in leveraged leases:
   a. Rental receivable?
   b. A receivable for the amount of investment tax credit to be realized on the transaction?
   c. Estimated residual value of the leased asset?
   d. Unearned and deferred income? [SFAS 13, pars. 43 and 47 (AC L10.149)]

H. Allowance for Loan Losses
1. Is the allowance deducted from the related assets? [APB 12, par.3 (ACV18.102)]
2. Is a description of the accounting policies and the method used to estimate its allowance or liability and related provisions for loan or other credit losses included in the notes to the financial statements? [AAG-BNK, par. 7.33]
3. Is the following information disclosed, either in the body of the financial statements or in the accompanying notes for impaired loans:20
   a. As of the date of each statement of financial condition presented:
      (1) Total recorded investment in the impaired loans at the end of each period and the amount of the recorded investment for which there is a related allowance for loan losses?
      (2) The amount of the allowance?
      (3) The amount of the recorded investment for which no allowance for loan losses was recorded?
      (4) The institution's policy for recognizing interest on impaired loans, including how cash receipts are recorded?
   b. For each period for which an income statement is presented:
      (1) Average recorded investments?
      (2) Related amount of interest income recognized using the cash basis method of accounting during the time within the period the loans were impaired?
      (3) If practicable, the amount of interest income recognized using cash basis method of accounting during the time within the period the loans were impaired?

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20 In certain circumstances, information about an impaired loan that has been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures in Steps 3.a. and 3.b.(1)-(3).
(4) The activity in the allowance for loan losses related to impaired loans including the following:
   (a) Opening balance? ___ ___ ___
   (b) Additions charged to operations? ___ ___ ___
   (c) Direct write-down charged against the allowance? ___ ___ ___
   (d) Recovery of amounts previously charged off? ___ ___ ___
   (e) Ending balance? ___ ___ ___

   [SFAS 118, par. 6 (AC 108.118 and 118A)]

I. Real Estate Acquired in Settlement of Loans

1. Is real estate acquired in settlement of loans (e.g., foreclosed real estate) disclosed as a separate balance-sheet amount or included in other assets in the balance sheet, and disclosed in the notes?
   [AAG-BNK, par. 9.13] ___ ___ ___

2. Are foreclosed assets held for sale valued and disclosed at the lower of fair value minus estimated costs to sell or cost?
   [AAG-BNK, par. 9.9; SOP 92-3, par. 12] ___ ___ ___

3. If the fair value of the asset minus the cost to sell the asset is less than the cost of the asset, has the deficiency been recognized as a valuation allowance?
   [SOP 92-3, par. 12] ___ ___ ___

4. Are changes in the valuation allowance based upon fluctuations in the fair value of the asset minus the estimated cost to sell the asset?
   [AAG-BNK, par. 9.9; SOP 92-3, par. 12] ___ ___ ___

5. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired other than through foreclosure?
   [AAG-BNK, par. 9.9; SOP 92-3, par. 5] ___ ___ ___

6. If foreclosed assets originally classified as held-for-sale are reclassified to be held for production of income, is the net effect of such change reported in income from continuing operations in the period in which the decision not to sell the asset was made?
   [AAG-BNK, par. 9.12; SOP 92-3, par. 12] ___ ___ ___

7. For collateral that has been in-substance foreclosed (e.g., the institution receives physical possession of the debtor’s assets regardless of whether formal foreclosure proceedings take place in full satisfaction of a receivable), is the loan receivable reclassified to the category or categories of the collateral in accordance with SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings?
   [SFAS 114, par.22. d. (AC D22.142); SFAS 15, par. 28 (AC D22.124)] ___ ___ ___

8. For collateral that has been in-substance foreclosed but the institution has not taken physical possession of the asset(s), is the classification of loans receivable unchanged?
   [SFAS 114, par.71] ___ ___ ___

J. Premises and Equipment

1. Are fixed assets shown on the balance sheet net of accumulated depreciation?
   [AAG-BNK, par. 10.13] ___ ___ ___

2. Is the carrying basis disclosed?
   [AAG-BNK, par. 10.09] ___ ___ ___

3. Are the balances of major classes of depreciable assets disclosed?
   [APB 12, par. 5b (AC D40.105b); AAG-BNK, par. 10.13] ___ ___ ___

4. Is accumulated depreciation, either by major classes of assets or in total, disclosed?
   [APB 12, par. 5c (AC D40.105c)] ___ ___ ___
5. Is depreciation expense for the period disclosed?
   [APB 12, par. 5 (AC D40.105a)]
   
   No

6. Has accumulated depreciation, either by major classes of assets or in total, been disclosed at the balance-sheet date?
   [APB 12, par. 5 (AC D40.105a)]
   
   No

7. Is the amount of interest cost incurred and charged to expense during the period disclosed for an accounting period in which no interest cost is capitalized?
   [SFAS 34, par. 21.a. (AC I67.118)]
   
   No

8. Is the amount of interest cost incurred during the period and the amount that has been capitalized disclosed for an accounting period in which some interest cost is capitalized?
   [SFAS 34, par. 21.a. (AC I67.118)]
   
   No

9. If purchased computer software is to be used as a long-term asset, has the cost been capitalized and depreciated over its estimated useful life?
   [AAG-BNK, par. 10.12]
   
   No

10. Are material commitments for property expenditures disclosed?
    [SFAS 5, pars. 18-19 (AC C59.120)]
    
    No

11. For an existing property with an asbestos problem, are the costs incurred to treat the problem, if charged to expense, not classified as an extraordinary item?
    [EITF 89-13]
    
    No

SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, established accounting standards for the impairment of long-lived assets, and goodwill related to assets held and used or disposed of. This standard is effective for fiscal years beginning after December 15, 1995, however earlier application is encouraged. Restatement of previously issued financial statements is not permitted.

12. If an impairment loss is recognized for assets to be held or used, are the following disclosures made in financial statements that include the period of impairment write-down:
    a. A description of the impaired assets and the facts and circumstances leading to the impairment?
    
    Yes

13. If assets to be disposed of are accounted for in accordance with paragraphs 15-17 of SFAS 121, are all of the following disclosed in financial statements that include a period which those assets are held:
    a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?
    
    Yes

b. The business segment(s) in which assets to be disposed of are held, if applicable?
    
    Yes

c. The loss resulting from the application of paragraph 15 of SFAS No. 121?
    
    Yes

d. The gain or loss, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS No. 121?
    
    Yes

e. The caption in the income statement in which the gains or losses in steps c. and d. are aggregated if those gains have not been presented as a separate caption or reported parenthetically on the face of the statement?
    
    Yes
f. The results of operations for assets to be disposed of to the extent that those results are included in the entity’s results of operations for the period and can be identified?
   [SFAS 121, par. 19]

14. If an impairment loss is recognized, is it reported as a component of income from continuing operations?
   [SFAS 121, pars. 13 and 18]

K. Other Assets

1. If material, are amounts disclosed separately for:
   a. Accrued interest receivable?
   b. Premises and equipment?
   c. Other real estate, such as foreclosed assets?
   d. Identifiable intangible assets, such as core deposit intangibles, purchased mortgage servicing rights, and purchased credit card relationships?
   e. Goodwill?
   f. Customers’ liabilities on acceptances?
   g. Deferred tax assets?
   [AAG-BNK, par. 10.01]

2. Are the periods and methods of amortization for identified intangible assets and unidentified intangible assets in accordance with SFAS No. 72, Accounting for Certain Acquisitions of Banking or Thrift Institutions?

3. Are the following items disclosed 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 in a combination initiated after September 30, 1982:
   a. The method and period of amortization?
   [APB 17, par. 30 (ACI60.111)]
   b. If the receipt of the assistance by regulatory authority was not probable or the amount was not reasonably estimable:
      (1) Has any assistance received subsequently been recognized in the financial statements and reported as a reduction in the unidentifiable intangible asset?
      (2) Has subsequent amortization been adjusted proportionally?
      (3) Has assistance received in excess of goodwill been reported as income?
   [SFAS 72, par. 9(AC B50.158D)]

4. Are investments in life insurance reported at amounts that can be realized as of the balance-sheet date?
   [TB 85-4, par. 2 (AC I50.508)]

L. Deposits

1. Is the institution’s liability for deposits recognized at the time deposits are received, rather than when the institution collects the funds?
   [AAG-BNK, par. 11.30]

2. Are overdrawn checking accounts:
   a. Reclassified as loans?
   b. Evaluated for collectibility as part of the evaluation of credit loss allowance?
   [AAG-BNK, par. 11.30]

3. Are checks deposited by customers that are in the process of collection and are not available for withdrawal recorded as assets and liabilities?
   [AAG-BNK, par. 11.31]
4. Are the following disclosures included in the financial statements:

   a. The aggregate amount of time deposit accounts (including CDs) exceeding $100,000 at the balance-sheet date?
      [ ] Yes  [ ] No  [ ] N/A
   b. For deposits payable on demand or with no defined maturities, has the fair value been disclosed as the amount payable on demand at the reporting date?
      [ ] Yes  [ ] No  [ ] N/A
   c. Securities, mortgage loans, or other financial instruments pledged as collateral for deposits?
      [ ] Yes  [ ] No  [ ] N/A
   d. For time deposits having a remaining term of more than one year, the aggregate amount of maturities for each of the five years following the balance sheet date (in conformity with paragraph 10b of SFAS No. 47, Disclosures of Long-Term Obligations)?
      [ ] Yes  [ ] No  [ ] N/A
   e. The aggregate amount of any demand deposits that have been reclassified as loan balances at the balance-sheet date?
      [ ] Yes  [ ] No  [ ] N/A
   f. The amount of deposits of related parties at the balance-sheet date (in conformity with SFAS No. 57, Related Party Disclosures)?
      [ ] Yes  [ ] No  [ ] N/A
   g. Deposits that are received on terms other than those available in the normal course of business?
      [ ] Yes  [ ] No  [ ] N/A
   h. The fair values of deposits (in conformity with SFAS No. 107, Disclosures about Fair Value of Financial Instruments)?
      [ ] Yes  [ ] No  [ ] N/A

   [AAG-BNK, par. 11.32]

M. Income Taxes

1. Are deferred tax assets determined for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction presented separately?
   [ ] Yes  [ ] No  [ ] N/A

   [SFAS 109, par. 17 (AC 127.116)]

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

   a. The total of all deferred tax liabilities?
      [ ] Yes  [ ] No  [ ] N/A
   b. The total of all deferred tax assets?
      [ ] Yes  [ ] No  [ ] N/A
   c. The total valuation allowance for deferred tax assets?
      [ ] Yes  [ ] No  [ ] N/A

   [SFAS 109, par. 43 (AC 127.142)]

N. Debt

1. Are significant categories of borrowings disclosed as separate line items in the liability section of the balance sheet?
   [ ] Yes  [ ] No  [ ] N/A

   [AAG-BNK, par. 13.27]

2. Do the notes disclose the principal terms of the respective agreements including, but not limited to, the following:

   a. The title or nature of the agreement, or both?
      [ ] Yes  [ ] No  [ ] N/A
   b. The interest rate (and whether it is fixed or floats)?
      [ ] Yes  [ ] No  [ ] N/A
   c. The payment terms and maturity date(s)?
      [ ] Yes  [ ] No  [ ] N/A
   d. Collateral?
      [ ] Yes  [ ] No  [ ] N/A
   e. Conversion or redemption features?
      [ ] Yes  [ ] No  [ ] N/A
   f. Whether borrowings are senior or subordinate?
      [ ] Yes  [ ] No  [ ] N/A
   g. Restrictive covenants (such as dividend restrictions), if any?
      [ ] Yes  [ ] No  [ ] N/A
   h. Maturities and sinking-fund requirements for each of the next five years?
      [ ] Yes  [ ] No  [ ] N/A
   i. If the debt is considered in-substance defeased, a general description of the transaction and the amount of the debt that is considered extinguished at the end of the period as long as the debt remains outstanding?
      [ ] Yes  [ ] No  [ ] N/A

   [AAG-BNK, par. 13.27]
3. Are costs related to the issuance of debentures or other debt deferred and amortized to interest expense using the effective interest method?
   [AAG-BNK, par. 13.28]
<table>
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

4. For loans receivable with recourse that are not recognized as a sale in accordance with SFAS No. 77, Reporting by Transferors for Transfers of Receivables with Recourse, par. 5, is the amount of proceeds from the transfer of receivables reported as borrowings?
   [SFAS 77, par. 8 (AC R20.108)]
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

5. For transfers of receivables with recourse reported as sales, is disclosure made of the proceeds during each period for which an income statement is presented?
   [SFAS 77, par. 9 (AC R20.108)]
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

6. For troubled debt restructurings occurring during the period for which financial statements are presented do disclosures include:
   a. For each restructuring, a description of the principal changes in terms?
   b. Aggregate gain on restructuring of payables and the related income tax effect?
   c. Aggregate net gain or loss on transfers of assets recognized during the period?
   d. Per-share amount of the aggregate gain on restructuring of payables, net of related income tax effect?
   [SFAS 15, par.25 (AC D22.121)]
<table>
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

7. For the period after a troubled debt restructuring, do disclosures include:
   a. The extent to which amounts contingently payable are included in the carrying amount of restructured payables?
   b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven?
   [SFAS 15, par.26 (AC D22.122)]
<table>
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

8. If there is an extinguishment of debt, including prepayment of FHLB advances and conversions, is the difference between reacquisition price and carrying amount identified:
   a. As income in the period of extinguishment as gain or loss?
   [APB 26, pars. 20-21 (AC DI4.103-.104)]
   b. As a separate or extraordinary item, as appropriate?
   [SFAS 4, par.8, as amended by SFAS 64, par. 4 (AC D14.105)]
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

9. Do disclosures for extinguishments of debt described in Step 6. above include:
   a. A description of the extinguishment transactions, including the sources of any funds used to extinguish debt if it is practicable to identify the sources?
   b. Income tax effect in the period of extinguishment?
   c. The per-share amount of the aggregate gain or loss net of related income tax effect?
   [SFAS 4, par. 9 (AC D14.107)]
<table>
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
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</table>

10. If the bank issued debt securities convertible into a fixed number of common shares, and upon conversion the bank either is requested or has the option to satisfy all or part of the obligation in cash, is the conversion feature and debt obligation presented on the balance sheet as one amount?
   [ETIF 90-19]
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

11. When default under a credit agreement occurs any time prior to the date of the accountants' report are the following disclosed:21
   a. The nature and amount of the default?
   b. The period for which the violation has been waived?
   [EITF 86-20]
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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21 If a valid waiver is obtained for only a stated period of time, disclosure is required.
12. If a long term obligation is or will be callable because of a loan covenant violation is included as a long term (or is classified as a long-term liability in the disclosures for an unclassified balance sheet) because it is probable the violation will be cured within a specified grace period, are the circumstances disclosed? [SFAS 78, par. 5] 

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

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

3. Are short sale proceeds:
   a. Reported as a liability? 
   b. Adjusted to fair value through the income statement at each reporting date? [AAG-BNK, par. 5.77]

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

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

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

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

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

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

7. Are the carrying basis, the cost and the number of shares disclosed for treasury stock? [APB 6, pars. 12b (AC C23.103)]
8. Does disclosure of the following aspects of capital instruments include:
   a. Bases for calculation of dividends?  Yes ___ No ___ N/A ___
   b. Redemption provisions?  Yes ___ No ___ N/A ___
   c. Liquidation accounts for converted institutions?  Yes ___ No ___ N/A ___
   d. Cumulative dividends in arrears?  Yes ___ No ___ N/A ___
   e. Dividend restrictions?  Yes ___ No ___ N/A ___
   f. Changes in control provisions?  Yes ___ No ___ N/A ___
   g. Other matters necessary for a clear understanding of the institutions financial condition?  Yes ___ No ___ N/A ___

   [APB10, par.11 (AC C16.102) ; APB 15. Par. 50, fn 16; SFAS 5, par.18 (AC C59.120)]

Q. **Additional Paid-in Capital**
   1. Is the amount shown separately on the balance sheet?  Yes ___ No ___ N/A ___
   [AAG-BNK, par. 19.9]

R. **Retained Earnings**
   1. Is the amount of retained earnings shown separately on the balance sheet?  Yes ___ No ___ N/A ___
   [AAG-BNK, par. 19.9]
   2. Are significant restrictions on the use of retained earnings for payment of dividends disclosed?  Yes ___ No ___ N/A ___
   [SFAS 5, par. 18 (AC C59.120)]
   3. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity?  Yes ___ No ___ N/A ___
   [SFAS 5, par. 15 (AC C59.117)]
   4. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant?  Yes ___ No ___ N/A ___
   [ARB 43, Ch. 7A, par. 10 and ARB 46, par. 2 (AC Q15.111)]
   5. Are stock dividends/splits through the issue date of financial statements disclosed and, if appropriate, are all presented earnings per share restated?  Yes ___ No ___ N/A ___
   [APB 15, par. 48 (AC E09.139)]
   6. Are appropriated and unappropriated retained earnings shown separately?  Yes ___ No ___ N/A ___
   [SFAS 5, par. 15 (AC C59.117 and AC R70.103)]
   7. Are the nature and extent to which retained earnings is restricted indicated?  Yes ___ No ___ N/A ___
   [APB 6, par. 13 (AC C23.104)]

S. **Other Stockholders' Equity Accounts**
   1. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed?  Yes ___ No ___ N/A ___
   [TB 85-6, pars. 1—3 (AC C23.501—.503)]
   2. Are receivables taken in exchange for capital presented as a contra equity account?  Yes ___ No ___ N/A ___
   [EITF 85-1]
   3. Are unrealized holding gains and losses for available-for-sale securities, including those classified as current assets, reported as a net amount in a separate component of shareholders' equity until realized?  Yes ___ No ___ N/A ___
   [SFAS 115, par. 13, (AC I80.110)]
Income Statement

A. Interest Income

1. For interest income from loans:
   a. Is interest income reported using the interest method?
      [AAG-BNK, par. 6.47] ___ ___ ___
   b. Is the method of recognizing interest income on loans, including a statement about the institution's policy for the treatment of loan fees and costs, and the method of amortizing net deferred fees or costs, disclosed?
      [AAG-BNK, par. 6.70] ___ ___ ___

2. Are amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield reported as part of interest income?
   [SFAS 91, par. 22 (AC C20.120)] ___ ___ ___

B. Interest Expense

1. If significant, is interest on short positions disclosed?
   [AAG-BNK, par. 5.76] ___ ___ ___

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

C. Other Income

1. For investment securities gains/losses:
   a. For each period for which results of operations are presented, are the realized gains and losses for securities classified as either available-for-sale or held-to-maturity reported in earnings?
      ___ ___ ___
   b. Are such gains/losses presented separately on a pretax basis and classified as "Other Income"?
      [SOP 83-1, par. 16] ___ ___ ___

2. Is amortization of loan origination, commitment and other fees and costs recognized as an adjustment of yield being amortized on the straight-line basis over the commitment period as an adjustment of income or included in income when the commitment expires, reported as other income?
   [SFAS 91, par. 22 (AC L20.121)] ___ ___ ___

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

D. Other Expenses

1. Salaries:
   a. If there is a compensatory stock issuance plan, are the following disclosures made:
      (1) Status of the option plan at the end of the period, including the number of shares under option, the option price and the number of shares as to which options are exercisable?
         ___ ___ ___
      (2) The number of shares involved and the option price for the options exercised during the period?
         [ARB 43, Ch. 13B, par. 15 (AC C47.123)] ___ ___ ___

2. Is depreciation expense for each period disclosed, accompanied by a general description of the method used for the major classes of depreciable assets?
   [APB 12, par. 5 (AC D40.105)] ___ ___ ___

3. Are the accounting policy, the net amount capitalized at the balance sheet date, and the amortization period(s) with respect to credit card fees and costs for both purchased and originated credit cards disclosed?
   [EITF 92-5] ___ ___ ___
4. Do disclosures for advertising costs include:
   a. The accounting policy selected from the two alternatives in paragraph 26 of SOP 93-7, Reporting on Advertising Costs, for reporting advertising, indicating whether such costs are expensed as incurred or the first time the advertising takes place?  
   b. A description of the direct-response advertising reported as assets (if any), the accounting policy, and the amortization period?  
   c. The total amount charged to advertising expense for each income statement presented, with separate disclosure of amounts, if any, representing a write-down to net realizable value and the reasons for such a write-down?  
   d. The total amount of advertising reported as assets in each balance sheet?  
   [SOP 93-7, par. 49]

E. Income Taxes

1. Are the types of significant temporary differences and carryforwards disclosed?  
   [SFAS 109, par. 43 (AC I27.142)]

2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed:
   a. Current tax expense or benefit?  
   b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?  
   c. Investment tax credits?  
   d. The benefits of operating loss carryforwards?  
   e. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets, of an acquired entity?  
   f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise?  
   g. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years?  
   h. Amounts and expiration dates of operating losses and tax carryforwards for tax purposes?  
   i. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital?  
   [SFAS 109, pars. 45 and 48 (AC I27.144 and .147)]

3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35—39 of SFAS No. 109 (AC I27.134—.138)) disclosed for each year for which those items are presented?  
   [SFAS 109, par. 46 (AC I27.145)]

4. a. Is the nature of significant items for public enterprises disclosed by the use of percentages or dollars for (i) the reported amount of income tax expense attributable to continuing operations for the year to date and (ii) the amount of income tax expense that would result from applying domestic federal statutory notes to pretax income from operations?  
   b. Is the nature of significant reconciling items (omission of numerical reconciliation is permitted) for a non-public enterprise disclosed?  
   c. If not otherwise evident, are the nature and effect of any other significant matters affecting comparability of information for all periods present?  
   [SFAS 109, par. 46 (AC I27.145)]
5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed?  
[SFAS 109, par. 48 (AC 127.147)]

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

7. Are the amounts of income taxes applicable to the results of discontinued operations disclosed on the income statement or in related notes?  
[APB 30, par. 8 (AC 113.105)]

8. Are the income taxes applicable to extraordinary events disclosed on the face of the statement of operations or in related notes?  
[APB 30, par. 11 (AC 117.102)]

F. Discontinued Operations
1. Are operations of a segment that is discontinued or is the subject of a formal plan for disposition:
   a. Reported separately from income from continuing operations for the current and prior period and as a component (including applicable income taxes) of income before extraordinary items?  
   b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations?  
[APB 30, pars. 8, 13 and 18 (AC 113.105—.106 and .108—.109)]

2. a. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items or in related notes?  
[APB 30, par. 8 (AC 113.105)]
   b. If an institution has accounted for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment writedown of the individual assets classified in continuing operations?  
[EITF 90-16]
   c. If the institution plans to dispose of two segments of a business, and a net gain is expected (one has a net gain and the other a net loss), is that gain shown net?  
[EITF 85-36]

3. Are the revenues applicable to the discontinued operations disclosed in the notes to the financial statements?  
[APB 30, par. 8 (AC 113.105)]

4. For the period encompassing the measurement date, do notes to financial statements disclose:
   a. Identity of the segment discontinued?  
   b. Expected disposal date, if known?  
   c. Expected manner of disposal?  
   d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?  

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45
e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date?

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

[APB 30, par. 18 and par. 18, fn. 7 (AC 113.108—.109)]

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

[APB 30, par. 18 (AC 113.108)]

6. For discontinued operations or sale of a portion of a line of business that is not a segment of a business, is the gain or loss from disposal reported as a separate component of income from continuing operations, and is it not reduced for income taxes (information similar to that in Steps 3.a.—f. above should be disclosed, and disclosure for revenues and related costs and expenses included in the income statement that relate to the disposed portion of the line of business for the period prior to the measurement date is encouraged)?

[AIN—APB 30, par. 1 (AC I22.502)]

G. Extraordinary Items

1. Do extraordinary items meet both criteria of (1) unusual nature and (2) infrequency of occurrence?

[APB 30, par. 20 (AC I17.107)]

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

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

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

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

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

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

5. Is each adjustment in the current period of an element of an extraordinary item that was reported in a prior period separately disclosed as to year of origin, nature, and amount and classified separately in the current period as an extraordinary item?

[SFAS 16, par. 16(e) (AC I17.119)]

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

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

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

[APB 30, par. 26 (AC I22.101)]

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

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

b. Income tax effect in the period of extinguishment?

[SFAS 4, par. 9 (AC I17.104)]

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

[EITF 87-4]
H. Other

1. Are the following excluded from determination of net income or results of operations under all circumstances:
   a. Adjustments or charges or credits resulting from transactions in the bank's own capital stock?
   b. Transfers to and from accounts properly designated as appropriated retained earnings?
   c. Adjustments made pursuant to a quasi-reorganization?
      [APB 9, par. 28 (AC C08.101)]

2. Is earnings-per-share information for public companies presented on the face of the statement of operations accompanied by appropriate disclosure that includes the basis of the calculation?
   [APB 15, par. 12 (AC E09.103); SFAS 21 par.15 (AC E09.102)]

Statement of Changes in Stockholders' Equity

A. Are changes in separate component accounts of stockholders' equity disclosed?
   [APB 12, par. 10 (AC C08.102)]

B. Are changes in the number of shares of equity securities disclosed?
   [APB 12, par. 10 (AC C08.102)]

C. Are prior-period adjustments limited to correction of an error in financial statements of prior periods?
   [SFAS 109, par. 288m (AC A35.103)]

D. Are prior-period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed?
   [APB 9, par. 26 (AC A35.107)]

E. For a correction of an error, is the nature of the error disclosed in the period in which the error was discovered and corrected?
   1. Nature of the error in previously issued financial statements?
   2. Effect of its correction on income before extraordinary items, net income, and related per-share amounts, if applicable?
      [APB 20, par. 37 (AC A35.105)]

Statement of Cash Flows

A. Is a statement of cash flows presented as a basic financial statement in a presentation in which reports on both financial position and results of operations for each period for which a statement of income is presented?
   [SFAS 95, par. 3 (AC C25.101)]

B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows?
   [SFAS 95, pars. 27—28 (AC C25.125—126)]

C. 1. Are cash receipts and payments resulting from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows?
   [SFAS 102, par. 8 (AC C25.122A)]

   2. Are cash receipts and payments resulting from acquisitions and sales of loans if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market classified as operating cash flows?
      [SFAS 102, par. 9 (AC C25.122B)]

D. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:
   1. Interest received on loans?
<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>2. Insurance proceeds except those directly related to investing or financing activities?</td>
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<tr>
<td>3. Interest paid to creditors?</td>
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<td>4. Payments to suppliers and employees?</td>
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<td>5. Payments to governments for taxes, duties, fines, and other fees or penalties?</td>
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<td>6. Payments to settle lawsuits?</td>
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<td>7. Contributions to charities?</td>
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<tr>
<td>8. Cash flows from purchases, sales, and maturities of trading securities?</td>
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<tr>
<td>[SFAS 95, par. 22—23 (AC C25.120—.121)]</td>
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<tr>
<td>E. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows?</td>
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<tr>
<td>[SFAS 95, par. 31 (AC C25.129)]</td>
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<tr>
<td>F. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:</td>
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<tr>
<td>1. Net change in interest-bearing deposits with banks?</td>
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<tr>
<td>2. Net change in federal funds sold and securities purchased under agreements to resell?</td>
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<tr>
<td>3. Net change in loans?</td>
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<tr>
<td>4. Purchases of and proceeds from sales of available-for-sale securities?</td>
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<tr>
<td>5. Proceeds from maturities of available for sale and held-to-maturity securities?</td>
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<tr>
<td>6. Purchases of held-to-maturity securities?</td>
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<tr>
<td>7. Purchase of property and equipment?</td>
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<tr>
<td>[AAG-BNK, 19.12; SFAS 95, pars. 12-13 and 31 (AC C25.110-111 and .129); SFAS 115, pars. 18 (AC 180.117)]</td>
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<tr>
<td>G. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows?</td>
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<td>[SFAS 95, par. 31 (AC C25.129)]</td>
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<tr>
<td>H. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:</td>
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<tr>
<td>1. Net change in noninterest-bearing, demand, savings, and NOW deposit accounts?</td>
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<td>2. Net change in time deposits?</td>
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<td>3. Net change in borrowed funds?</td>
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<tr>
<td>4. Net change in acceptances outstanding?</td>
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<tr>
<td>5. Issuance and repayment of long-term debt?</td>
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<tr>
<td>6. Dividend paid?</td>
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<tr>
<td>[AAG-BNK, 19.12]</td>
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<tr>
<td>I. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately?</td>
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<td>[SFAS 95, par. 25 (AC C25.123)]</td>
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<td>J. Is the change in cash and due from banks shown in the statement of cash flows?</td>
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<tr>
<td>[AAG-BNK, 19.12; SFAS 95, par. 26 (AC C25.124)]</td>
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<td>K. Is policy for defining a cash equivalent disclosed?</td>
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<tr>
<td>[AAG-BNK, 19.13; SFAS 95, par. 10 (AC C25.108)]</td>
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<td>L. Is a reconciliation of net income to net cash flow from operating activities presented, either within the statement of cash flows or in a separate schedule?</td>
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<tr>
<td>[SFAS 95, pars. 29—30 (AC C25.127—.128)]</td>
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</table>
M. Are noncash investing and financing activities (i.e., converting debt to equity) summarized either in narrative or a separate schedule?  
[SFAS 95, par. 32 (AC C25.134)]

N. If the indirect method of reporting operating cash flows is used, are the amounts of interest paid (net of amounts capitalized) and income taxes paid disclosed in a separate schedule or footnote for each year presented (the reconciliation of net income to net cash provided by or used in operating activities, which can be presented in the statement or in a separate schedule or footnote, should separately report all major reconciling items, including at a minimum, changes in receivables, inventory, and payables pertaining to operating activities)?  
[SFAS 95, par. 29 (AC C25.127)]

O. Are the following classes of operating cash receipts and payments for banks using the direct method, at a minimum, separately disclosed:
   1. Cash collected from customers, including lessees, licensees, and the like?  
   2. Interest and dividends received?  
   3. Other operating cash receipts, if any?  
   4. Cash paid to employees and other suppliers of goods or services, including suppliers of insurance, advertising, and the like?  
   5. Interest paid?  
   6. Income taxes paid?  
   7. Other operating cash payments, if any?  
[SFAS 95, par. 27 (AC C25.125)]
APPENDIX

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

Exhibit A—Savings Institutions

GENERAL

A. Consolidations

1. Are supplementary consolidating statements of financial condition and operations presented for majority-owned subsidiaries and joint ventures of an insured institution?
   
   [AAG-SAV, pars. 1.59 and 19.02]

B. Options, Interest Rate Futures Contracts, and Similar Instruments

1. If an interest rate futures contract is accounted for as a hedge, do disclosures include:
   
   a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?
   
   b. The method of accounting for the futures contracts, including a description of the events or transactions that result in income recognition of the changes in value of the futures contracts?
   
   [AAG-SAV, par. 16.81]

2. Are the following disclosures (in addition to SFAS 105 disclosures) made for options:
   
   a. The market value of options purchased and written, and the value of option premiums paid or received?
   
   b. For options accounted for as hedges, the nature of the assets or liabilities that are being hedged?
   
   [AAG-SAV, par. 16.84]

3. Are the following disclosures (in addition to SFAS 105 disclosures) made for interest rate swaps:
   
   a. The notional amount(s) and nature and purpose of the swap, including a determination of whether the swap is speculative or is intended to hedge or modify the terms of an existing asset or liability?
   
   b. The treatment of any fees received or paid?
   
   c. Interest rates on the swap at the balance-sheet date, including disclosure of whether the institution pays or receives a fixed or variable rate?
   
   d. The original and remaining term to maturity of the swap?
   
   e. Swap terminations, including the amount and method of accounting for gains and losses on swap terminations?
   
   f. The nature of any other commitments made by the institution, such as the commitment to take delivery of mortgage-backed securities at a specified price on a mortgage swap?
   
   [AAG-SAV, par. 16.84]

4. Is disclosure of the number of futures contracts open and unrecognized gains and losses on open and closed futures contracts at the balance-sheet date considered?
   
   [AAG-SAV, par. 16.82d]
# STATEMENT OF FINANCIAL CONDITION

## A. Repurchase Agreements
1. Is the following end of period information disclosed:
   a. A description of the securities underlying the agreements? [Yes] [No] [N/A]
   b. The cost of the agreements, including accrued interest? [Yes] [No] [N/A]
   c. The market value of the securities underlying any agreement if less than the cost of that agreement? [Yes] [No] [N/A]
   d. The maturity of the agreements? [Yes] [No] [N/A]
   e. The dollar amount of agreements to resell the same securities? [Yes] [No] [N/A]
   f. The dollar amount of agreements to resell substantially identical securities? [Yes] [No] [N/A]
   g. Any material concentrations at the end of the period? [Yes] [No] [N/A]
      (1) If any material concentrations exist at the end of the period, is disclosure made of the institution’s control of the securities underlying the agreements? [Yes] [No] [N/A]
      (2) If concentrations at the end of the period vary from those during the period, is consideration given to disclosing this information? [Yes] [No] [N/A]
   h. Gross repos (assets) and gross reverse repos (liabilities)? [Yes] [No] [N/A]

[AAG-SAV, par. 3.23a]

## B. Mortgage Loans and Mortgage-Backed Servicing Rights
1. For loans held for investment:
   a. Is the amount of aggregate gains or losses on sales of loans presented on the face of the statement of operation? [Yes] [No] [N/A]

[AAG-SAV, par. 8.25]

## C. Loans Receivable
1. Is the aggregate amount of loans presented separately in the balance sheet? [Yes] [No] [N/A]

[AAG-SAV, par. 6.72]

## D. Federal Home Loan Bank Stock
1. Is consideration given to having Federal Home Loan Bank Stock shown separately on the statement of financial condition at cost after considering the ultimate recoverability of the par value? [Yes] [No] [N/A]
   [AAG-SAV, par. 3.07]
2. If used as collateral for advances from the Federal Home Loan Bank, is this fact disclosed? [Yes] [No] [N/A]
   [AAG-SAV, par. 3.09]

## E. Accrued Interest Receivable
1. Is consideration given to showing accrued interest receivable separately, by major categories of assets on the statement of financial condition, if material? [Yes] [No] [N/A]
   [AAG-SAV, pars. 19.15 and 19.19]

## F. Savings Accounts
1. Is the following information disclosed:
   a. Major types of interest-bearing and noninterest-bearing deposits by interest rate ranges (typical categories include NOW accounts, MMDA accounts, savings deposits, and time deposits)? [Yes] [No] [N/A]
   b. The rates at which the institution paid interest on deposit accounts and the related deposit balances at year end (typically, this information is broken out by type of deposit)? [Yes] [No] [N/A]
c. The aggregate amount of contractual maturities of time deposits for each of the five years following the date of the latest balance sheet presented (in accordance with SFAS 47 (AC C32))?  

 d. The weighted-average interest rate of year-end deposit balances?  

 e. Securities or mortgage loans pledged as collateral for certain deposits?  

 f. Income from early-withdrawal penalties?  

 g. Overdrawn balances of demand accounts that are included in loan balances?  

 h. Deposits received from related parties, if material?  

 i. Separate disclosure of accounts over $100,000?  

 j. Interest expense by type of account?  

 G. Advances From Federal Home Loan Bank  

 1. Is consideration given to disclosing the following:  

   a. Maturity dates due after one year?  

   b. Assets pledged as collateral?  

 H. Reverse Repurchase and Dollar Reverse Repurchase Agreements  

 1. Is the following end of period information disclosed:  

   a. A description of the securities underlying the agreements?  

   b. The book value, including accrued interest, of the securities underlying the agreements?  

   c. The market value of the securities underlying the agreements?  

   d. The maturity of the agreements?  

   e. The weighted-average interest rate of the agreements?  

   f. The dollar amount of agreements to repurchase the same securities?  

   g. The dollar amount of agreements to repurchase substantially identical securities?  

   h. With regard to any material concentrations at the end of the period:  

      (1) Is disclosure made of the institution’s control of the securities underlying the agreements?  

      (2) If the concentrations at the end of the period vary from those during the period, is consideration given disclosing this information?  

   i. Financial investments with off-balance-sheet risk?  

 I. Advances From Borrowers for Taxes and Insurance  

 1. Is consideration given to showing the amount separately on the statement of financial condition?  

 [AAG-SAV, par. 19.15]
2. If required to establish special funds, is separate disclosure of the special funds and related liability considered?
[AAG-SAV, par. 10.09]

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J. Capital Stock

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

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K. Retained Earnings

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

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L. Regulatory Capital

1. Is a reconciliation of GAAP capital to regulatory capital presented?

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2. Is the following information disclosed for regulatory capital requirements:

   a. The minimum amount required?
   b. The institution is or is not in compliance?
   c. The amount by which the institution exceeds or fails to meet requirements?
   d. Significant sanctions and actions taken by regulatory authorities if not in compliance?
   e. The general provisions of FIRREA and FDICIA and the effects on the institution’s business?
   [AAG-SAV, pars. 14.11 and 18.20—.29]

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3. When an institution is failing or is in danger of failing to satisfy its current or projected regulatory capital requirements, are the following disclosures considered:

   a. Reasons why the institution is failing or is in danger of failing to satisfy its current or projected requirements?
   b. Possible or probable effects on the institution and its stockholders?
   c. Description of management’s plan to satisfy the current and projected requirements and the viability of such plans?
   [AAG-SAV, pars. 14.12, 14.18, and 18.25—18.26]

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STATEMENT OF OPERATIONS

A. Interest on Loans

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

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B. Interest/Dividends on Investments

1. Is consideration given to showing the amount for investment income separately on the statement of operations?
[AAG-SAV, par. 19.16]

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C. Gain/Loss on Sales of Investments

1. Is the market value of securities required to complete a short sale adjusted to market value as of the date of the report?
[AAG-SAV, pars. 3.13 and 19.16]

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2. Is consideration given a separate disclosure if significant interest has accrued on the short position?
[AAG-SAV, pars. 3.13 and 19.16]

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D. Interest on Savings Accounts

1. Is the amount shown separately on the statement of operations or otherwise disclosed by type of account?
   [AAG-SAV, pars. 13.26 and 19.16]
2. Is the interest penalty for early withdrawals reported as income from early withdrawal penalties?
   [AAG-SAV, par. 13.26]

E. Interest on Advances and Other Borrowings

1. Is the amount shown separately on the statement of operations?
   [AAG-SAV, pars. 12.30 and 19.16]

F. Loss Provisions on Loans and Real Estate

1. Is consideration given to showing the loss provision for real estate separately on the statement of operations or in a footnote?
   [AAG-SAV, par. 19.19]

STATEMENT OF CASH FLOWS

A. Are cash receipts and cash payments for the following transactions classified as cash flow from investing activities:
   1. Net change in customers' liability on acceptance outstanding?
      [AAG-SAV, par. 19.18]

Exhibit B—Banks

GENERAL

A. Consolidations

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

B. Foreign Currency

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

C. Contingencies and Commitments

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

STATEMENT OF CONDITION

A. General

1. Is the tax equivalent basis of reporting in the primary financial statements of income from tax-exempt securities avoided?
   [AAG-BNK, par. 5.28]
2. If the bank's liquidity is not sufficient to meet prospective needs and there is evidence that the bank may have to dispose of certain assets to obtain liquidity, is the propriety of the accounting basis for any assets that may be sold considered?
   [AAG-BNK, par. 2.16]

B. Cash and Due From Banks

1. For financial statement purposes, are cash items and debits reclassified to the account of ultimate disposition?
   [AAG-BNK, par. 4.03]
2. Are “due from” credit balances reclassified to short-term borrowings?  
[AAG-BNK, par. 4.12]  

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

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C. Loans—General

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

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<th>Yes</th>
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2. Is the amount of loans at fixed interest rates considered for disclosure?  
[AAG-BNK, par. 7.43]  

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

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

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

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

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D. Loans—Lease Finance

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

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E. Premises and Equipment

1. Is property acquired but not used in operations and presented as other assets, such as repossessed collateral, classified within other assets?  
[AAG-BNK, par. 10.08]  

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

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3. Do fixed assets include all costs related to the acquisition of the property, including transportation costs and all costs connected with installation?  

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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]  

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

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F. Other Assets

1. If material, are amounts disclosed separately for:  

   a. Investments in subsidiaries that are not consolidated?  

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   b. Investments in 50 percent-and-less-owned companies?  

   |   | Yes | No | N/A |
c. Other nonmarketable investments?  

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d. Accrued income receivable?  

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e. Accounts receivable (deposits for special purposes, advances to trusts, etc.)?  

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f. Prepaid expenses and deferred charges (insurance, taxes, FDIC assessments, debt issuance cost, etc.)?  

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g. Suspense accounts (items recorded and held subject to clarification and transfer to the proper account, such as loan account and branch clearing transactions)?  

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[AAG-BNK, par. 11.01]

2. Are other assets presented as the last item or items on the balance sheet?  

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[AAG-BNK, par. 11.01]

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

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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?  

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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?  

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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?  

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

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G. Deposits  

1. Are amounts disclosed separately for:  

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a. Domestic demand deposits?  

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b. Domestic time deposits?  

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c. Foreign demand deposits?  

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d. Foreign time deposits?  

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

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f. NOW accounts?  

[AAG-BNK, par. 12.18]

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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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H. Borrowed Funds  

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

[AAG-BNK, par. 13.04]

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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]

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3. Are federal funds purchased and securities sold under repurchase agreements included as other borrowings?  

[AAG-BNK, par. 9.09]

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4. Are notes payable, including mortgage notes, debentures, subordinated notes and capital notes reported separately?  

[AAG-BNK, pars. 13.08-.09]

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I. Other Liabilities

1. If material, are amounts disclosed separately for:
   a. Acceptances outstanding? ______ ______ ______
   b. Accrued payrolls? ______ ______ ______
   c. Accrued income taxes? ______ ______ ______
   d. Deferred income taxes? ______ ______ ______
   e. Undistributed payroll deductions? ______ ______ ______
   f. Accounts payable? ______ ______ ______
   g. Cash dividends declared but unpaid? ______ ______ ______
   h. Suspense accounts? ______ ______ ______
   i. Accrued vacation pay that is vested or may be carried forward? ______ ______ ______

   [AAG-BNK, par. 14.01]

2. For loan participations sold to other banks for which risk is retained, are such loans reported as assets and proceeds reported as borrowings? ______ ______ ______

   [AAG-BNK, par. 7.43]

3. For loans sold with recourse, is disclosure made for each period for which an income statement is presented, of the amount of proceeds? ______ ______ ______

   [SFAS 77, par. 9 (AC R20.109)]

J. Retained Earnings

1. If stock dividends are recorded at less than fair value, is the difference between recorded amount and fair value disclosed in the year of issuance? ______ ______ ______

   [AAG-BNK, par. 15.05, fn. 2]

2. If a portion of initial paid-in capital has been transferred to retained earnings, is the amount of paid-in capital included in retain earnings disclosed? ______ ______ ______

   [AAG-BNK, par. 15.10]

3. If an amount has been transferred by subsidiaries from retained earnings, are such transfers not recognized in consolidation? ______ ______ ______

   [AAG-BNK, par. 15.02]

4. Are stock dividends accounted for using the fair value of the shares issued in connection with the dividend?
   a. Is there disclosure of the remaining amount of retained earnings available for future stock dividends? ______ ______ ______

   [AAG-BNK, par. 15.05]

5. If there has been an assumption of a subsidiary bank’s debt by its parent company, is it reported as a capital contribution in the bank’s separate financial statements with disclosure of the bank’s contingent liability for such debt? ______ ______ ______

   [AAG-BNK, par. 15.06]

INCOME STATEMENT

A. Other Expenses

1. Are net occupancy expenses or net occupancy income classified as an operating item in the statement of income? ______ ______ ______

   [AAG-BNK, par. 10.09]

STATEMENT OF CASH FLOWS

1. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:
   a. Net change in customers’ liability on acceptances outstanding? ______ ______ ______

   [AAG-BNK, App. A]

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

**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]
FSP Section 6400
Auditors’ Reports Checklist

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

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

.03 Checklist Questionnaire

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

2. If the auditor is not independent, is a compilation report the highest level of service performed?
   [SAS 26, par. 10 (AU 504.10; SSARS 1, pars. 22 and 38 (AR 100.22 and .38))]

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

4. Does the report include appropriate language for the following situations:
   a. Only one basic financial statement is presented and there are no scope limitations?
      [SAS 58, pars. 47—48 (508.47—.48)]
   b. Audited and unaudited financial statements are presented in comparative form?
      [SAS 26, pars. 14—17 (AU 504.14—.17)]
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 institution’s ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase “substantial doubt about its (the entity’s) ability to continue as a going concern?”
      [SAS 64, par. 1 (AU 341.12—13)]

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

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

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

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

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

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

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

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

6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances?
   [SAS 58, pars. 40—45 (AU 508.40—45); SAS 31, par. 23 (AU 326.23); SAS 19, par. 12 (AU 333.12)]

   Note: Consult the Topical Index to the AICPA 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. 11.43; SAS 58, par. 40 (AU 508.38a)]

---

1 In July 1995 the AICPA Auditing Standards Board released an exposure draft of a proposed amendment to SAS No. 58 that would eliminate the requirement to include an explanatory paragraph in the auditor’s report for certain uncertainties.
c. There is no evidence to support carrying amount of investment securities and
an allowance to write down to market is not established?
[SAS 58, par. 40 (AU 508.38a)]

d. Financial statements reflect regulatory practice of immediate write-off of
goodwill or other regulatory practices that differ from GAAP and the
resulting difference is material?
[SAS 1, AC 544.02 (AU 544.02)]
Note: Consult the Topical Index to the AICPA 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? 2
[SAS 60, pars. 9—19 (AU 325.09—.19)]

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

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

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

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

16. Does the report conform to SSAE 2 if reporting was on agreed-upon procedures
applied to part of an institution’s existing or proposed internal control structure,
when management does not present a written assertion?
[SSAE 2, par. 9 (AT 400.09)]

2 Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing to senior
management and the board of directors or its audit committee. [SAS 60]
17. If a report is issued on the effectiveness of the institution’s internal control structure, does it state that no reportable conditions were noted?  
[SSAE 2, par. 45 (AT 400.46)]

18. Does the report conform to SSAE 2 if management presents its assertion in a separate report that will accompany the practitioner’s report on the effectiveness of the institution’s internal control structure?  
[SSAE 2, pars. 50-51 (AT 400.51)]

19. If management does not present a written assertion that accompanies the practitioner’s report, is the report appropriately modified?  
[SSAE 2, pars. 53-54 (AT 400.52)]

20. Is the report properly modified if any of the conditions in SSAE 2, paragraph 55, exist?  
[SSAE 2, pars. 55-79 (AT 400.52-82)]

21. Does the auditor’s report include appropriate explanatory language for the auditor’s assessment of the institution’s inability to achieve its capital plan in connection with regulatory capital requirements?  
[AAG-BNK, par.18.7]
FSP Section 6500

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

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

.02 Explanation of References

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

.03 Checklist Questionnaire

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<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td><strong>A. Business Combinations</strong></td>
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<tr>
<td>1. For significant acquisitions (acquired assets 10 percent of consolidated assets), are aggregate interest-bearing assets and liabilities recorded at fair market value?</td>
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<td>2. Are related discounts or premiums described and the following information disclosed in the period in which the acquisition occurs:</td>
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<td>a. Amounts of discounts or premiums?</td>
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<td>b. Method of amortization or accretion?</td>
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<td>c. Estimated remaining lives?</td>
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<tr>
<td>d. Effect on income before taxes of amortization and accretion of discounts, premiums, and intangible assets?</td>
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<tr>
<td>[SAB 42 and 42A]</td>
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<td>3. If financial assistance is received from a federal regulatory agency in conjunction with either an acquisition of a troubled financial institution, transfer of nonperforming assets to a newly-formed entity, or other reorganization, are the disclosures required by Staff Accounting Bulletin 42 made?</td>
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<tr>
<td>4. If appropriate, was SAB 61 considered relative to adjustments to the allowance for loan losses?</td>
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<td>5. Is the maximum period for amortization of goodwill for SEC registrants less than 25 years?</td>
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<tr>
<td>[SAB 42 and 42A]</td>
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<tr>
<td><strong>B. Cash and Due From Banks</strong></td>
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<tr>
<td>1. Is cash and due from banks (including all noninterest-bearing deposits with other banks) stated separately?</td>
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<tr>
<td>[S-X Rule 9-03.1]</td>
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63
2. Are any withdrawal and usage restrictions (including average reserve balances maintained with the Federal Reserve) or compensating balance requirements disclosed?
   [S-X Rule 9-03.1(a)]

3. If a bank is not in compliance with compensating balance requirements:
   a. Is this fact disclosed?
   b. Are possible or pending material sanctions for noncompliance disclosed?
   [FRR 203.02b]

4. Are interest-bearing deposits in other banks shown separately on the statement of financial condition?
   [S-X Rule 9-03.01]

C. Investment Securities

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

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

D. Loans Receivable

1. Is each of the following loan categories stated separately:
   [S-X Rule 9-03.7(a) and (b)]
   a. Commercial, financial and agricultural?
   b. Real estate—construction?
   c. Real estate—mortgage?
   d. Installment loans to individuals?
   e. Lease financing?
   f. Foreign?
   g. Other (if necessary to reflect any unusual risk concentration regardless of size)?
   [S-X Rule 9-03.7(a)]

2. If more appropriate, are other categories used?
   [S-X Rule 9-03.7(b)]

3. If related-party-loan disclosures are made, is an analysis of such loans for the latest fiscal year also provided (e.g., beginning balance, new loans, repayments, other charges and ending balance)?
   [S-X Rule 9-03.7(e)]

4. Are significant nonaccrual, past due, restructured, and potential problem loans disclosed with such other information necessary to an understanding of the effects of the transactions on the financial statements?
   [S-X Rule 9-03.7(e)]

---

1 For SEC purposes, related party loans made by the registrant or any of its subsidiaries to directors, executive officers, principal holders of equity securities or associates of such persons of the registrant or any of its significant subsidiaries (1-02). See S-X Rule 9-03.7(e) for definition of “associate.” Loans to any related party that do not exceed $60,000 (in aggregate) during the latest year may be excluded. [S-X Rule 9-03.7(e)]
5. Are unearned income on installment loans and unamortized discounts on purchased loans shown separately and deducted from total loans?  
[S-X Rule 9-03.7]

6. For each period for which a statement of operations is presented, do notes to financial statements include a schedule of changes in allowance for loan losses showing beginning and ending balances, provision charged to income, recoveries of amounts previously charged off, and losses charged to the allowance?  
[S-X Rule 9-03.7(d)]

E. Other Assets

1. Are the following assets or any other asset, the amount of which exceeds 30 percent of stockholders’ equity, disclosed separately on the balance sheet or in a note (the remaining assets may be shown as one amount):
   a. Excess of cost over tangible and identifiable intangible assets acquired (net of amortization)?
   b. Other intangible assets (net of amortization)?
   c. Investments in and indebtedness of affiliates and other persons?
   d. Other real estate, including the:
      (1) Carrying basis disclosed?
      (2) Allowance for losses deducted therefrom?
      (3) Summary of changes in allowance for losses (including beginning balance, provision charged to income, losses charged to the allowance, and ending balance)?  
[S-X Rule 9-03.10]

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

3. Are the amounts of noninterest-bearing and interest-bearing deposits stated separately?  
[S-X Rule 9-03.12]

4. Are foreign amounts stated separately?  
[S-X Rule 9-03.12]

5. For real estate other than bank premises:
   a. Is carrying basis disclosed?
   b. Is allowance for losses deducted therefrom?
   c. Is a summary of changes in allowance for losses presented?
   d. Does summary show beginning balance, provision charged to income, losses charged to the allowance, and ending balance?  
[S-X Rule 9-03.10(4a)]

F. Securities Sold Under Purchase Agreements or Reverse Repurchase Agreements

1. If the higher of the aggregate carrying value or market value of repurchase agreements exceeds 10 percent of total assets, is the following disclosed:
   a. The carrying value and market value of securities, including accrued interest plus any cash or other assets on deposit under the repurchase agreements and this should be broken out in categories as follows:
      (1) Overnight?  
   
Yes   No   N/A
(2) Up to 30 days?  
(3) 30-90 days?  
(4) Over 90 days?  
(5) On demand?  

b. The repurchase liability associated with such transactions and the interest rates thereon and this should be broken out in categories as follows:
   (1) Overnight?  
   (2) Up to 30 days?  
   (3) 30-90 days?  
   (4) Over 90 days?  
   (5) On demand?  

2. If the “amount at risk” of the securities sold under repurchase agreements with any individual counterpart exceeds 10 percent of stockholder’s equity, is the following disclosed:
   a. The name of the counterpart?  
   b. The amount at risk with each counterpart?  
   c. The weighted average maturity of the repurchase agreements with each counterpart?  
   [S-X Rule 4-08(m)]

G. Debt
1. Are the following separately disclosed:
   a. Federal funds purchased and securities sold under agreements to repurchase?  
   b. Commercial paper?  
   c. Other short-term borrowings?  
   d. Unused lines of credit for short-term financing?  
   [S-X Rule 9-03.13]

H. Other Liabilities
1. Is the amount of indebtedness to directors, executive officers, and principal holders of equity securities of the registrant or any of its significant subsidiaries (S-X Rule 1-02), if the aggregate amount exceeds 5% of stockholders’ equity, disclosed?  
   [S-X Rule 9-03.15]

2. Are the following liabilities in excess of 30% of shareholder’s equity disclosed separately:
   a. Income taxes payable?  
   b. Deferred income taxes?  
   c. Indebtedness to affiliates and other persons, the investments in which are accounted for by the equity method?  
   [S-X Rule 9-03.15]

3. Are the following deferred credits stated separately:
   a. Deferred income taxes?  
   b. Deferred tax credits?  
   c. Material items of deferred income?  
   [S-X Rule 5-02.26]

---

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

1. For preferred stock subject to mandatory redemption requirements or whose redemption is outside the control of the issuer:
   a. Are carrying amount and redemption amount shown in the statement of financial condition?
   b. If carrying and redemption amounts differ, is the accounting treatment for the difference disclosed?
   c. Is a general description of each issue shown?
   [S-X Rule 5-02.28]

2. If common stock is convertible, is this fact disclosed on the face of the statement of financial condition?
   [S-X Rule 5-02.30]

3. Does the statement of financial condition show separate captions for:
   a. Additional paid-in-capital?
   b. Other additional capital?
   c. Appropriated retained earnings?
   d. Unappropriated retained earnings?
   [S-X Rule 5-02.31]

J. Income Statement Captions

1. Are the following captions in the income statement stated separately:
   [S-X Rule 9-04]
   a. Trading account interest?
   b. Other interest income?
   c. Total interest income (including a and b above)?
   d. Interest on deposits?
   e. Interest on short-term borrowings?
   f. Interest on long-term debt?
   g. Total interest expense (d through f)?
   h. Net interest income (line c, less line g)?
   i. Provision for loan losses?
   j. Net interest income after provision for loan losses?
   k. Other income?
   l. Other expense?
   m. Income or loss before income tax expense?
   n. Income tax expense?
   o. Income or loss before extraordinary items and cumulative effects of changes in accounting principles?
   p. Extraordinary items, less applicable taxes?
   q. Cumulative effects of changes in accounting principles?
   r. Net income or loss?
   s. Earning per share data?

K. Interest Income

1. Does the income statement show separately:
   a. Interest and fees on loans?
   [S-X Rule 9-04(1)]
   b. Taxable interest, nontaxable interest and dividends?
   [S-X Rule 9-04(2)]
c. Trading account interest?  
[S-X Rule 9-04(3)]  

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d. Other interest income?  
[S-X Rule 9-04(4)]  

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L. **Other Income**

1. Are any of the following amounts that exceed one percent of the aggregate of total interest income and other income stated separately:
   a. Commissions and fees from fiduciary activities (i.e., trust department income)?  
   b. Commissions, brokers' fees and markups on securities underwriting and other securities activities?  
   c. Insurance commissions, fees and premiums?  
   d. Fees for customer services?  
   e. Trading account profit or loss?  
   f. Equity in earnings of unconsolidated subsidiaries and 50% or less owned persons?  
   g. Gains or losses on the disposition of equity investees or 50% or less owned persons?

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2. Are investment security gains and losses disclosed separately regardless of size?  
[S-X Rule 9-04.13]

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3. For investment security gains or losses:
   a. Are investment securities gains or losses shown separately regardless of amount?  
   b. Is method followed in determining cost of investments sold disclosed?  
   c. Are related taxes disclosed in a footnote or parenthetically as a part of income tax expense?  
[S-X Rule 9-04.13(h)]

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M. **Other Expenses**

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

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N. **Income Taxes**

1. Is a reconciliation of the reported income tax expense with the "computed expected" 3 tax amount disclosed?  
[S-X Rule 4-08(h)]

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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.
O. Condensed Financial Information of Parent Company Only

1. Is disclosure in a footnote made of the parent company’s condensed balance sheet, income statement and statement of cash flows for the periods that correspond with the consolidated financial statements presented? 4

2. Is the following condensed parent company information stated separately:
   a. Investments in bank subsidiaries?
   b. Indebtedness of and to bank subsidiaries?
   c. Cash dividends paid to the registrant by bank subsidiaries?
   [S-X Rule 9-06]

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

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

P. Foreign Activities

Complete Items 1 to 5 if one or more of the following amounts (assets, revenue, income (loss) before income tax expense, and net income (loss)) associated with “foreign activities” 5 exceed 10% of the related consolidated amounts as reported in the financial statements:

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

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

3. Is the information required by items 1 and 2 disclosed for each significant geographic area 6 and in the aggregate for the other geographic areas not deemed significant?
   [S-X Rule 9-05(b-3)]

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

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

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

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

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

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

   [SAB 60]

R. Quarterly Information

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

   [SAB Topic 6.G.]

S. Other SEC Related Disclosures

1. Are the following Staff Accounting Bulletins considered for disclosure, if applicable:
   a. SAB Topic 11-K, added by SAB 69, expressing the staff’s views on the use of Article 9 and Industry Guide 3 as guidance for disclosure purposes by registrants that are not bank holding companies but that are engaged in similar lending and deposit activities?
   b. SAB Topic 1-F, added by SAB No. 50, reflecting the staff’s views on the financial statement requirements in filings involving the formation of a one-bank holding company?
   c. SAB Topic 11-G, discussing the use of tax-equivalent-adjusted amounts in financial statements and MDA?
   d. SAB Topic 11-I, added by SAB 56, expressing the staff’s views about the reporting of Allocated Transfer Risk Reserve (ATRR) provisions established when federal banking agencies determine that such reserves are necessary?
   e. SAB Topic 5-V, added by SAB No. 82, discussing the staff’s views regarding the accounting for transfers of nonperforming assets by financial institutions? (See also SAB Topic 5-E)
   f. SAB Topic 11-N, also added by SAB No. 82, expressing the staff’s views regarding the required disclosure by a financial institution that receives financial assistance from a federal regulatory agency?
FSP Section 6600

Illustrative Financial Statements

Introduction

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

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

.03 Users of this Manual should be alert for any new disclosure requirements that may be issued in connection with the revised Audit and Accounting Guide, Banks and Savings Institutions, which is expected to be released in early 1996. (cont’d)
The Board of Directors
Model Bank, N.A.
and Subsidiary

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

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

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


Audit City, USA
February XX, 19X5


Model Bank, N.A.
AND SUBSIDIARY

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

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and due from banks</td>
<td>$6,352</td>
<td>$5,168</td>
</tr>
<tr>
<td>Investment securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-for-sale (market value of $43,363 in 1993)</td>
<td>76,505</td>
<td>43,182</td>
</tr>
<tr>
<td>Held-to-maturity (market value of $18,769 in 1993)</td>
<td>—</td>
<td>17,551</td>
</tr>
<tr>
<td>Other (market value of $1,109 in 1994 and $921 in 1993)</td>
<td>1,109</td>
<td>921</td>
</tr>
<tr>
<td>Loans, net of allowance for credit losses of $1,051 in 1994 and $1,174 in 1993</td>
<td>78,734</td>
<td>81,275</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>3,477</td>
<td>3,573</td>
</tr>
<tr>
<td>Accrued income and other assets</td>
<td>3,053</td>
<td>1,870</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$169,230</td>
<td>$153,540</td>
</tr>
</tbody>
</table>

| **Liabilities and Shareholders' Equity** |       |       |
| Deposits |       |       |
| Non-interest bearing | $15,624 | $16,588 |
| Interest bearing | 116,849 | 117,532 |
| **Total deposits** | 132,473 | 134,120 |
| Federal funds purchased and securities sold under agreements to repurchase | 1,130 | 2,590 |
| Long-term debt | 20,000 | —     |
| Accrued expenses and other liabilities | 707 | 678    |
| **Total liabilities** | $154,310 | $137,388 |

| Commitments and contingent liabilities |       |
| Shareholders’ equity |       |       |
| Common stock—$1 par value; |       |       |
| Authorized—3,000,000 shares |       |       |
| Outstanding—1,097,320 and 1,098,986 shares | 1,097 | 1,098 |
| Paid-in-capital | 2,562 | 2,515 |
| Retained earnings | 13,403 | 12,539 |
| **Net unrealized loss on securities available for sale, net of deferred tax asset of $1,370** | (2,142) | —     |
| **Total shareholders’ equity** | 14,920 | 16,152 |
| **Total liabilities and shareholders’ equity** | $169,230 | $153,540 |
Model Bank, N.A.
AND SUBSIDIARY

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

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

(In Thousands)

**Years Ended December 31, 1994, 1993 and 1992**

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>1993</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Common Stock</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances</td>
<td>$1,098</td>
<td>$1,105</td>
<td>$1,110</td>
</tr>
<tr>
<td>Treasury stock canceled</td>
<td>(5)</td>
<td>(7)</td>
<td>(5)</td>
</tr>
<tr>
<td>Exercise of stock options</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances at end of years</td>
<td>1,097</td>
<td>1,098</td>
<td>1,105</td>
</tr>
<tr>
<td><strong>Paid in capital</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances at beginning of years</td>
<td>2,515</td>
<td>2,505</td>
<td>2,504</td>
</tr>
<tr>
<td>Exercise of stock options</td>
<td>44</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee stock awards</td>
<td>3</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Balances at end of years</td>
<td>2,562</td>
<td>2,515</td>
<td>2,505</td>
</tr>
<tr>
<td><strong>Retained Earnings</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances at beginning of years</td>
<td>12,539</td>
<td>11,140</td>
<td>9,845</td>
</tr>
<tr>
<td>Net income for years</td>
<td>1,591</td>
<td>2,128</td>
<td>1,957</td>
</tr>
<tr>
<td>Cash dividend paid ($0.60 in 1994, $0.57 in 1993, and $0.53 in 1992)</td>
<td>(657)</td>
<td>(629)</td>
<td>(586)</td>
</tr>
<tr>
<td>Treasury stock canceled</td>
<td>(70)</td>
<td>(100)</td>
<td>(76)</td>
</tr>
<tr>
<td>Balances at end of years</td>
<td>13,403</td>
<td>12,539</td>
<td>11,140</td>
</tr>
<tr>
<td><strong>Net unrealized depreciation on available for sale securities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances at beginning of years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net change</td>
<td>(2,142)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances at end of years</td>
<td>(2,142)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Treasury Stock</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balances at beginning of years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of shares of common stock acquired for treasury, 5,000 shares in 1994 and 6,711 shares in 1993 and 5,750 shares in 1992</td>
<td>(75)</td>
<td>(107)</td>
<td>(80)</td>
</tr>
<tr>
<td>Treasury stock sold or canceled</td>
<td>75</td>
<td>107</td>
<td>80</td>
</tr>
<tr>
<td>Balances at end of years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>$14,920</td>
<td>$16,152</td>
<td>$14,751</td>
</tr>
</tbody>
</table>


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

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

**Net increase (decrease) in cash and cash equivalents**  
1,184  
(1,670)  
179  

**Cash and cash equivalents, beginning of year**  
5,168  
6,838  
6,659  

**Cash and cash equivalents, end of year**  
$ 6,352  
$ 5,168  
$ 6,838
Model Bank, N.A.
AND SUBSIDIARY

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

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

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

Principles of consolidation

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

Nature of Operations

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

Estimates

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

Cash and cash equivalents

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

Investments in Securities

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

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

On January 1, 1994, the Bank adopted the provisions of SFAS No. 115 and classified the balance of its portfolio of U. S. Treasury Notes, U. S. Government and agency securities, and state and municipal obligations as securities available for sale. The Bank intends to hold these securities for an indefinite period of time but may sell them prior to maturity. Other securities include stock in the Federal Reserve Bank and the Federal Home Loan Bank.
At December 31, 1993 all securities classified as available for sale were reported at the lower of amortized cost or market and all securities classified as held to maturity or other were reported at amortized cost.

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

Loans

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

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

Allowance for credit losses

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

Other real estate

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

Property and equipment

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

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

Income taxes

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

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

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

Loan origination fees and costs

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

Sale of mortgage loans

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

Pension costs

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

Trust fees

Trust fees are recorded on the accrual basis.

Off-balance-sheet financial instruments

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

Effect of new financial accounting standards

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

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

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

Note 2—Restriction on cash and due from banks

The Bank has elected to maintain average reserve balances with the Federal Reserve Bank. The average amount of those reserve balances for the year ended December 31, 1994 and 1993 was $272 and $437 respectively.
Note 3—Investment securities

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

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

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

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

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

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

At December 31, 1994 and 1993, investment securities with a carrying value of approximately $14,104 and $7,635 respectively, were pledged as collateral to secure public deposits and for other purposes.
Note 4—Loans

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

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1994</td>
<td>1993</td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$ 9,066</td>
<td>$ 9,526</td>
<td></td>
</tr>
<tr>
<td>Installment</td>
<td>22,385</td>
<td>24,027</td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>48,334</td>
<td>48,896</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$79,785</strong></td>
<td><strong>$82,449</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

Note 5—Loan servicing

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

Note 6—Allowance for credit losses

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

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

Note 7—Property and Equipment

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

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 415</td>
<td>$ 415</td>
</tr>
<tr>
<td>Property and leasehold improvements</td>
<td>2,768</td>
<td>2,714</td>
</tr>
<tr>
<td>Equipment</td>
<td>3,390</td>
<td>3,241</td>
</tr>
<tr>
<td></td>
<td>6,573</td>
<td>6,370</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>3,096</td>
<td>2,797</td>
</tr>
<tr>
<td></td>
<td>$3,477</td>
<td>$3,573</td>
</tr>
</tbody>
</table>

Note 8—Long-term debt

Long-term debt consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance from Federal Home Loan Bank with interest at the three month LIBOR rate plus two basis points (6.33% at December 31, 1994) due on June 26, 1997</td>
<td>$10,000</td>
</tr>
<tr>
<td>Advance from Federal Home Loan Bank with interest at the three month LIBOR rate flat (6.00% at December 31, 1994) due on November 23, 1996</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total Advances</strong></td>
<td><strong>$20,000</strong></td>
</tr>
</tbody>
</table>
The Bank's advances from the Federal Home Loan Bank are collateralized by a blanket floating lien on qualifying first mortgage loans and pledging of the Bank's stock in the Federal Home Loan Bank of Atlanta. In addition, the advances are collateralized by pledges of certain mortgage backed securities having aggregate market value at December 31, 1994 of $7,519.

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

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>$10,000</td>
</tr>
<tr>
<td>1997</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>$20,000</td>
</tr>
</tbody>
</table>

**Note 9—Income taxes**

The consolidated provision for income taxes consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Federal</td>
<td>$316</td>
<td>$628</td>
</tr>
<tr>
<td>State and local</td>
<td>108</td>
<td>178</td>
</tr>
<tr>
<td>Total current</td>
<td>424</td>
<td>806</td>
</tr>
<tr>
<td>Deferred tax expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Federal</td>
<td>90</td>
<td>31</td>
</tr>
<tr>
<td>State and local</td>
<td>24</td>
<td>8</td>
</tr>
<tr>
<td>Total deferred</td>
<td>114</td>
<td>39</td>
</tr>
<tr>
<td>Total expense</td>
<td>$538</td>
<td>$845</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>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax liability:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$236</td>
<td>$183</td>
</tr>
<tr>
<td>State</td>
<td>59</td>
<td>47</td>
</tr>
<tr>
<td>Total</td>
<td>295</td>
<td>230</td>
</tr>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>1,361</td>
<td>240</td>
</tr>
<tr>
<td>State</td>
<td>261</td>
<td>61</td>
</tr>
<tr>
<td>Total</td>
<td>1,622</td>
<td>301</td>
</tr>
<tr>
<td>Net deferred tax asset</td>
<td>$1,327</td>
<td>$71</td>
</tr>
</tbody>
</table>

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

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

No valuation allowance for deferred tax assets was recorded at December 31, 1994.
The provision for federal income taxes is less than that computed by applying the federal statutory rate of 34% as indicated in the following analysis:

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

**Note 10—Lease and rental expense**

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


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

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>$28</td>
</tr>
<tr>
<td>1996</td>
<td>20</td>
</tr>
<tr>
<td>1997</td>
<td>20</td>
</tr>
<tr>
<td>1998</td>
<td>20</td>
</tr>
<tr>
<td>1999</td>
<td>15</td>
</tr>
<tr>
<td>Thereafter</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$129</strong></td>
</tr>
</tbody>
</table>

**Note 11—Related party transactions**

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

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

<table>
<thead>
<tr>
<th>December 31</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, January 1</td>
<td>$2,719</td>
<td>$2,618</td>
</tr>
<tr>
<td>New loans during the year</td>
<td>1,227</td>
<td>1,377</td>
</tr>
<tr>
<td>Repayments during the year</td>
<td>(1,260)</td>
<td>(1,276)</td>
</tr>
<tr>
<td>Balance, December 31</td>
<td>$2,686</td>
<td>$2,719</td>
</tr>
</tbody>
</table>

The Bank entered into a lease for a mortgage facility from an affiliated party. The lease is an operating lease with a term of one year and three renewal options of one year each. The lease provides for minimum annual rentals of $6.
Note 12—Shareholders’ equity

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

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

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

Note 13—Commitments and contingent liabilities

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

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

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

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

<table>
<thead>
<tr>
<th>Contract or Notional Amount</th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial instruments whose contract amounts represent credit risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial loan commitments</td>
<td>$1,653</td>
<td>$1,889</td>
</tr>
<tr>
<td>Unfunded lines-of-credit</td>
<td>12,343</td>
<td>11,984</td>
</tr>
<tr>
<td>Letter of credit</td>
<td>62</td>
<td>68</td>
</tr>
<tr>
<td>Total</td>
<td>$14,058</td>
<td>$13,941</td>
</tr>
</tbody>
</table>
Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements. The Bank evaluates each customer’s credit-worthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Bank upon extension of credit, is based on management’s credit evaluation of the counterparty. Collateral normally consists of real property.

**Note 15—Concentration of credit risk**

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

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

**Note 16—Employee benefit plans**

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

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

Pension expense for 1994 includes the following components:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost of the current period</td>
<td>40</td>
</tr>
<tr>
<td>Interest cost on the projected benefit obligation</td>
<td>146</td>
</tr>
<tr>
<td>Actual return on assets held in the plan</td>
<td>(336)</td>
</tr>
<tr>
<td>Net amortization of prior service</td>
<td>213</td>
</tr>
<tr>
<td>Pension expense</td>
<td>63</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial present value of benefit obligations:</td>
<td></td>
</tr>
<tr>
<td>Accumulated benefit obligation, including vested benefits of $1,618,000</td>
<td>$1,649</td>
</tr>
<tr>
<td>Effect of anticipated future compensation levels</td>
<td>215</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>1,864</td>
</tr>
<tr>
<td>Fair value of assets held in the plan</td>
<td>1,912</td>
</tr>
<tr>
<td>Plan assets in excess of projected benefit obligation</td>
<td>48</td>
</tr>
<tr>
<td>Unrecognized prior service cost being recognized over 15 years</td>
<td>153</td>
</tr>
<tr>
<td>Net unrecognized gain from past experience different from that assumed and effects of changes in assumption</td>
<td>(201)</td>
</tr>
<tr>
<td>Pension liability</td>
<td></td>
</tr>
</tbody>
</table>
The weighted average discount rate used to measure the projected benefit obligation is 7.00%, the rate of increase in future compensation levels is 5.00%, and the expected long-term rate of return on assets is 7.00%. The Bank uses the straight-line method of amortization for prior service cost and unrecognized gains and losses.

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

Note 17—Regulatory matters

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

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

Note 18—Reclassifications

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