The Commercial Bank Report of Examination was made available for use by the Federal Reserve System. The report is also available for use by state banking departments in their examinations of state-chartered institutions.

Certain report pages are mandatory for all full-scope bank examination reports prepared by Federal Reserve examiners. Some of the pages are required that address the examiner's conclusions and provide information on capital, asset quality, management, earnings, liquidity, and sensitivity to market risk (CAMELS). Headings on specific report pages for the examiner's assessment of specific CAMELS components provide a series of considerations for the examiner to address in the evaluation of each component. The Federal Reserve has designated other pages as optional.

The instructions reflect the examiners' use of certain content (section) headings for an optional continuous flow reporting format, and the use of the above-mentioned required report pages or sections. The Commercial Bank Examination Report may continue to consist of specific or individual report "pages." This section will provide the examiner with guidance on both when to include certain report pages in the report and how to prepare required and optional report pages. Instructions for optional pages describe situations that warrant their inclusion in full-scope Federal Reserve reports.

FEDERAL RESERVE SYSTEM REPORT INSTRUCTIONS

The following instructions provide general guidance to the examiner in evaluating certain aspects of a bank's operations and in completing the report; they are neither intended to constitute a technical manual on conducting examinations and completing reports nor are they designed to set forth all of the factors, considerations, and issues that examiners must address and evaluate when they conduct examinations. In addition, these instructions are not intended to address legal and compliance questions; rather, examiners should consult the appropriate laws, regulations, and examiner guidelines. Questions on completing the report that are not covered by these instructions should be referred to Reserve Bank management or Board staff.

Instructions for specific pages follow in the order recommended for their inclusion in full-scope examination reports. The header at the top of each section of instructions indicates whether the report page is mandatory or optional.

The instructions and report-page formats do not provide for the use of peer-group data for analytical purposes. The Federal Reserve System advocates the use of peer-group data for financial analysis. Examiners should routinely consider using peer information in report narratives or in charts and tables within narratives to support their conclusions. Comparisons to subsets of the national peer group may also be meaningful. If the examiner uses other than national UBPR peer information for comparison purposes, the substitute peer group should be clearly identified.

Communication of Supervisory Findings

Communication of supervisory findings to the organization's board of directors is an important part of the supervision of a banking organization. While the board itself may not directly undertake the work to remediate supervisory findings as senior management is responsible for the organization's day-to-day operations, it is nevertheless important that the board be made aware of significant supervisory issues and ultimately be accountable for the safety and soundness and assurance of compliance with applicable laws and regulations of the organization.

Depending upon the size and complexity of the organization, supervisory findings are communicated in writing through formal examination or inspection reports, reports summarizing the results of targeted reviews, a roll-up of those reviews into a comprehensive report, any other supervisory communication, or some combination thereof. These written communications (referred to collectively as "reports" in this document) are generally directed to the board of directors, or an executive-level committee of the board[1] as appropriate. In turn, the board of directors (or executive-level committee of the board) typically will direct the organization's

1. An executive-level committee of the board (such as, the audit committee or risk committee) typically meets regularly, keeps minutes of those meetings, and is accountable to and routinely reports to the board of directors.

management to take corrective action and will provide management with appropriate oversight, including approvals of proposed management actions as necessary. (Refer to SR-13-13/CA-13-10.)

To be effective, the communication of supervisory findings must be (1) written in clear and concise language, (2) prioritized based upon degree of importance, and (3) focused on any significant matters that require attention.

Reserve Banks must formally communicate Matters Requiring Immediate Attention (MRIAs) and Matters Requiring Attention (MRAs) resulting from any supervisory activity to the organization in these written reports. In order to promote an understanding of these terms, examiners should include definitions of MRIAs and MRAs in all supervisory documents communicating supervisory findings.[2] When included in a safety-and-soundness examination or inspection report, MRIAs and MRAs should be listed in the "Matters Requiring Attention" section. In the case of findings from consumer compliance examinations, MRIAs and MRAs should be reflected in the "Executive Summary and Examination Ratings" section of the consumer affairs report of examination. Only outstanding MRIAs and MRAs are required to be discussed in the report; however, examiners have discretion to discuss closed MRIAs and MRAs in the report if such discussion would be meaningful.

For large banking organizations, an annual roll-up report summarizes the significant findings, based on outstanding MRIAs or MRAs, included in the reports of targeted reviews or other supervisory activities conducted during the supervisory cycle. These findings may be grouped by major supervisory issues, rating components, risks, or themes. This information should enable the banking organization's board of directors and any executive-level committee of the board to understand the substance and status of outstanding MRIAs or MRAs and focus their attention on the most critical and time-sensitive issues.

Communications to banking organizations concerning safety-and-soundness or consumer compliance MRIAs or MRAs must specify a timeframe within which the banking organization must complete the corrective actions. In certain circumstances, examiners may require the banking organization to submit an action plan that identifies remedial actions to be completed within specified timeframes. Action plans with intermediate- and long-term timeframes that span more than one supervisory or examination cycle with regard to safety-and-soundness matters, or a 12-month period with regard to consumer compliance issues, should include interim progress targets. Both safety-and-soundness and consumer protection or compliance considerations will remain a priority in determining whether the organization's timeframes to correct the matter are reasonable.

Matters Requiring Immediate Attention

MRIAs arising from an examination, inspection, or any other supervisory activity are matters of significant importance and urgency that the Federal Reserve requires banking organizations to address immediately and include (1) matters that have the potential to pose significant risk to the safety and soundness of the banking organization; (2) matters that represent significant noncompliance with applicable laws or regulations; (3) repeat criticisms that have escalated in importance due to insufficient attention or inaction by the banking organization; and (4) in the case of consumer compliance examinations, matters that have the potential to cause significant consumer harm. An MRIA will remain an open issue until resolution and examiners confirm the banking organization's corrective actions.

Required Language. Federal Reserve examiners are expected to use the standardized language below to communicate MRIAs to the board of directors (or executive-level committee of the board):

- "The board of directors (or executive-level committee of the board), or banking organization *is required to immediately* . . . ."

Timeframe. The expected timeframe for a banking organization to address MRIAs is generally short, and may be "immediate," in the case of heightened safety-and-soundness or consumer compliance risk. For MRIAs that are necessary to preserve or restore the viability of a banking organization, the timeframe should take

2. In a safety-and-soundness report, these definitions could be included on the "Scope" page, in an appendix, or as a footnote on the "Matters Requiring Attention" section. In a consumer compliance report, these definitions could be included on the "Executive Summary and Examination Ratings" section.

into account any potential losses to the Federal Deposit Insurance Corporation's Deposit Insurance Fund, including the possibility that a delay in action will increase the potential for loss or the cost of resolution.

Organization Response. Following its review of MRIAs discussed in the report, the banking organization's board of directors is required to respond to the Reserve Bank in writing regarding corrective action taken or planned along with a commitment to corresponding timeframes.

Supervisory Follow-up. The Reserve Bank must follow up on MRIAs to assess progress and verify satisfactory completion. The timeframe for follow-up should correspond with the timeframe specified for the action being required, and should be appropriate for the severity of the matter requiring the corrective action. The means of follow-up may vary depending upon the nature and severity of the matter requiring the action. Follow-up may take the form of a subsequent examination, a targeted review, or any other supervisory activity deemed suitable for evaluating the issue at hand.

In some cases, when follow-up indicates the organization's corrective action has not been satisfactory, the initiation of additional formal or informal investigation or enforcement action may be necessary. In such cases, examiners should consult with enforcement staff.[3] In all instances, examiners are expected to exercise judgment as to the supervisory activities best suited for evaluating a particular issue. Once follow-up is completed, examiners are expected to clearly and fully document the rationale for their decision to close any issue. Examiners are also expected to communicate in writing the results of their work and findings to the banking organization.

Matters Requiring Attention (MRAs)

MRAs constitute matters that are important and that the Federal Reserve is expecting a banking organization to address over a reasonable period of time, but when the timing need not be "immediate." While issues giving rise to MRAs must be addressed to ensure the banking organization operates in a safe-and-sound and compliant manner, the threat to safety and soundness is less immediate than with issues giving rise to MRIAs. Likewise, consumer compliance concerns that require less immediate resolution should be communicated as an MRA. An MRA typically will remain an open issue until resolution and confirmation by examiners that the banking organization has taken corrective action. If a banking organization does not adequately address an MRA in a timely manner, examiners may elevate an MRA to an MRIA. Similarly, a change in circumstances, environment, or strategy can also lead to an MRA becoming an MRIA. The key distinction between MRIAs and MRAs is the nature and severity of matters requiring corrective action, as well as the immediacy with which the banking organization must begin and complete corrective actions.

Required Language. Federal Reserve examiners are expected to use the standardized language below to communicate MRAs to the board of directors (or executive-level committee of the board):

- "The board of directors (or executive-level committee of the board), or banking organization *is required to* . . . ."

Timeframe. Communications to banking organizations about MRAs must specify a timeframe within which the corrective action is expected to be completed. The timeframe, at least initially, may require estimation because the banking organization may first need to complete preliminary planning to establish the timeframe for initiating and completing the corrective action. The timeframes for MRAs are likely to become more precise over time as planning evolves and circumstances make the completion of the MRAs more urgent. Timeframes that span more than one examination cycle for safety-and-soundness issues or that exceed 12 months for consumer compliance issues should include appropriate interim progress reports.

Organization Response. Following its review of the report, the banking organization's board of directors is required to provide a written response to the Reserve Bank regarding its plan, progress, and resolution of the MRA.

Supervisory Follow-up. The Reserve Bank must follow-up on MRAs to assess progress and

3. Such consultation should be made in accordance with existing guidance to Reserve Bank supervisory staff on the processing of enforcement actions, which provides that recommendations concerning formal enforcement actions should be submitted simultaneously to both the Board's Legal Division and Division of Banking Supervision and Regulation.

verify satisfactory completion. The timeframe for follow-up should correspond with the timeframe during which actions are to be completed. For intermediate- or long-term corrective actions for MRAs, Reserve Bank follow-up may consist of assessing the organization's progress to address the MRAs, whether satisfactory or unsatisfactory, and noting whether the initial estimated timeframe continues to be reasonable or warrants adjustment.

The means of supervisory follow-up may vary based upon the nature and severity of the matter for which corrective action is expected. Follow-up may take the form of a subsequent examination, targeted review, continuous monitoring, reliance on validation work conducted by internal audit function,[4] reliance on the results of examinations conducted by other supervisors, or any other supervisory activity deemed suitable for evaluating the issue at hand.

In some cases, when follow-up indicates the organization's corrective action has not been satisfactory, the initiation of additional formal or informal investigation or enforcement action may be necessary. In all instances, examiners are expected to exercise judgment regarding the supervisory activities best suited for evaluating a particular issue. Once follow-up is complete, examiners are expected to clearly and fully document the rationale for their decision to close any issue. Examiners also are expected to communicate in writing the results of their work and findings to the organization.

Supervisory Considerations

The volume of MRIAs and MRAs should be one of the many considerations in assigning a supervisory rating to a banking organization. The presence of a large number of MRIAs or MRAs may indicate that additional formal or informal investigation may be necessary or that the initiation of a formal or informal enforcement action may be warranted.

Irrespective of the number of MRIAs or MRAs, in some cases, additional formal or informal investigation may be necessary or the initiation of a formal or informal enforcement action may be warranted based on the severity of the issues, the repeat nature of issues, lack of responsiveness of management, violations of law, insider abuse, fraud, or other material deficiency. In any of these cases, examiners should consult with the Board's enforcement staff in the Legal Division and the Division of Banking Supervision and Regulation.

Combined Reports

Reserve Banks may issue a combined report for a bank holding company and its lead state member bank subsidiary when (1) a bank holding company's lead bank subsidiary is a state member bank and (2) the holding company's board formally approves the release of a combined report to its lead state member bank subsidiary. In cases where the company has more than one state member bank, separate examination reports should be prepared for all other state member bank subsidiaries. At a minimum, a combined report will contain all examination report pages or sections as well as information on the parent company, its subsidiaries, and the consolidated organization. (See SR-94-46 and its attachment.)

The Reserve Bank should send a letter to a qualified holding company that explains its option of receiving a combined report. If the holding company's board wishes to receive a combined report, it should formally approve the release of the combined report to its lead state member bank subsidiary by board resolution.

General Instructions for Financial Information

The following terms are used on many report pages containing financial information. Guidance on the requirements and options available for each term is provided here.

Examination Date (or Exam Date). The date of the financial data used for the examination activity or the ending date of the period reviewed. If the date of the asset-quality review is different from the exam date, any required use of "exam date" in connection with asset quality should refer to the date of the asset-quality review.

4. Examiners may choose to rely on the work of internal audit when internal audit's overall function and related processes are effective, as discussed in SR-13-1/CA-13-1, "Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing." (See this Manual's section 1010.1.) When relying on internal audit to follow-up on MRAs, examiners are expected to review the relevant work papers and, when necessary, meet with internal audit staff who documented the resolution of the issue.

Period Ended. No specific timeframe is designated. These columns reflect information for a time period deemed most appropriate by the examiner to support conclusions presented in the Report of Examination. For comparative purposes, this column may reflect financial data from the same period of the prior year as the examination date, the prior quarter, or the most recent year-end.

The examiner-in-charge is responsible for selecting dates deemed most appropriate to present the examination findings. All amounts should be consistent with instructions for the FFIEC Consolidated Reports of Condition and Income (Call Report). If Call Report amendments have been made, the amended numbers should appear. If a bank's management has made any significant misclassifications that have caused examiners to amend any financial statements, the examiners' numbers should be shown in the report and used to calculate any ratios used in the report. Columns titled "Period Ended" should usually detail previous year-end information. However, the examiner may substitute different dates, such as those of the previous examination, when desired. Ratios should generally be computed according to the instructions in the FFIEC's User's Guide to the Uniform Bank Performance Report. Care should be taken in computing all ratios to ensure that ratios are accurate and consistent throughout the report.

Federal Reserve Examination Report Page List

The following table lists the Federal Reserve's report pages in the order in which they would usually appear, along with a notation of whether their inclusion in the report is mandatory or optional.

Mandatory/ Optional	*Report Page or Section Title*
	OPEN SECTION
Mandatory	Table of Contents
Mandatory	Scope
Mandatory	Matters Requiring Board Attention
Mandatory	Examination Conclusions and Comments
Optional*	Compliance with Enforcement Actions
Mandatory	Comparative Statements of Financial Condition
Mandatory	Capital Adequacy
Mandatory	Capital Calculations
Mandatory	Asset Quality
Mandatory	Summary of Items Subject to Adverse Classification/Summary of Items Listed as Special Mention
Mandatory	Loans and Lease-Financing Receivables/Past-Due and Nonaccrual Loans and Leases
Mandatory	Management/Administration
Mandatory	Violations of Laws and Regulations
Mandatory	Earnings
Mandatory	Analysis of Earnings
Mandatory	Liquidity/Asset Liability Management
Mandatory	Sensitivity to Market Risk
Optional	Other Matters
Optional	Concentrations
Optional*	Items Subject to Adverse Classification

Optional*	Items Listed for Special Mention
Optional	Assets with Credit-Data or Collateral-Documentation Exceptions
Mandatory	Signature of Directors
	CONFIDENTIAL SECTION
Mandatory	Directors
Mandatory	Executive Officers
Mandatory	Management and Control
Mandatory	Ratings and General Information

* Some optional pages or sections are mandatory if the circumstances relevant to the page apply. For example, "Compliance with Enforcement Actions" is mandatory if the bank is subject to corrective action. Optional pages to list classified and special-mention assets are mandatory if items are classified or special mentioned.

These pages or sections may be augmented with supplemental information as needed or required by the Federal Reserve System. Additional supporting schedules and visual aids (for example, graphs and charts) may also be included in the report to communicate and support the examiner's findings.

Sample Report Pages

Samples of most of the report pages or sections are provided. Because each Reserve Bank may use different methods for preparing the report, differences in typographic styles may exist between the pages presented here and those at any particular Reserve Bank.

Several report pages or sections are blank except for the title, allowing the examiner almost total discretion in choosing how to present the information. Samples of these report pages are not included, although instructions for their use are. Report pages for which samples are not included are

- Scope
- Matters Requiring Board Attention
- Compliance with Enforcement Actions
- Violations of Laws and Regulations
- Other Matters
- Concentrations

REPORT PREPARATION INSTRUCTIONS

Table of Contents (Mandatory)

The table of contents indicates the pages or sections included in full-scope reports. All mandatory pages are to be included in each full-scope Federal Reserve bank examination report. Optional pages or sections will be added to the report as necessary in the order outlined herein, followed by the mandatory Signature of Directors page. Additional supplemental pages or sections to support examiner findings may also be added to the report at the examiner's discretion.

Page numbers are included only for the sake of completeness. The actual page-numbering system used may vary among Reserve Banks.

Scope (Mandatory)

The Scope page or section is used to list areas reviewed during the examination and describes the extent of those reviews. The examiner should generally address the following:

- the date of examination (commencement and conclusion)
- the type of examination (full-scope, targeted, joint, concurrent, combined (bank holding company and bank))
- the agency or agencies conducting the examination
- areas reviewed and analyzed (If the examination is targeted, the examiner should identify specific areas reviewed.)
- the percentage and type of loans reviewed
- a confirmation that examination results were discussed with the organization and a list of those attending the meeting
- identification of the bank's peer group
- if necessary, recognition that the bank is operating under a formal or informal supervisory action (If so, state that the provisions of the action were reviewed and compliance was assessed.)

Matters Requiring Board Attention (Mandatory)

The Matters Requiring Board Attention page or section is used to inform the bank's board of directors of the most significant issues identified during the examination. It should summarize the most important examination findings. The Matters Requiring Board Attention are intended to complement the complete Report of Examination's findings prepared for use by bank management and directors. This page or section is to focus on identified problems, rather than on strengths of the organization, and present them succinctly and unmistakably clearly. In all cases, the types of actions to be taken by the directors and management to address these problems should be specifically noted. See the section ''Communication of Examination Findings'' with regard to MRIAs, MRAs, and Observations. Institutions rated 4 or 5 are to be told they are problem institutions that warrant special supervisory attention. Institutions rated 3 are to be informed that their condition is not satisfactory, that they are subject to more-than-normal supervision, and that they may become problems if their weaknesses are not addressed adequately.

The Matters Requiring Board Attention report page or section should label the comments therein as being either MRIAs, MRAs, or Observations. As a general rule, examiners should expect fewer MRIAs or MRAs in stronger organizations than in weaker ones. However, the presence of MRIAs or MRAs does not preclude a strong or satisfactory rating. For example, while correction of any violation of law is essential, the presence of inadvertent violations that do not expose the organization to significant risk (such as insufficient Federal Reserve stock shortly after a capital injection or a technical exception) would not preclude a strong rating if all other factors supported that rating. Conversely, the presence of a large number of examination findings that give rise to MRIAs or MRAs that represent a threat to the safety and soundness of the organization or that signify an elevated consumer compliance risk exposure would generally preclude a satisfactory rating and may require consideration of an enforcement action. For institutions between these extremes, examiners should determine the impact of MRIAs and MRAs on ratings and assess the need for an enforcement action by considering the severity of these weaknesses and their relative importance in light of all the factors influencing the assessment of the organization. The Federal Reserve examiner's use of this common terminology is designed to enhance the focus and efficiency of communicating supervisory expectations and overseeing their implementation. This page or section should also discuss significant weaknesses in 1- or 2-rated institutions.

In institutions where no specific matters are identified as requiring board attention, this page or section should provide a brief summary of the institution's condition. In all cases, this page or section should contain a concluding statement reminding the directorate of its responsibility to review the entire Report of Examination and should instruct each director to sign the Signature of Directors page.

Examination Conclusions and Comments (Mandatory)

This report page or section should list the composite rating for the current examination and for the two previous examinations at the top of the page. In addition to the composite ratings, the numeric ratings of the six components will be disclosed for examinations began after January 1, 1997. This listing should be followed by the uniform definition of the assigned composite rating. The uniform definitions of the component ratings assigned need not be included in reports; however, they should be made available to bank management and directors upon request.

This report page or section should summarize examination findings, particularly those of significance. The examiner should also provide an overview of the bank's financial condition. The examiner's major recommendations and management's plans for corrective actions should also be covered on this page or section in appropriate detail, with references to additional supporting information elsewhere in the report. The examiner's comments should also elaborate on the matters requiring board attention listed. All comments should be presented in order of importance. The comments should be primarily on an exception basis, describing areas of the bank's operations and aspects of its financial condition that display weaknesses, deficiencies, or vulnerability. This does not preclude the examiner from recognizing positive actions taken by management; however, laudatory or conclusive remarks and endorsements of specific management actions should be avoided.

Significant recommendations presented elsewhere in the report should be mentioned on this page. Significant violations should also be discussed briefly on this page and in greater detail on the Violations of Laws and Regulations page or section; less serious violations should be noted and reference made to the violations page. Compliance with any enforcement actions should be briefly discussed on this page or section and state that details are provided on the Compliance with Enforcement Actions page.

The Examination Conclusions and Comments page or section and the Matters Requiring Board Attention page or section should not be duplicative and should be easily integrated if the issuance of a Director's Summary of Examination Findings proves necessary.

Compliance with Enforcement Actions (Optional)

The Compliance with Enforcement Actions report page or section will be used if the bank is under any type of supervisory action or has ratified board resolutions at the request of the Federal Reserve or state banking authority. In all cases, the type and date of the action or resolutions and parties to the action should be listed. In addition, the examiner should generally list each provision requiring action and provide a comment addressing compliance with that provision. Specifically, the examiner should comment on how the bank accomplished compliance or the reason why the bank is not in compliance with a particular provision. These comments should be made at the examination when supervisory actions are initiated and at all subsequent examinations until the action is removed.

Comparative Statements of Financial Condition (Mandatory)

The left column titled "Exam Date" should coincide with the FFIEC Consolidated Report of Condition and Income (the Call Report) for the period used—generally, the most recent quarter-end. If Call Report amendments have been made, the amended numbers should appear on this page. If a bank's management has made any significant misclassifications that have caused examiners to amend any financial statements, the examiner's numbers should appear on this page. The right column titled "Period Ended" should usually detail previous year-end information. However, the examiner may substitute a different date, such as a previous examination, when desired. All amounts listed in either column should conform to the Call Report instructions. This page should also reflect FASB 115 "Accounting for Certain Investments in Debt and Equity Securities" adjustments to capital. These adjustments are made according to the Call Report instructions and are reflected on the line item "common equity capital."

Capital Adequacy (Mandatory)

Capital is assessed at each full-scope examination. Consideration is specifically given to risk identified within the bank, equity maintenance, and any growth the bank might be experiencing.

The bank's capital ratios should be presented as indicated on the report page or section. FASB 115 adjustments are not to be reflected in capital ratios. However, the effect of FASB 115 on stockholders' equity, if material, should be discussed in the narrative. In cases when the condition of the bank has changed significantly since the last quarter-end (for example, an equity offering) and/or when examination findings have a material impact on conclusions regarding capital adequacy, the examiner should reflect these changes and findings in these ratios. When adjustments are made, the examiner should identify the date of the new capital calculation (presumably subsequent to quarter-end). In any event, when examination findings result in a change in a bank's prompt-corrective-action designation, the ratios provided must be adjusted. The Capital Category line refers to the prompt-corrective-action (PCA) capital designation as described in the Federal Deposit Insurance Corporation Improvement Act. (See sections 4133.1 to 4133.3.) Report comments need to clearly convey that this designation is not the sole criterion for determining capital adequacy. If the bank is subject to restrictions under a PCA directive issued by the Board of Governors, a discussion of the directive's requirements and the related capital-restoration plan are to be included.

The examiner should consider the volume of classified assets and any meaningful asset-quality trends. It is appropriate to address capital ratios adjusted for significant examination classifications in the narrative to emphasize the impact of examination classifications on any valuation reserves and the impact of deficiencies in valuation reserves on the bank's capital adequacy.

The assessment of capital growth should include consideration of growth from various capital sources, including retained earnings and potential new capital-stock issues, and should be compared to growth in total assets, asset mix, market risk, concentration risk, risks associated with nontraditional activities, interest-rate risk, and off-balance-sheet risks. Risk-based capital guidelines factor in changes in balance-sheet composition and exposure to potential risk via growth of off-balance-sheet activities. Although the guidelines give consideration to the above, examiners still must exercise considerable judgment to evaluate all factors necessary to make an accurate assessment of capital adequacy.

The bank's capital plan should also be reviewed. The content, degree of formality, sophistication, and form of plan will vary with banks of different sizes and complexity. However, each bank should be monitoring its capital position in relation to the required guideline ratios and risk. In addition, consideration should be given to the bank's ability to obtain additional outside capital, including support provided by a parent holding company. Also, the bank's dividend history and plans should be considered in relationship to regulatory guidelines and anticipated profitability.

Capital Calculations (Mandatory)

The Capital Calculations page or section should be prepared using information as of the same date as the exam date shown on the Comparative

Statements of Financial Condition. When the condition of the bank has changed significantly since the exam date (for example, an equity offering) or when examination findings materially affect conclusions regarding capital adequacy, the examiner should reflect these changes and findings in the capital calculation. When adjustments are made, the examiner should identify the date of the new capital calculation. In any event, when examination findings result in a change in a bank's prompt-corrective-action designation, the capital calculations provided must be adjusted. Characteristics of any capital elements that are unusual or significant may require an explanation on the Capital Adequacy page or section, as may any limitations with regard to risk-based capital guidelines.

Ineligible intangibles to be deducted from tier 1 capital should include such items as ineligible purchased credit-card relationships (PCCRs) and mortgage-servicing rights, while the Other Adjustments line should include such items as disallowed deferred-tax assets. Under the risk-weighted assets calculations section, the examiner should ensure that requested data are calculated in accordance with risk-based capital guidelines. All items deducted from capital noted above should also be deducted from the risk-weighted assets calculation. FASB 115 adjustments are not to be reflected on this page or section. Adjusted average total assets is average total assets for the most recent quarter less all goodwill and other disallowed intangibles.

Asset Quality (Mandatory)

Federal Reserve examiners should specifically address the following areas within the Asset Quality page or section. If all conditions are satisfactory, a brief statement that addresses each factor and summarizes the examiner's conclusions will suffice.

- Assess (1) the quality of assets, including their level, distribution, severity, and the trend of problem, classified, past-due, nonaccrual, restructured, and renegotiated loans not in compliance with modified terms for both on- and off-balance-sheet transactions; (2) the existence of asset concentrations; (3) the adequacy of loan policies and loan-administration, credit documentation, or lending practices; (4) the adequacy of workout procedures for problem credits; (5) the adequacy of the allowance for loan and lease losses; and (6) the adequacy of the bank's internal loan-review and grading systems, including significant differences between internal loan grades and examination classifications.
- Assess (1) the quality of investment securities and (2) the adequacy of investment policies.
- Comment on any off-balance-sheet items, such as unfunded commitments, credit derivatives, commercial and standby letters of credit, and lines of credit, with respect to (1) their volume in relation to total assets, capital, or other appropriate balance-sheet categories; (2) the risks inherent in the activity; and (3) the adequacy of management and control of off-balance-sheet risks.
- Comment on the quality of management with respect to the lending function and management's awareness of problem loans. Examiners should also address the causes of existing credit problems and remedial actions agreed to by management for correction of deficiencies.
- Assess the adequacy of internal controls and management information systems.

The Asset Quality report page or section should provide for a weighted-asset classification to capital ratio; the Federal Reserve System relies heavily on this measure of asset quality. The page or section should include a line for the ratio of weighted classifications to tier 1 capital and for the allowance for loan losses without limitation. The sample page included in this manual contains a line for this ratio.

Assets listed for special mention should neither be included in the classifications total nor should they be referred to as adversely classified in the narrative. Although classified and special-mentioned asset totals should not be commingled, those two categories will display and possibly share underwriting, documentation, or other weaknesses or characteristics to be reported by the examiner.

The examiner should consider the total of other transfer-risk problems, if significant, and briefly discuss the volume and trend of such credits. The examiner should specifically assess whether there are concentrations of credit in any particular economic sectors, the extent that problem credits may be centered in these sectors, and concentrations of transfer risk warranting special comment. Examiners should also address the loan-loss reserve methodology and the adequacy of the allowance for loan and lease losses. Examiners should comment on the quality and valuation methods for investment securities and trading-account activities and address credit risk associated with off-balance-sheet items.

Examiners should assess the adequacy of policies and procedures relating to loans, investments, and off-balance-sheet activities. Also, examiners should address policies and procedures regarding financial futures, forwards, derivative transactions, and foreign-exchange trading and valuation.

When assessing loan policies, loan administration, and lending practices, consideration should be given to internal loan approval, internal review and monitoring, and grading systems and control procedures; the organization and completeness of the credit files; collateral administration and evaluation procedures; collection procedures; procedures for renewing or extending loans and placing loans on nonaccrual status; the accrual and capitalization of past-due interest and prepaid interest; and any other unfavorable practice that may result in or from poor asset quality.

Deficiencies relating to the lack of written policies in any critical area should be noted in discussing management's adherence to policies on the Management/Administration page or section. Also, if excessive management turnover, weaknesses in middle management, or inadequate internal promulgation of policies affects adherence to or implementation of policies, these areas should also be addressed under Management/Administration.

Examination ratios in this section are to be derived from information obtained during the current and two most recent on-site examinations. The examiner may include in the narrative additional ratios, if necessary, to highlight a particular financial factor. Reserve Banks that are engaged in alternate examination programs with state banking departments should use classified asset totals from state reports in completing and analyzing the trend in asset-quality data on this page.

For the Asset Quality page or section, the tier 1 capital numbers to be used should come from the Capital Adequacy and Capital Calculations pages. However, the examiner may substitute a different date when desired. The total adversely classified assets numbers and total assets numbers should be relevant to the date of the asset-quality review. This will reflect information for the period deemed most appropriate by the examiner-in-charge.

Capital is based on the guideline definition of tier 1 capital. Weighted and total classifications are to be compared with tier 1 capital plus the allowance for loan losses, both for purposes of this page and for the asset-quality rating under the CAMELS rating system. Total adversely classified items includes total adversely classified assets plus classified off-balance-sheet items, while total adversely classified assets does not include classified off-balance-sheet items. The past-due and nonaccrual ratio should be consistent with the information contained in the past-due and nonaccrual schedule on the Loans and Lease-Financing Receivables/ Past-Due and Nonaccrual Loans and Leases page or section.

Summary of Items Subject to Adverse Classification/Summary of Items Listed as Special Mention (Mandatory)

Summary of Items Subject to Adverse Classification

The Summary of Items Subject to Adverse Classification page or section summarizes items classified by the examiner as of the examination date (for this page, considered the date relevant to the asset-quality review). Total classifications are also presented for the previous examination. Reserve Banks that are engaged in alternate examination programs should provide totals contained in the previous examination report prepared by the state when applicable. The examiner should also consider creating a schedule on the Asset Quality page or section to detail classifications from additional prior examinations if meaningful trend information is noted. The examiner should also present in the report narrative classifications trends for certain asset categories if the analysis is meaningful.

The report format does not contain provisions for other transfer-risk problems or value-impaired assets. For examination of banks engaged in international lending, Reserve Bank examiners should provide additional information to include categories for other transfer-risk problems and value-impaired assets. The format for this page or section will also require adjustments for U.S. addressees and non-U.S. addressees.

For banks with foreign activity, the distinction between U.S. and non-U.S. addressees follows the definition set forth in the instructions for the Call Report: whether a customer is U.S. or non-U.S. is determined by the customer's principal address, that is, by its domicile. A U.S. address would be in the 50 states of the United States, the District of Columbia, Puerto Rico, and U.S. territories and possessions. Non-U.S. addressees include all other geographic areas.

The examiner should list in the appropriate category the amounts of all credits classified due to transfer risk. The value of credits shown as value-impaired should be computed after deducting any allocated transfer-risk reserve established against an asset. In determining total classified assets, examiners should arrive at a net assets classified due to country risk. Examiners should identify any credits classified due to transfer risk that have received the same or more severe classification due to credit risk and are listed above in the summary of classified items due to credit risk. The sum of such assets should be listed in the appropriate column and then deducted to arrive at net assets classified due to country risk. For the purpose of this page or section, any credits classified as value-impaired for transfer-risk purposes should not be included in the summary of credits classified due to credit risk, unless the credits are classified loss.

For the purpose of arriving at total classified assets, add the amount classified due to credit risk to net assets classified due to transfer risk for each category. When computing weighted classifications, the residual portion of any value-impaired assets should be assigned the same weight as substandard classifications. However, the residual exposure still remains value-impaired for examination and classification purposes. Value-impaired assets held in the trading account should also be included in total classified assets but should not be considered classified assets when computing weighted classifications.

Summary of Items Listed as Special Mention

The Summary of Items Listed as Special Mention page or section presents the total of assets listed for special mention. The summary includes special-mention totals for the current and one previous examination. Assets listed for special mention are not included when computing classification ratios. Reserve Banks that are engaged in alternate examination programs should rely on the previous state examination's special-mention total when applicable.

Loans and Lease-Financing Receivables/ Past-Due and Nonaccrual Loans and Leases (Mandatory)

The examiner has the flexibility to use the same or different dates for the Loans and Lease-Financing Receivables and the Past-Due and Nonaccrual Loans and Leases schedules. The Loans and Lease-Financing Receivables schedule will usually be as of the most recent quarter-end. The Past-Due and Nonaccrual Loans and Leases schedule will usually be as of the asset-quality review date. Based on examination findings, the examiner-in-charge should determine if other "as of" dates best reflect the condition of the institution. For example, the Loans and Lease-Financing Receivables schedule may be presented as of the asset-quality review date if the examiner identifies significant changes since the last quarter-end that need to be incorporated.

The format of the Loans and Lease-Financing Receivables schedule is similar to that used in the Call Report. The definitions of the loan categories as contained in the Instructions for the Call Report should be used in completing the schedule. For examinations of banks engaged in international lending, Reserve Bank examiners should adjust the format of this schedule for U.S. addressees and non-U.S. addressees.

For examinations of banks engaged in international lending, Reserve Bank examiners should adjust the format of the Past-Due and Nonaccrual Loans and Leases schedule for U.S. addressees and non-U.S. addressees. The definitions of past-due and nonaccrual loans and leases as contained in the Instructions for the Call Report should be used in completing this schedule, unless the bank's policy is more conservative, in which case the bank's definition may be used. If so, or if state law requires the bank to apply different definitions, the examiner should discuss the bank's policy or state law in the Comments section following the past-due and nonaccrual schedule. The Memorandum section should include the amount of restructured loans and leases included in the totals. Relevant issues pertaining to past-due and nonaccrual loans and leases should be briefly discussed in the Comments section. More significant issues should be discussed on the Asset Quality page or section.

Management/Administration (Mandatory)

The report-page heading states that management is evaluated against all factors necessary to operate the institution in a safe and sound manner and in accordance with acceptable practices. Consideration is given to technical competence, leadership, and administrative ability; compliance with regulations and statutes; ability to plan and respond to changing circumstances; effectiveness of management information systems; tendencies toward self-dealing; demonstrated willingness to serve the legitimate banking needs of the community; and management depth and succession. In addition, consideration is given to the extent that management is affected by or susceptible to dominant influence or concentration of authority.

In preparation for making report comments, examiners should consider the following:

- the adequacy of supervision by the board of directors, including its role in establishing policies and its responsiveness to recommendations from auditors and supervisory authorities
- compliance with supervisory agreements
- compliance with banking laws and regulations
- management's timeliness in recognizing and resolving problems
- the adequacy of the institution's policies necessary to operate the bank in a safe and sound manner and in compliance with applicable statutes and regulations (Examiners should review the mechanism for formulating, approving, reviewing, and updating policies; determine if the policies are in writing and are properly communicated to all appropriate personnel; and determine if all policies are followed.)
- management's adherence to policies as established by the board of directors
- management information systems and controls used to monitor and control risks throughout the bank and ensure compliance with established policies, statutes, and regulations (Examiners should also address the adequacy of the overall internal accounting-control system and the audit function employed by the bank. Deficiencies in internal accounting-control systems and the audit function should be discussed in detail.)
- the adequacy and effectiveness of the planning function, including planning and budgeting and the role of management in each process
- the business strategy and policies and procedures for avoiding conflicts of interest
- significant findings and conclusions noted in specialty examinations (for example, trust, EDP, CRA, and consumer) conducted since the previous full-scope commercial examination
- management depth and succession
- the extent that the board of directors and management are affected by or susceptible to dominant influence or concentration of authority
- demonstrated willingness to serve the legitimate banking needs of the community

While topics in this section may appear to overlap with other areas of the report, the discussion in this section should focus on the role of the bank's directors, the bank's internal administration, management supervision and policy development, and management's adherence to operating policies and procedures. This section should not repeat financial assessments set forth elsewhere in the report.

Violations of Laws and Regulations (Mandatory)

The Violations of Laws and Regulations page or section should be included in every Federal Reserve examination; if there are no apparent violations, write "None." When violations of federal or state banking laws and regulations are found, they should be listed in detail on this page. Violations of the Bank Secrecy Act should also be listed on this page in detail.

The format for listing violations should be consistent. A heading for each violation listed should name the applicable regulation and section and provide a brief description of what the law covers. This should be followed by a brief description of the requirements of the regulation or statute and a discussion of how or why the violation occurred. The examiner should describe any plans or recommendations for correction. If a review of the Bank Secrecy Act is conducted separately, or as part of another examination, a statement to this fact should be included on the Other Matters page or section.

Earnings (Mandatory)

The exam-date column on the Earnings page or section should be prepared using information as of the same date as the exam date shown on the Comparative Statements of Financial Condition page or section. Ratios required on this page are available in the UBPR or may be calculated from the Call Report or the bank's records.

For this page or section, the examiner should address, at a minimum, the following:

- the level of earnings, including trends and stability
- the quality of earnings (for example, strength of the net interest margin, the amount of non-interest income and expense, reliance on unusual or nonrecurring gains or losses, and adequacy of provisions for loan losses)
- plans for correcting any earnings deficiencies
- the bank's budget and expense controls, such as management's earnings projections with regard to reasonableness of assumptions, actual results versus projections, and reasons for significant differences between projected and actual earnings
- the vulnerability of the bank's earnings to interest-rate and other risks (However, full discussion should be in the Liquidity/Asset Liability Management section of the report).
- the ability to provide for adequate capital through retained earnings

When assessing the quality of net income, the examiner should also consider the amount of interest accrued but not collected and other areas for possible overstatement of income. This amount may be reflected in other assets as income earned or not collected, or in the loan account as capitalized interest (interest added to the loan balance). The examiner should also consider the composition, reasonableness, and extent of management's control over operating expenses.

Analysis of Earnings (Mandatory)

The exam-date columns on the Analysis of Earnings page or section should be prepared using information as of the same date as the exam date shown on the Comparative Statements of Financial Condition page or section. The different sections of this page are described below:

Comparative Statement of Income (Institution Only or Consolidated)

Indicate whether this section is for the institution only or is consolidated. For the line item Other Increases/Decreases, reflect the period-to-period change in FASB 115 adjustments (gains/losses on available-for-sale securities).

Reconcilement of Allowance for Loan and Lease Losses

Information for reconcilement of the allowance for loan and lease losses (ALLL) is available from bank records or call reports. The December 31 Consolidated Report of Income for all banks includes a reconcilement of this account on Schedule RI-B (Part II).

Other Component Ratios and Trends

Ratios for this section can be obtained from information in the Call Report, the most recent UBPR, or bank records. The ratio Nonperforming/ALLL refers to noncurrent loans/ALLL as represented in the UBPR.

Liquidity/Asset Liability Management (Mandatory)

The Liquidity/Asset Liability Management page or section addresses both overall bank liquidity and balance-sheet interest-rate sensitivity. Liquidity refers to the ability to meet maturing obligations and commitments and incorporates considerations such as availability of funding and the degree of reliance on volatile or concentrated funding sources. Interest sensitivity considers the overall matching of rate sensitivities of assets and liabilities and the responsiveness of asset yields, interest expense, and interest margins to changes in market interest rates.

The examiner should consider the level and/or percentages of core and/or volatile deposits, including the composition and stability of deposits. In particular, the level of volatile deposits should be closely scrutinized, and the examiner should consider if the bank must pay premium rates to attract those funds. Volatile deposits are generally composed of certificates of deposit greater than $100,000 and brokered deposits. Report comments should thoroughly discuss the bank's use of brokered deposits and evaluate the compliance of brokered deposit activity with regulatory guidelines. Report comments should also consider deposit and other liability concentrations and the extent of the bank's reliance on those concentrations. The examiner should also consider vulnerability of the institution's funding to adverse publicity and lowered credit ratings.

The report should consider the level and types of liquid assets. These assets include cash and balances due from depository institutions, U.S. government and agency securities, federal funds sold, and securities purchased under agreements to resell. Liquid assets should be maintained at a sufficient level to cover maturing obligations and allow extended commitments to be fulfilled. The level of temporary investments (federal funds sold, securities purchased under agreement to resell, interest-bearing bank balances, trading-account assets, and debt securities with remaining maturities or earliest pricing opportunities of one year or less) should also be considered. The examiner should also keep in mind the percentage of the bank's securities that are pledged against liabilities and be mindful of whether they are available for sale as well as of any market appreciation or depreciation in the investment portfolio.

To further analyze liquidity, a history of the bank's borrowings, such as federal funds purchased and repurchase agreements, and excess funds sold since the previous examination should be considered. Also, consideration should be given to the bank's ability to obtain borrowings from outside sources, should that be consistent with the bank's funding strategy.

The examiner needs to consider the bank's interest-rate risk exposure. The examiner should assess how the bank is monitoring exposure, any weaknesses inherent in the bank's system, and management's plans to correct any inappropriately mismatched positions. The volume and impact of any derivative contracts should also be considered.

Examiners should assess the adequacy and reasonableness of the bank's policies regarding liquidity, interest-rate risk, and funding, as well as management's compliance with those policies. The examiner should also consider augmenting the discussion of the organization's liquidity and asset/liability management with gap information or other meaningful financial data presented in supporting schedules.

Sensitivity to Market Risk (Mandatory)

This section reflects the degree to which changes in interest rates, foreign-exchange rates, commodity prices, or equity prices can affect a bank's earnings or economic capital. When evaluating, the examiner should consider management's ability to identify, measure, monitor, and control market risk; the bank's size and the nature and complexity of its activities; and the adequacy of the bank's capital and earnings in relation to its level of market-risk exposure.

For many banks, the primary source of market risk arises from nontrading position and their sensitivity to changes in interest rates. In some larger banks, foreign operations can be a significant source of market risk. For some banks, trading activities are a major source of market risk. To analyze a bank's market risk, an assessment of the following evaluation factors should be made:

- the sensitivity of the bank's earnings or the economic value of its capital to adverse changes in interest rates, foreign-exchange rates, commodity prices, or equity prices
- the ability of management to identify, measure, monitor, and control exposure to market risk, given the bank's size, complexity, and risk profile
- the nature and complexity of interest-rate risk exposure arising from nontrading positions
- where appropriate, the nature and complexity of market-risk exposure arising from trading and foreign operations

Other Matters (Optional)

Examiners should use the Other Matters report page or section to discuss other significant issues that have not been mentioned elsewhere in the report or significant matters mentioned elsewhere that require further explanation, such as the type, scope, and volume of any new activity in which the bank is engaged. Examiners should use this report page to make comments on the following specific areas if issues or concerns are noted:

- accounting, audit, and internal controls
- affiliate relationships
- criminal referral procedures
- emergency preparedness
- financial recordkeeping and reporting regulations
- insurance
- investment in bank premises
- litigation
- security and controls against external crimes
- payments system risk
- nontraditional banking activities (for example, mortgage warehousing or data processing services)
- supervisory reporting
- nondeposit investment products

Other examination matters may also warrant comments on this report page.

Concentrations (Optional)

The Concentrations report page or section is to be used only when concentrations are noted. A brief paragraph at the beginning of the page or section should be included to inform the reader that the listing is generally for informational purposes and does not necessarily represent criticism unless otherwise specifically stated. This paragraph should also mention that a concentration includes obligations, direct or indirect, of the same or affiliated interests that represent 25 percent or more of the bank's capital structure. The reader should also be informed that, for the purposes of this page, the capital structure is defined as tier 1 capital plus the allowance for loan and lease losses.

When determining and calculating concentrations, the amount of loan commitments and other off-balance-sheet risk items should be considered. The listing should include all types of loans, overdrafts, cash items, suspense resources, securities, leases, acceptances, advances, letters of credit, and all other items due to the bank, as well as loans endorsed, guaranteed, or cosigned by related individuals and their related interests.

Concentrations by industry, transfer risk, product line, type of collateral, and others are detailed where appropriate. The listing also includes amounts due from depository institutions, federal funds sold, and other assets where payment is dependent on one financial institution or affiliated group and the total represents 25 percent or more of the bank's capital structure. Treasury securities, obligations of U.S. government agencies and corporations, and any assets collateralized by these items are not included in the listing. The requirements of Regulation F should also be considered as they relate to concentrations involving correspondent banks. See sections 2015.1, 2015.2, 2015.3, and 2015.4.

Items Subject to Adverse Classification (Optional)

The Items Subject to Adverse Classification page is to be included in the report if any items are subject to adverse classification. The page or section should include all assets that are classified but should not include assets listed for special mention. However, for examinations of banks that are involved in international lending, Reserve Banks should develop supporting pages to address exposures warranting special comment, other transfer-risk problems, and value-impaired credits. This page or section should be used by examiners for the individual write-ups for assets subject to classification, including any off-balance-sheet items. It should also be used to list assets subject to classification that do not require write-ups. Assets specially mentioned should be included on the page titled Items Listed for Special Mention.

Requirements for loan write-ups presented on this page are found in section 2060, "Classification of Credits." Examiners should rely on the definitions of substandard, doubtful, and loss, as defined in this section, when classifying assets.

Items Listed for Special Mention (Optional)

The Items Listed for Special Mention page or section is to be used if any items are listed for special mention. Any assets so listed should meet the definition of special mention found in the "Classification of Credits" section of this manual. Specially mentioned assets must be written up if they exceed the loan review cutoff amount and if the bank's management disagrees with the examiner's findings with regard to the asset. Specially mentioned assets are not to be referred to as "criticized assets." Write-up guidelines for specially mentioned assets are the same as those for classified assets enumerated in the "Classification of Credits" section of this manual.

Assets with Credit-Data or Collateral-Documentation Exceptions (Optional)

The Assets with Credit-Data or Collateral-Documentation Exceptions page or section should be included in the report if a significant volume of documentation exceptions is noted. If credit-data or collateral-documentation exceptions are significant, this page or section should support a discussion of credit-documentation practices on the Asset Quality page or section. In addition to the six common documentation exceptions listed, the illustrated page heading includes space to list other exceptions noted at a particular examination.

Examiners should refrain from listing in this section any loans that bank management has elected to identify as exempt from certain documentation requirements under the March 10, 1993, Interagency Policy Statement on Documentation of Loans to Small and Medium-Sized Businesses and Farms or any other applicable guidelines. See SR-93-30 and its attachments and FRRS at 3-1511. The policy statement is intended to eliminate unnecessary documentation on small and medium-sized business and farm loans for institutions that are highly rated and that are well or adequately capitalized. Under the provisions of the policy statement, these institutions are allowed to identify, within certain limits, an "exempt portion" of their small and medium-sized business and farm-loan portfolios that examiners are to evaluate solely on performance and are exempt from examiner criticism of documentation. With regard to the applicability of the policy statement to the activities of U.S. branches and agencies of foreign banks, see SR-93-26.

Signature of Directors (Mandatory)

The Signature of Directors report page is to be signed by the directors of the bank upon receipt of the completed report and retained in the bank's records for review by examiners during subsequent examinations.

Confidential Section—Directors (Mandatory)

The Confidential Section—Directors should list all bank directors in alphabetical order. If the bank elects advisory directors, they should be listed alphabetically under a separate heading.

Information requested in the illustrated report-page or section header should be supplied for each director. Specific instructions for certain requested information is as follows:

- Under meetings missed, include all meetings a director has not attended between the previous (FRB or state) and current examination. If a director was elected since the previous examination, only list the number of meetings that he or she missed since the date of election.
- Under fees paid to each director, indicate whether the compensation is based on attendance.
- Under occupation or principal business affiliation, use concise and descriptive designations (for example, farmer, grocer, commercial real estate development).

For banks with active board committees, a code or legend for all committees should be prepared, indicating committee memberships for each director.

Confidential Section—Executive Officers (Mandatory)

The Confidential Section—Executive Officers page or section employs the Regulation O definition of executive officers, but other significant officers may be included at the discretion of the examiner. Information requested by the report page should be supplied.

Additional individuals to be reported may include persons without official designation that exercise considerable influence or executive officers excluded from the Regulation O definition by board resolution who actually maintain a high level of responsibility. Officers should be listed in order of title or position of responsibility, with dominant individuals shown first. Specific instructions for this requested information is as follows:

- Examples of areas of responsibility include administration, policy formulation, lending, operations, or branch manager.
- Salary should indicate the current annual salary, and bonus should show total bonuses for the previous year.

If executive officers receive any other pertinent forms of compensation beyond their listed salary and bonus (such as commission-based pay, employment contracts, stock options, unusually large benefits and insurance policies or other personal benefit programs, or affiliated bank salaries and fees), these should be discussed in a narrative format below the listing of executive officers or on a separate page.

Confidential Section—Management and Control (Mandatory)

The examiner should respond to each listed question included or illustrated on the Confidential Section—found on the Management and Control page or section. The following instructions are keyed to respective question numbers:

1—Generally, the examiner's assessment of management should be fully discussed in the open section of the report; however, this question provides a forum to discuss any supervisory matter regarding management that clearly requires confidential treatment.

2—Each principal shareholder's ability and willingness to offer support to a weakened bank should be assessed. Any other potential forms of support, such as a parent company, other affiliate, or third party desiring to acquire this bank should also be identified. The possibility or likelihood of forthcoming support should also be addressed.

3(a)—Each major shareholder of the bank should be listed, with footnotes for any indirect control, such as control over spousal or family trust shares. Finally, any special control arrangements, such as buy-sell agreements or control-group structures, should be noted.

3(b)—The degree of control or influence exercised by any one individual or group of individuals should be discussed and include an indication of whether this influence has been positive or detrimental to the bank.

3(c)—In addition to any abusive practices that should be discussed here, such as self-dealing, any other problems, such as weak or unsatisfactory management or other relevant factors, should be addressed.

3(d)—The volume of insider borrowings and the impact of those transactions on the bank should be commented on. If the bank is using the Regulation O small-bank exception regarding aggregate insider borrowings (see section 215.4(d)(2) of Regulation O (12 CFR 225.4(d)(2)—member banks with deposits of less than $100,000,000), it should be noted, including the presence of the required board resolution sanctioning that level.

4—Any filing of a Suspicious Activity Report form or any bond claim relating to insiders should be commented on. The examiner is to explain why legal authorities have not been informed of possible criminal activity.

Confidential Section—Ratings and General Information (Mandatory)

The examiner should respond to each question included or illustrated in the Confidential Section—Ratings and General Information page or section. The following instructions are keyed to the respective question numbers:

2—Items for possible discussion include the bank's trade area, major employers or primary industries, the area's economic condition and trend, and the bank's ability to operate satisfactorily within this environment. Other discussion topics could include competition, expansion plans, and strategic direction.

5—Individuals with Central Point of Contact (CPC) or EIC responsibilities should be listed, with primary work areas shown for all other examiners (that is, loans or operations). For joint examinations, the agency for non-FRB examiners should be listed. If an examiner was in training and required significant assistance, that person should be designated as a trainee.

COMMERCIAL BANK REPORT OF EXAMINATION

NAME OF BANK	STREET	CITY
COUNTY	STATE	ZIP CODE
________ JOINT	________ CONCURRENT	________ INDEPENDENT

TABLE OF CONTENTS

Dollar amounts are in thousands unless otherwise indicated.
* Mandatory
** Optional pages, per interagency guidelines, become mandatory if the material is appropriate.

EXAMINATION CONCLUSIONS AND COMMENTS

Uniform Financial Institutions Rating System

	Current Exam	*Prior Exam*	*Prior Exam*
Exam date:			
Composite rating:			
Component ratings:			
Capital			
Asset Quality			
Management			
Earnings			
Liquidity			
Sensitivity to Market Risk			

Examiner-in-Charge ______________________________

Additional Sign-Off ______________________________

COMPARATIVE STATEMENTS OF FINANCIAL CONDITION
(Institution only or consolidated)

(Amounts reported in thousands)

	Exam Date	*Period Ended*
ASSETS		
Total loans and leases		
Less: allowance for loan and lease losses		
Loans and leases (net)		
Interest-bearing balances		
Federal funds sold		
Securities purchased under agreements to resell		
Trading-account assets		
Securities		
Total earning assets		
Cash and non-interest-bearing balances		
Premises and fixed assets		
Other real estate owned		
Intangibles		
Other assets		
Total assets		
LIABILITIES		
Deposits		
Federal funds purchased		
Securities sold under agreements to repurchase		
Other borrowed money		
Other liabilities		
Subordinated notes and debentures		
Total liabilities		
EQUITY CAPITAL		
Perpetual preferred stock		
Common equity capital		
Other equity capital		
Total equity capital		
Total liabilities and capital		
OFF-BALANCE-SHEET ITEMS		
Unused loan commitments		
Letters of credit		
Interest-rate contracts		
Other off-balance-sheet items		

CAPITAL ADEQUACY

Capital adequacy is evaluated in relation to supervisory guidelines, the nature and extent of risks to the organization, and the ability of management to address these risks. Consideration is given to the level and quality of capital and the overall financial condition of the bank; the nature, trend, and volume of problem assets and the adequacy of the allowance for loan and lease losses and other valuation reserves; risk exposures presented by off-balance-sheet activities; the quality and strength of earnings; balance-sheet composition, including the nature and amount of intangible assets, market risk, concentration risk, and nontraditional activity risk; growth experiences, plans, and prospects; the reasonableness of dividends; access to capital markets and other appropriate sources of financial assistance; and the ability of management to address emerging needs for additional capital.

Component Rating X

CAPITAL RATIOS AND TRENDS

Ratio	*Exam Date*	*Period Ended*	*Period Ended*
Total risk-based capital/ risk-weighted assets	%	%	%
Tier 1 risk-based capital/ risk-weighted assets	%	%	%
Tier 1 leverage capital/ average total assets	%	%	%
Tangible equity capital/ average total assets	%	%	%
Capital category			

CAPITAL CALCULATIONS

	$(000's)	*Date*
Tier 1 Capital		
Common stock		
Surplus		
Undivided profits and capital reserves		
Foreign-currency-translation adjustments		
Noncumulative perpetual preferred stock and surplus		
Minority interests		
Subtotal: tier 1 capital elements		
Less:		
Ineligible intangibles		
Other adjustments		
Tier 1 capital		
Tier 2 Capital		
Allowance for loan and lease losses*		
Mandatory convertible debt		
Agricultural loss deferral		
Cumulative perpetual preferred stock		
Subordinated debt		
Other		
Tier 2 capital (not to exceed 100% of tier 1 capital)		
Total Capital		
Tier 1 plus tier 2 capital		
Less: deductions		
Total capital		
Risk-Weighted Assets Calculation		
Risk-weighted balance-sheet assets		
Risk-weighted off-balance-sheet items		
Less: risk-weighted amounts deducted from capital		
Gross risk-weighted assets		
Less: excess ALLL and ATRR		
Total risk-weighted assets		
Adjusted total assets		
Less: amounts deducted from tier 1 capital		
Adjusted average total assets		

* Limited to a maximum of 1.25 percent of gross risk-weighted assets.

ASSET QUALITY

Asset quality is evaluated in relation to the level, distribution, severity, and trend of problem, classified, delinquent, nonaccrual, nonperforming, and restructured assets, both on- and off-balance-sheet; the adequacy of the allowance for loan and lease losses and other valuation reserves; the demonstrated ability to identify, administer, and collect problem assets; the diversification and quality of loan and investment portfolios; the adequacy of loan and investment policies, procedures, and practices; the extent of securities underwriting activities and exposure to counterparties in trading activities; credit risk arising from or reduced by off-balance-sheet transactions; asset concentrations; the volume and nature of documentation exceptions; and the effectiveness of credit-administration procedures, underwriting standards, risk-identification practices, controls, and management information systems.

Component Rating X

ASSET-QUALITY RATIOS AND TRENDS

Ratio	*Exam Date*	*Prior Exam*	*Prior Exam*
Total adversely classified items/ tier 1 capital + allowance	%	%	%
Total adversely classified assets/ total assets	%	%	%
Past-due and nonaccrual loans and leases/ gross loans and leases	%	%	%
Weighted adversely classified items/ tier 1 capital + allowance	%	%	%

SUMMARY OF ITEMS SUBJECT TO ADVERSE CLASSIFICATION/ SUMMARY OF ITEMS LISTED AS SPECIAL MENTION

	Adversely Classified			
Asset Category	*Substandard*	*Doubtful*	*Loss*	*Total*
Loans/leases				
Securities				
Other real estate owned				
Other assets				
Totals at this exam (MM/DD/YY)				
Totals at prior exam (MM/DD/YY)				

SUMMARY OF ITEMS LISTED AS SPECIAL MENTION

	Exam Date	*Prior Exam*
Loans/leases		

LOANS AND LEASE-FINANCING RECEIVABLES

Date ________

Category	*Amount*	*Percent*
Real estate loans		
Installment loans		
Credit card and related plans		
Commercial loans		
All other loans and leases		
Gross loans and leases		

PAST-DUE AND NONACCRUAL LOANS AND LEASES

Date ________

Category	*Past Due 30 through 89 Days*	*Past Due 90 Days or More*	*Total Past-Due and Accruing*	*Percent*	*Non-accrual*	*Percent*
Real estate loans						
Installment loans						
Credit card and related plans						
Commercial and all other loans						
Totals						
MEMORANDUM						
"Restructured" loans and leases included in the above totals:						

COMMENTS

MANAGEMENT/ADMINISTRATION

Management and the board of directors are evaluated against all factors necessary to operate the institution in a safe and sound manner and their ability to identify, measure, monitor, and control the risks of the institution's activities. Consideration is given to the level and quality of oversight and support provided by management and the board; compliance with regulations and statutes; the ability to plan for and respond to risks that may arise from changing business conditions or initiation of new products or services; the accuracy, timeliness, and effectiveness of management information and risk-monitoring systems; the adequacy of and compliance with internal policies and controls; the adequacy of audit and internal control systems; the responsiveness to recommendations from auditors and supervisory authorities; the reasonableness of compensation policies and avoidance of self-dealing; a demonstrated understanding and willingness to serve the legitimate banking needs of the community; management depth and succession; the extent that management is affected by or susceptible to dominant influence or concentration of authority; and the overall performance of the institution and its risk profile.

Component Rating X

EARNINGS

Quality and quantity of earnings are evaluated in relation to the ability to provide for adequate capital through retained earnings; level, trend, and stability of earnings; quality and sources of earnings; level of expenses in relation to operations; vulnerability of earnings to market-risk exposures; adequacy of provisions to the allowance for loan and lease losses and other valuation reserves; reliance on unusual or nonrecurring gains or losses; contribution of extraordinary items, securities transactions, and tax effects to net income; and adequacy of budgeting systems, forecasting processes, and management information systems.

Component Rating X

COMPONENT RATIOS AND TRENDS

Ratio	*Exam Date*	*Period Ended*	*Period Ended*
Net income (after tax)/average assets	%	%	%
Net operating income (after tax)/ average assets	%	%	%

ANALYSIS OF EARNINGS

Comparative Statement of Income (Institution Only or Consolidated)

	Exam Date	*Period Ended*
Interest income		
Interest expense		
Net interest income		
Non-interest income		
Total non-interest expense		
Provision for loan & lease losses		
Provision for allocated transfer risk		
Securities gains (losses)		
Net operating income (pre-tax)		
Applicable income taxes		
Net operating income (after-tax)		
Extraordinary credits (charges), net		
Net income		
Other increases/decreases		
Cash dividends		
Net change in equity accounts		

Reconcilement of Allowance for Loan and Lease Losses

	Exam Date	*Period Ended*
Beginning balance		
Gross loan and lease losses		
Recoveries		
Provision for loan and lease losses		
Other increases (decreases)		
Ending balance		

Other Component Ratios and Trends

Ratio	*Exam Date*	*Period Ended*	*Period Ended*
Net interest income (TE)/average earning assets			
Total non-interest expense/average assets			
Net income/average total equity			
Net losses/average total loans and leases			
Earnings coverage of net losses (X)			
ALLL/total loans and leases			
Nonperforming/ALLL			

LIQUIDITY/ASSET LIABILITY MANAGEMENT

Liquidity and asset/liability management is evaluated in relation to the trend and stability of deposits; degree and reliance on short-term, volatile sources of funds, including any undue reliance on borrowings or brokered deposits to fund longer-term assets; availability of assets readily convertible to cash without undue loss; availability to securitize and sell certain pools of assets; access to money markets and other sources of funding; adequacy of liquidity sources and ability to meet liquidity needs; effectiveness of liquidity policies and practices, funds-management strategies, management information systems, and contingency-funding plans; capability of management to properly identify, measure, monitor, and control liquidity; and level of diversification of funding sources, both on- and off-balance-sheet.

Component Rating X

SENSITIVITY TO MARKET RISK

Sensitivity to market risk reflects the degree to which changes in interest rates, foreign-exchange rates, commodity prices, or equity prices can adversely affect earnings or the economic value of capital; the ability of management to identify, measure, monitor, and control exposures to market risk given the bank's size, complexity, and risk profile; the nature and complexity of interest-rate risk arising from nontrading positions; and, where appropriate, the nature and complexity of interest-rate risk arising from trading and foreign operations.

Component Rating X

ITEMS SUBJECT TO ADVERSE CLASSIFICATION

Includes assets and off-balance-sheet items which are detailed in the following categories:

Substandard Assets—A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful Assets—An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss Assets—An asset classified loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future. Amounts classified loss should be promptly charged off.

	Classification Category		
Amounts, Description, and Comments	*Substandard*	*Doubtful*	*Loss*

ITEMS LISTED FOR SPECIAL MENTION

Includes assets that are detailed as follows:

Special-Mention Assets—A special-mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special-mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Description	*Amount*

ASSETS WITH CREDIT-DATA OR COLLATERAL-DOCUMENTATION EXCEPTIONS

Includes assets with technical defects not corrected during the examination for which deficiency the appropriate number or description is noted in the Deficiency column.

1—Appraisal	5—Insurance
2—Title Search or Legal Opinion	6—Collateral Assignment
3—Borrowing Authorization	7—
4—Recordation	8—

Name or Description	*Amount*	*Date of Most Recent Financial Statement*	*Deficiency Number(s) or Description*

SIGNATURE OF DIRECTORS

We, the undersigned directors of ______________________________, have personally reviewed the contents of the report of examination dated __________________________.

Signature of Directors	*Date*
______________________________	______________________________
______________________________	______________________________
______________________________	______________________________
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NOTE: This form should remain attached to the Report of Examination and be retained in the institution's file for review during subsequent examinations. The signature of committee members will suffice only if the committee includes outside directors and a resolution has been passed by the full board delegating the review to such committee.

CONFIDENTIAL SECTION
DIRECTORS

Name	*	*Year of Birth*	*Year Elected to Board*	*Occupation or Principal Business Affiliation*

* Number of meetings missed of a total of _________ held since the previous examination.

Regular schedule of directors' meetings:

Fee paid each director:

CONFIDENTIAL SECTION
EXECUTIVE OFFICERS

Name and Title	*Area of Responsi-bility*	*Year of Birth*	*Years with Bank*	*Years in Present Position*	*Compen-sation (Bonus)*

CONFIDENTIAL SECTION
MANAGEMENT AND CONTROL

1. DISCUSS ANY OTHER RELEVANT MATTERS REGARDING THE BANK'S MANAGEMENT NOT PREVIOUSLY ADDRESSED.

2. IF THE BANK IS IN A WEAKENED OR EXTENDED CONDITION, WHAT AID MAY BE EXPECTED FROM SHAREHOLDERS OR OTHERS?

3. (A) LIST EACH MAJOR SHAREHOLDER (5 PERCENT OR MORE) OF THE BANK AND THE RESPECTIVE PERCENTAGE OF OWNERSHIP. WHEN THE MAJOR SHAREHOLDER IS A BANK HOLDING COMPANY, LIST ITS MAJOR SHAREHOLDERS AND THE PERCENT CONTROLLED.

Shareholders	*Percentage Owned*

(B) COMMENT ON THE EXTENT TO WHICH A PARTICULAR DIRECTOR(S), SHAREHOLDER(S), OR EXECUTIVE OFFICER(S) CONTROLS OR DOMINATES THE BANK'S POLICIES AND OPERATIONS.

(C) COMMENT ON ANY ADVERSE EFFECTS OF INSIDERS ON OPERATING POLICIES, PROCEDURES, OR OVERALL FINANCIAL CONDITION OF THE BANK.

(D) PROVIDE THE AGGREGATE AMOUNT OF BORROWINGS BY DIRECTORS, EXECUTIVE OFFICERS, PRINCIPAL SHAREHOLDERS, AND THEIR RELATED INTERESTS (AS DEFINED IN REGULATION O). DESCRIBE ANY MATERIAL LOANS OR OTHER TRANSACTIONS BETWEEN THE BANK AND ITS EXECUTIVE OFFICERS, DIRECTORS, OR ITS DIRECT OR INDIRECT PRINCIPAL SHAREHOLDER(S) AND THEIR INTEREST(S), AND ASSESS THE IMPACT OF THE TRANSACTIONS ON THE BANK. (AN INTEREST WOULD INCLUDE ANY HOLDING COMPANY AFFILIATE OR OUTSIDE BUSINESS INTEREST OR A BANK OR HOLDING COMPANY INSIDER IN WHICH 25 PERCENT OR MORE IS CONTROLLED.)

4. HAS ANY DIRECTOR, OFFICER, OR EMPLOYEE ALLEGEDLY EMBEZZLED, ABSTRACTED, OR OTHERWISE CRIMINALLY MISUSED THE FUNDS OF THE BANK SINCE THE PREVIOUS EXAMINATION? IF SO, HAVE PROPER AUTHORITIES BEEN NOTIFIED? IF PROPER AUTHORITIES HAVE NOT BEEN NOTIFIED, EXPLAIN WHY.

CONFIDENTIAL SECTION
RATING AND GENERAL INFORMATION

1. STATE THE BANK'S RATING AT THIS EXAMINATION AND THE DATE OF AND RATING AT THE LAST EXAMINATION. BRIEFLY DISCUSS THE RATIONALE FOR THE RATING AND REASONS FOR ANY DEPARTURES FROM FEDERAL RESERVE IMPLEMENTING GUIDELINES WITH RESPECT TO THE CAMELS COMPONENT RATINGS AND THE COMPOSITE RATING.

2. DISCUSS PROSPECTS OF THE BANK.

3. WAS A MEETING HELD WITH THE FULL BOARD OF DIRECTORS TO DISCUSS MATTERS SUBJECT TO CRITICISM? IF NOT, GIVE NAMES OF DIRECTORS AND OFFICERS WITH WHOM THE BANK'S CONDITION WAS DISCUSSED.

4. PROVIDE THE COMPOSITE RATINGS AND DATES OF THE MOST RECENT BANK SPECIALTY EXAMINATIONS (EDP, TRUST, CONSUMER, CRA) AND BANK HOLDING COMPANY INSPECTION, IF APPLICABLE. IF ANY SPECIALTY EXAMINATION OR INSPECTION RESULTED IN A PROBLEM RATING, DISCUSS ANY ADVERSE IMPACT OF THOSE PARTICULAR WEAKNESSES ON THE OVERALL SAFETY AND SOUNDNESS OF THE BANK.

Bank Specialty Examinations	Date	Rating

5. INDICATE THE NUMBER OF FEDERAL RESERVE EXAMINER DAYS TO COMPLETE THE PRE-EXAMINATION, ON-SITE, AND POST-EXAMINATION WORK.

Name	On Premises	Off Premises

Examiner

Developments in technology, the expansion of financial services, and a risk-focused approach to examinations necessitate an increased flexibility in structuring and organizing the content of community bank examination reports. The reporting format for community bank examinations has been revised to focus more on "content." The format allows examiners to use certain content headings, which follow a continuous-flow reporting format, and to use certain required report pages. The community bank examination report format may, however, continue to consist of specific or individual report "pages."

The community bank reporting instructions distinguish between *mandatory* content (when the bank's condition or circumstances warrant) versus *optional* content. The examiner thus has discretion in the arrangement of certain content. This guidance applies *only* to the preparation of community bank examination reports. See SR-01-19. However, for examination (and inspections) of community banking organizations rated "4" or "5," examiners may use a letter-format report provided all mandatory and any applicable optional information is in the report. (See SR-13-10 and section 6005.1.)

Subject to certain limitations, the examiner may customize and streamline the community bank examination report to better focus the examination's findings on matters of risk and importance to the bank's overall financial condition. The revised format for the community bank examination report and its instructions should strengthen communications with the bank's board of directors and senior management and minimize reporting burden. The report incorporates the specialty examination's findings with the overall safety-and-soundness findings, thus culminating in a more comprehensive safety-and-soundness assessment.

The scope and depth of matters discussed under a content heading or on an examination report page, whether required or optional, will vary based on the issues and areas of concern presented, as well as on their severity. A more abbreviated discussion may be warranted for community banks that are found to be in sound financial condition, with no material concerns or issues. All examination reports should contain sufficient documentation to support any significant findings, issues, supervisory conclusions, and examiner recommendations.

The following table lists, in their required order, the content headings or report pages of the open and confidential sections of the community bank examination report.

Community Bank Examination Report Content

Mandatory/ optional	*Required report page or section heading*
	OPEN SECTION
Mandatory	Cover Page *(Separate page required.)*
Mandatory	Table of Contents *(Separate page required.)*
Mandatory	Scope *(Combined or separate page.)*
Mandatory	Matters Requiring Board Attention and Examination Conclusions and Comments *(Combined with the Scope or a separate page.)*
Optional*	Compliance with Enforcement Actions
The order of the following is at the examiner's discretion.	
Mandatory	Management/Administration and Risk Management *(Separate section required.)*
Optional	Risk Assessment Matrix
Mandatory	Analysis of Financial Factors *(Separate section required.*)
	Capital Adequacy
	Asset Quality
	Earnings
	Liquidity
	Sensitivity to Market Risk

Other optional and mandatory pages or sections:

Optional*	Information Technology Assessment
Optional*	Fiduciary Activities Assessment
Mandatory	Summary of Items Subject to Adverse Classification/Summary of Items Listed as Special Mention
Optional	Loans and Lease-Financing Receivables/Past-Due and Nonaccrual Loans and Leases
Optional*	Items Subject to Adverse Classification
Optional*	Items Listed for Special Mention
Optional*	Assets with Credit-Data or Collateral-Documentation Exceptions
Optional*	Concentrations
Optional*	Violations of Laws and Regulations
Optional	Other Matters
Mandatory	Comparative Statement of Financial Condition
Mandatory	Comparative Statement of Income
Optional*	Capital Calculations
	The capital calculations are optional. *However, they may be mandatory if* (1) the bank has a financial subsidiary within the meaning of the Gramm-Leach-Bliley Act, (2) there is a change in the capital category as a result of the examination, or (3) the ratios supporting the capital category in the examination are not derived from the bank's Call Report as of the same date. Exception 3 could occur if the examination ratios were calculated at a date other than a quarter-end or, if calculated at quarter-end, the numbers were adjusted or changed from those filed in the Call Report.
Optional	Other Financial Pages *(At the examiner's discretion, other financial pages may alternatively be included in an appendix to the report or in the confidential section.)*
Mandatory	Signature of Directors *(A separate page is required. The signature page should be the last page in the report.)*

CONFIDENTIAL SECTION

The order of the following is at the examiner's discretion.

Mandatory	Directors and Officers
Mandatory	General Information

* Indicates optional pages that are mandatory if circumstances relevant to the page apply.

COMMUNITY BANK EXAMINATION REPORT INSTRUCTIONS

Open Section

Content Heading or Report Page Title

Cover page. A separate cover page is mandatory.

Table of contents. A separate table of contents page is mandatory. The table of contents indicates the pages included in the report. All mandatory pages are to be included in each examination report. Optional pages are added as necessary. The mandatory Signature of Directors page is the last page in the open section of the report. Additional supplemental pages may be added to the report at the examiner's discretion.

Page numbers should be included for completeness. The page-numbering system may vary among Reserve Banks.

Scope

The Scope content heading or report page is mandatory. It may be a *combined* content heading or a *separate* report page. The scope should include the examiner's comments on examination depth, scope, and procedures performed for each area of review, including any specialty areas. The examination's scope should generally address the following:

- the date of examination (commencement and conclusion)
- the type of examination (full-scope, targeted, joint, concurrent, combined (bank and bank holding company))
- the agency or agencies conducting the community bank examination
- areas reviewed and analyzed (If the examination is targeted, the examiner should identify specific areas reviewed.)
- the percentage and type of loans reviewed, if any
- a confirmation that examination results were discussed with the organization, including a list of those who attended the meeting
- identification of the bank's peer group
- if necessary, recognition that the bank is operating under a formal or informal supervisory action (If so, state that the provisions of the action were reviewed and compliance was assessed.)

Matters Requiring Board Attention, and Examination Conclusions and Comments

The content heading or report page is mandatory. The content of the heading or page may be combined with the Scope content heading, or it may be in the form of a separate report page. This section of the examination report informs the bank's board of directors of the most significant and most important supervisory issues or concerns identified during the examination as well as the examination's general conclusions—a summary of the most important findings. The Matters Requiring Board Attention content heading or report page is intended to complement the complete findings of the Report of Examination and is prepared for the use of the board of directors and the bank's management. The focus should be on identified problems, rather than on strengths of the organization. Problems should be presented succinctly and unmistakably clearly. In all cases, the types of actions to be taken by the directors and management to address these problems should be specifically noted.

All supervisory ratings assigned during the examination and for the two previous examinations should be provided. The board of directors and senior management of an institution that is rated a composite 4 or 5 are to be informed that the bank is a problem institution that warrants special supervisory attention. The board of directors and senior management of banks that are rated composite 3 are to be informed that their condition is not satisfactory, that the bank may be subject to more-than-normal supervision, and that the cited supervisory issues and areas of concerns may cause their bank to be considered a problem institution if the weaknesses are not promptly and adequately addressed. This content heading or report page should also discuss significant weaknesses in 1- or 2-rated institutions, and a brief summary of the bank's condition should be provided. Include any specialty or targeted examination ratings assigned or other assessments, including findings from other on-site visits during the recent Federal Reserve examination cycle. In all cases, a concluding statement should be provided that reminds the directorate of its responsibility to review the entire Report of Examination. The report should instruct each director to sign the Signature of Directors page.

The supervisory ratings should be followed by the uniform definition of the assigned composite rating. The uniform definitions of the component ratings assigned need not be included in reports; they should, however, be made available to the board of directors and management on request. This content heading or report page should summarize examination findings, particularly those of significance. The examiner should also provide an overview of the bank's financial condition. The examiner's major recommendations and management's plans for corrective actions should also be covered in appropriate detail, with references to additional supporting information elsewhere in the report. All comments should be presented in order of importance. Comments should be provided primarily on an exception basis; that is, they should describe areas of the bank's operations and aspects of its financial condition that display weaknesses, deficiencies, or vulnerability. However, the examiner is not precluded from recognizing positive actions taken by management. Laudatory or conclusive remarks and endorsements of specific management actions, however, should be avoided.

Significant recommendations presented elsewhere in the report should be mentioned. Significant violations should also be discussed briefly, but they should be presented in greater detail under the content heading or the report page for Violations of Laws and Regulations.

Compliance with Enforcement Actions

The content heading or report page is optional.

The order of the following headings or pages is at the examiner's discretion.

Management/Administration and Risk Management

The content heading or report page is mandatory. A separate section is required. The reported information under this content heading should always include (1) the risk-management numerical rating; (2) the mandatory discussion of the risk factors—types of risk (that is, credit risk, market risk, liquidity risk, operational risk, legal risk, and reputational risk); (3) the adequacy of risk management associated with risk levels and risk trends; and (4) the impact of specialty examination areas on relevant risk areas. The fourth item, for example, might consist of a discussion of the impact of any information technology concerns on operational and other relevant risks, what impact any findings on fiduciary activities have on legal or other risks, or compliance concerns.

Within this section of the report, management and the board of directors are to be evaluated against all factors necessary to operate the institution in a safe and sound manner and on their ability to identify, measure, monitor, and control the risks of the institution's activities. Consideration is given to (1) the level, quality, and adequacy of supervisory oversight and support provided by the board of directors and senior management; (2) compliance with banking and other statutes, regulations, and supervisory agreements; (3) the ability to plan for and respond to risks that may arise from changing business conditions or the initiation of a new product or service; (4) the accuracy, timeliness, and effectiveness of management information and risk-monitoring systems used to control risks throughout the bank; (5) the adequacy and level of compliance with the board of directors policies and procedures and the bank's other internal policies and controls that are necessary to operate the bank in a safe and sound manner; (6) the adequacy of internal accounting control systems, the bank's audits and audit function, and the bank's internal control systems (discuss all of these in detail); (7) the responsiveness to recommendations from auditors and supervisory authorities; (8) the reasonableness of compensation policies and avoidance of, or tendency toward, self-dealing; (9) the business strategy and policies and procedures for avoiding conflicts of interests; (10) a demonstrated understanding and willingness to serve the legitimate banking needs of the community; (11) the institution's management depth and succession; (12) the extent that management is affected by or is susceptible to dominant influence or concentration of authority; and (13) the overall risk profile and performance of the institution. See SR-95-51 and SR-16-11 for specific guidance on rating the adequacy of risk-management processes and internal controls.

Provide the risk-management rating and discuss the risk factors and the adequacy of risk management associated with the risk levels and risk trends. Also discuss the impact of specialty areas on relevant risk areas. For example, discuss the impact of any information technology concerns on operational and other relevant risks, as well as what impact any findings on fiduciary activities or compliance concerns have on legal and other risks. The section should discuss the management and risk-management analysis and "R" rating assignment for the bank holding company RFI/C(D) rating, as well as the examiner's risk management-conclusions about the bank holding company.

Risk Assessment Matrix

The inclusion of a risk matrix is optional under the Management/Administration and Risk Management content heading. A risk assessment matrix may be included either in the Management/Administration and Risk Management section or in the Examination Conclusions and Comments section, if appropriate. If not included in the open section of the report, the risk assessment matrix must be included in the confidential section of the report. The following is an example illustration:

Risk Assessment Matrix

Type of risk	*Inherent risk*	*Adequacy of risk management*	*Composite risk*	*Trend*
Credit	Moderate	Weak	Moderate	Increasing
Market	Low	Weak	Low	Stable
Liquidity	High	Strong	Moderate	Decreasing
Operational	Low	Acceptable	Low	Stable
Legal	Low	Acceptable	Low	Stable
Reputational	Low	Acceptable	Low	Stable

Analysis of Financial Factors

The content heading or report page is mandatory. It is to be included as a separate section and should include all analyses and conclusions for each financial component. Subheadings are to be used to depict the ratings and the analysis of the individual components and other topics of discussion. The order is optional. However, the more significant issues should be addressed at the beginning of this analysis. In addition to the CAELS components listed below, the bank holding company RFI/C(D) rating system component analysis should be reported in this section, if applicable. Financial tables and graphs are optional. They may also be included in an appendix.

1. *[C]apital adequacy.* Capital adequacy should be evaluated in relation to supervisory guidelines, the nature and extent of risks to the bank, and the ability of management to address and control these risks to the organization. Consideration is to be given to (1) the level of, quality of, and changes in capital and the bank's overall financial condition; (2) the nature, trend, and volume of problem assets and the adequacy of the allowance for loan losses and other valuation reserves; (3) risk exposures, including those presented by off-balance-sheet activities; (4) the quality and strength of earnings; (5) the balance sheet's composition, including the nature and amount of intangible assets, market risk, concentration risk, and nontraditional-activity risk; (6) equity maintenance and any growth experiences, plans, and prospects; (7) the reasonableness of dividends; (8) the access to capital markets and other appropriate sources of financial assistance; and (9) the ability of management to address emerging needs for additional capital.

2. *[A]sset quality.* Asset quality should be evaluated in relation to (1) the level, distribution, severity, and trend of problem, classified, delinquent, nonaccrual, nonperforming, and restructured assets, both on- and off-balance-sheet; (2) the adequacy of the allowance for loan and lease losses and other valuation reserves (including the adequacy of the bank's methodology and written documentation policies, procedures, and practices); (3) management's awareness of problem loans and their causes and its demonstrated ability to identify, administer, and collect prob-

lem assets; (4) the diversification and quality of loan and investment portfolios; (5) the adequacy of loan-administration and lending policies, procedures, and practices; (6) the adequacy of workout procedures for problem credits; (7) the quality of investment securities and the adequacy of investment policies, procedures, and practices; (8) the extent of securities underwriting activities and exposure to counterparties in trading activities; (9) the credit risk that is arising from, or reduced by, off-balance-sheet transactions; (10) asset concentrations (including those assets, problem credits, and other transfer-risk problems in particular economic sectors); (11) the volume and nature of documentation exceptions; (12) the effectiveness of credit-administration procedures, underwriting standards, risk-identification practices, internal controls, internal loan-review and credit-grading systems (including noted significant differences between the internal loan grades and the examination's loan classifications), and management information systems; and (13) the adequacy of policies, procedures, and practices involving financial futures and foreign-exchange trading.

3. *[E]arnings.* The quality and quantity of earnings should be evaluated in relation to (1) the ability to provide for adequate capital through retained earnings; (2) the level, quality (including the strength of net interest margin, the amount of noninterest income and expense, and the extent of reliance on unusual or nonrecurring gains or losses), and stability of earnings; (3) the level of, composition of, reasonableness of assumptions for, and the extent of management's control over any variances between actual results versus the budgeted projections of income and expenses in relation to the size and nature of the bank's operations; (4) the vulnerability of earnings to market-risk exposures; (5) the adequacy of provisions to the allowance for loan and lease losses and other valuation reserves; (6) the impact of extraordinary items, securities transactions, and tax effects on net income; and (7) the adequacy of budgeting systems, forecasting processes (including the reasonableness of assumptions), and management information systems.

4. *[L]iquidity.* Liquidity and asset-liability management should be evaluated in relation to (1) the trend and stability of deposits; (2) the degree of and reliance on short-term volatile sources of funds, including any undue reliance on borrowings or brokered deposits to fund longer-term assets; (3) the availability of assets that are readily convertible to cash without undue loss; (4) the bank's ability to securitize and sell certain pools of assets; (5) the extent and ease of the bank's access to money markets and other sources of funding; (6) the adequacy of and ease of access to liquidity sources and the bank's ability to meet liquidity needs; (7) the level of securities pledged against liabilities; (8) the bank's ability to obtain borrowed funds from outside sources that are consistent with the bank's funding strategies; (9) the effectiveness of and the extent of compliance with the bank's policies and procedures for funding and managing liquidity, interest-rate risk, management information systems, and contingency-funding plans; (10) the capability of management to properly identify, measure, monitor, and control liquidity; (11) the level of diversification of funding sources, both on- and off-balance sheet; (12) the extent of the bank's asset-liability and gap-management practices; and (13) the vulnerability of the bank's funding to adverse publicity, increased reputation risk, and lowered credit ratings.

5. *[S]ensitivity to market risk.* Sensitivity to market risk reflects (1) the degree to which changes in interest rates, foreign-exchange rates, commodity prices, or equity prices can adversely affect earnings or the economic value of capital; (2) the ability of management to identify, measure, monitor, and control exposures to market risk, given the bank's size, complexity, and risk profile; (3) the nature and complexity of interest-rate risk exposure arising from nontrading positions; and (4) where appropriate, the nature and complexity of interest-rate risk arising from trading and foreign operations.

In the following optional and mandatory pages or sections, the asterisk (*) denotes optional pages that are mandatory if circumstances relevant to the page apply.

Information Technology Assessment

The inclusion of an information technology assessment as a content heading or report page is optional.* An information technology assessment is mandatory, however, if an information technology (URSIT) rating is assigned (see SR-00-3) or if significant supervisory concerns exist. Information technology activities should be evaluated based on the nature and extent of information technology risks, including management processes, architecture, integrity, security, and availability. The supporting rationale for composite or component IT ratings should be included. Examiners should note whether a list of technical exceptions was provided to management. The examiner's conclusions should also be reflected in the Analysis of Financial Factors or the Management/Administration and Risk Management sections of the report, as appropriate. Any significant supervisory concerns should be reflected in the Matters Requiring Board Attention and in the Examination Conclusions and Comments section.

Fiduciary Activities Assessment

The content heading or report page is optional.* The heading or page is mandatory, however, if a trust (UITRS) or transfer-agent rating was assigned during the most recent Federal Reserve examination cycle or if significant supervisory concerns exist in these areas. Fiduciary activities should be evaluated relative to management's oversight of fiduciary activities and the nature and extent of risk that the fiduciary activities or business lines evaluated present to the institution. Management's ability to assess the risk of fiduciary products and services offered, including new products, should be evaluated. Note whether a list of technical exceptions was provided to management. The supporting rationale for any ratings assigned should be included. Conclusions should also be reflected in the Analysis of Financial Factors or the Management/Administration and Risk Management sections of the report, as appropriate. Significant supervisory concerns should be reflected in the Matters Requiring Board Attention and Examination Conclusions and Comments section.

Summary of Items Subject to Adverse Classification/Summary of Items Listed as Special Mention

The content heading or report page (and the associated content) is mandatory. The topic, however, must be discussed in the examination report. The Summary of Items Subject to Adverse Classification content heading or report page summarizes items classified by the examiner as either substandard, doubtful, or loss as of the examination date (for this page, considered the date relevant to the asset-quality review). See SR-04-9 or section 2020.1 for the June 14, 2004, interagency agreement on the Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks and Thrifts.

A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. An asset classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future. Amounts classified Loss should be promptly charged off.

Total classifications are also presented for the previous examination. Reserve Banks that are engaged in alternate-year examination programs should provide totals contained in the previous examination report prepared by the state when applicable. The examiner should also consider creating a schedule under the Asset Quality content heading or page to detail classifications from additional prior examinations if meaningful trend information is noted. The examiner should also present, in the report narrative, classification trends for certain asset categories if the analysis is meaningful.

For the examinations of banks engaged in international lending, examiners should provide additional information to include categories for other credit-risk problems and value-impaired assets. Adjustments are required to be made for U.S. addressees and non-U.S. addressees.

For banks with foreign activity, the distinction between U.S. and non-U.S. addressees follows the definition set forth in the instructions for the Consolidated Report of Condition: whether a customer is U.S. or non-U.S. is determined by the customer's principal address, that is, by its domicile. A U.S. address would be in the 50 states of the United States, the District of Columbia, Puerto Rico, or U.S. territories and possessions. Non-U.S. addressees include all other geographical areas.

The examiner should list in the appropriate category the amounts of all credits classified due to transfer risk. The value of credits shown as value impaired should be computed after deducting any allocated transfer-risk reserve that is established against an asset. In determining total classified assets, examiners should arrive at net assets classified due to country risk. Examiners should identify any credits classified due to transfer risk that have received the same or a more severe classification due to credit risk and that are listed above in the summary of classified items due to credit risk. The sum of such assets should be listed in the appropriate column and then deducted to arrive at net assets classified due to country risk. For the purpose of this content heading or report page, any credits classified as value impaired for transfer-risk purposes should not be included in the summary of credits classified due to credit risk, unless the credits are classified loss.

For the purpose of arriving at total classified assets, add the amount classified due to credit risk to net assets classified due to transfer risk for each category. When computing weighted classifications, the residual portion of any value-impaired assets should be assigned the same weight as substandard classifications. However, the residual exposure still remains value impaired for examination and classification purposes. Value-impaired assets held in the trading account should also be included in total classified assets but should not be considered classified assets when computing weighted classifications.

Summary of Items Listed as Special Mention

The content heading or report page (and the associated content) is mandatory. The topic must be discussed in the examination report. The Summary of Items Listed for Special Mention content heading or report page presents the total of assets listed for special mention for the current and one previous examination. A special-mention extension of credit is defined as having potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, *at some future date,* result in the deterioration of the repayment prospects for the credit or the institution's credit position. Special-mention credits are not considered as part of the classified-extensions-of-credit category and do not expose an institution to sufficient risk to warrant classification. The summary does not include assets listed for special mention when computing classification ratios. Reserve Banks that are engaged in alternate-year examination programs should rely on the special-mention total from the previous state's examination when applicable.

Loans and Lease-Financing Receivables/Past-Due and Nonaccrual Loans and Leases

The content heading or report page (and the associated content) is optional. The examiner has the flexibility to use the same or different dates for the Loans and Lease-Financing Receivables and the Past-Due and Nonaccrual Loans and Leases schedules. The Loans and Lease Financing Receivables schedule will usually be as of the most recent quarter-end. The Past-Due and Nonaccrual Loans and Leases schedule will usually be as of the asset-quality review date. On the basis of the examination's findings, the examiner-in-charge should determine if other as-of dates best reflect the condition of the institution. For example, the Loans and Lease-Financing Receivables schedule may be presented as of the asset-quality review date if the examiner identifies significant changes since the last quarter-end that need to be incorporated.

The format of the Loans and Lease-Financing Receivables schedule is similar to that used in the Consolidated Report of Condition. The definitions of the loan categories as presented in the Instructions for the Consolidated Report of Condition should be used in completing the schedule. For examinations of banks engaged in international lending, Reserve Bank examiners should adjust the format of this schedule for U.S. addressees and non-U.S. addressees. For examinations of banks engaged in international lending, Reserve Bank examiners should adjust the format of the Past-Due and Nonaccrual Loans and Leases schedule for U.S. addressees and non-U.S. addressees. The definitions of past-due and nonaccrual loans and leases as presented in the Instructions for the Consolidated Report of Condition should be used in completing this schedule, unless the bank's policy is more conservative, in which case the bank's definition may be used. If so, or if state law requires the bank to apply different definitions, the examiner should discuss the bank's policy or state law in the Comments section following the past-due and nonaccrual schedule. The Memorandum section should include the amount of restructured loans and leases included in the totals. Relevant issues pertaining to past-due and nonaccrual loans and leases should be briefly discussed in the Comments section. More-significant issues should be discussed on the Asset Quality page.

Items Subject to Adverse Classification

The content heading or report page is optional.* However, a full loan write-up is mandatory for all significant or material classified assets if (1) management disagrees with the disposition accorded by the examiner or (2) the institution will be rated composite 3, 4, or 5. (See SR-99-24 or section 2060.1 for further information.)

Items Listed for Special Mention

The content heading or report page is optional.* However, a full loan write-up is mandatory for all significant or material criticized assets if (1) management disagrees with the disposition accorded by the examiner or (2) the institution will be rated composite 3, 4, or 5. (See SR-99-24 or section 2060.1 for further information.)

Assets with Credit-Data or Collateral-Documentation Exceptions

The content heading or report page is optional.* However, the content heading and a discussion of any supervisory issues and concerns is mandatory if the information needed for loan line sheets is not available or if the information is not reliable due to materially deficient loan-administration systems and processes, particularly with respect to loan and collateral documentation and collateral values. (See SR-99-25 or section 2080.1 for further information.) If the credit-data or collateral-documentation exceptions are significant, this content heading or report page should provide support for a discussion of credit-documentation practices under the asset-quality portion of the Asset Quality content heading or report page.

Concentrations

The content heading or report page (and its associated content) is optional.* If included, the content heading should include a discussion of supervisory issues and concerns regarding any significant concentrations of assets and liabilities. This discussion should address the effectiveness of the bank's internal policies, systems, and controls to identify, monitor, and manage the risk associated with the concentrations and address the bank's alternatives or plans for reducing concentrations.

The content heading or report page should indicate that a concentration includes obligations, direct or indirect, of the same or affiliated interests that represent 25 percent or more of the bank's capital structure. The reader should also be informed that, for the purposes of this page, the capital structure is defined as tier 1 capital plus the allowance for loan and lease losses.

When determining and calculating concentrations, the amount of loan commitments and other off-balance-sheet risk items should be considered. The listing should include all types of loans, overdrafts, cash items, suspense resources, securities, leases, acceptances, advances, letters of credit, and all other items due to the bank, as well as loans endorsed, guaranteed, or cosigned by related individuals and their related interests.

Concentrations by industry, transfer risk, product line, type of collateral, and other characteristics should be detailed when appropriate. The listing should include amounts due from depository institutions, federal funds sold, and other assets in which payment depends on one financial institution or affiliated group and the total represents 25 percent or more of the bank's capital structure. Treasury securities, obligations of U.S. government agencies and corporations, and any assets collateralized by these items should not be included in the listing. The requirements of Regulation F, as they relate to concentrations involving correspondent banks, should also be considered.

Violations of Laws and Regulations

The content heading or report page is optional.* However, when violations of federal or state banking laws and regulations are found, it is mandatory that they be listed in detail on this page. Violations of the Bank Secrecy Act should also be listed on this page in detail.

The format for listing violations should be consistent. A heading for each violation listed should name the applicable regulation and section and provide a brief description of what the law covers. This summary should be followed by a brief description of the requirements of the regulation or statute and a discussion of how or why the violation occurred. The examiner should describe any plans or recommendations for correction. If a review of the Bank Secrecy Act is conducted separately, or as part of another examination, a statement of this fact should be included under the Other Matters content heading or report page.

Other Matters

This content heading or report page is optional. If included, discuss issues or other matters of significance not covered elsewhere in the community bank's examination report. Discuss also significant matters mentioned elsewhere that require further explanation, such as the type, scope, and volume of any new activity in which the bank is engaged. If issues or concerns are noted, examiners should provide comments on such specific areas, such as the following:

- accounting, audit, and internal controls
- affiliate relationships
- criminal referral procedures
- emergency preparedness
- financial recordkeeping and reporting regulations
- insurance
- investment in bank premises
- litigation
- security and controls against external crimes
- payments system risk
- nontraditional banking activities (for example, mortgage warehousing or data processing services)
- supervisory reporting
- nondeposit investment products

Other examination matters may also warrant comments on this report page.

Comparative Statement of Financial Condition

The Comparative Statement of Financial Condition page is mandatory. Alternatively, the statement may be included in an appendix to the examination report or in the confidential section. The left column of the statement should coincide with the Consolidated Report of Condition for the period used—generally, the most recent quarter-end. If Call Report amendments have been made, the amended numbers should appear on this page. If a bank's management has made any significant misclassifications that have caused examiners to amend any financial statements, the examiner's numbers should appear on this page. The right column should usually detail previous year-end information. However, the examiner may substitute a different date, such as a previous examination, when desired. All amounts listed in either column should conform to Consolidated Report of Condition instructions.

Comparative Statement of Income

The comparative statement of income is mandatory. Alternatively, the statement may be included in an appendix to the report or in the confidential section. The examiner should indicate whether the statement is for the institution only or is consolidated.

Capital Calculations

The Capital Calculations page is optional.* Inclusion of capital calculations is mandatory, however, if (1) the bank has a financial subsidiary within the meaning of the Gramm-Leach-Bliley Act, (2) there is a change in the capital category as a result of the examination, or (3) the ratios supporting the capital category in the examination are not derived from the bank's Call Report as of the same date. The third exception could occur if the bank's examination ratios were calculated at a date other than the end of a quarter, or, if calculated at quarter-end, the numbers were adjusted or changed from those filed in the Call Report.

Other Financial Pages

Other optional financial report content headings or report pages may be included in the examination report at the examiner's discretion. Alternatively, the content headings or report pages may be included in an appendix to the examination report or in the report's confidential section.

Signature of Directors

The content heading is mandatory. A separate report page is required and should be the last page in the open section of the report.

Confidential Section

"Confidential Section" is a required content heading. This section of the bank examination report is mandatory. It must include all information that cannot or should not be disclosed or made available to the public. It should also include internal administrative and supervisory information relevant to the Federal Reserve System and its staff. The order of the following headings or pages is at the examiner's discretion.

Directors and Officers

The content heading or report page is mandatory for inclusion in the report. A separate report page is required. All bank directors should be listed in alphabetical order. If the bank elects advisory directors, they should be listed alphabetically under a separate heading. Information requested in the report-page header should be supplied for each director. Specific instructions for certain requested information are as follows:

- Under meetings missed, include all meetings a director has not attended between the previous (FRB or state) and current examination. If a director was elected since the previous examination, list only the number of meetings that he or she missed since the date of election.
- Under fees paid to each director, indicate whether the compensation is based on attendance.
- Under occupation or principal business affiliation, use concise and descriptive designations (for example, farmer, grocer, or commercial real estate developer).

For banks with active board committees, a code or legend for all committees should be prepared, indicating committee memberships for each director.

The Executive Officers portion of the report page uses the Regulation O definition of executive officers, but other significant officers may be included at the examiner's discretion. Information requested by the report page should be supplied. Additional individuals to be reported may include persons without official designation who exercise considerable influence or executive officers excluded from the Regulation O definition by board resolution who actually maintain a high level of responsibility. Officers should be listed in order of title or position of responsibility, with dominant individuals shown first. Specific instructions for the requested information for the report page are as follows:

- Examples of assigned areas of responsibility may include administration, policy formulation, lending, operations, or branch manager.
- A salary should indicate the current annual salary. The total bonuses should be reported for the previous year.

If executive officers receive any other pertinent forms of compensation beyond their listed salary and bonus (such as commission-based pay, employment contracts, stock options, unusually large benefits, or affiliated bank salaries and fees), these should be discussed in narrative format below the listing of executive officers or on a separate page.

General Information

The content heading is mandatory. It includes (1) a discussion of strategic plans, future technology plans, planned bank products or services, or prospects for the bank; (2) significant or sensitive matters regarding the bank's management not previously addressed; (3) applicable comments on the extent that a particular insider controls or dominates the organization and any adverse effect of insiders on operating policies, procedures, or the overall financial condition of the bank; and (4) a discussion of any recommendations for supervisory actions and any additional material matters of a sensitive or confidential nature not previously addressed. To the extent not included on the Directors and Officers page, this discussion should also include a list of each of the major shareholders of the bank (those having 5 percent or more ownership) and their respective percentage of ownership. When the major shareholder is a bank holding company, its major shareholders and the percent controlled by each should also be listed. Include a listing of critical turnkey software vendors or information technology service providers, as well as any client institutions for which processing services are provided. Include any significant matters of a confidential nature regarding vendors or third-party service providers. Also include a description of any electronic banking activities.

Example State Member Bank Examination Report for Community Banks (Instructions Included)

REPORT OF COMMERCIAL BANK EXAMINATION

Lead Bank Name	Street Address	City
County	State	Zip Code

Mailing Address:

_____ Joint _____ Concurrent _____ Independent

Federal Reserve Bank Examiner-In-Charge

TABLE OF CONTENTS

(Order of content is dependent upon importance and significance of the issues)

Page

Note: Except as indicated, amounts in tables are shown to the nearest thousand dollars.

Date of previous Examination:

* Mandatory Content

** Optional Content (However, some content is mandatory if circumstances relevant to the issue apply.)

SCOPE / MATTERS REQUIRING BOARD ATTENTION
AND EXAMINATION CONCLUSIONS AND COMMENTS

SCOPE

Comment on the examination's depth, scope, and procedures performed for each area of review, including any specialty areas.

MATTERS REQUIRING BOARD ATTENTION

State if there are any matters requiring board of director's attention, including significant issues from specialty examination areas, as applicable.

EXAMINATION CONCLUSIONS

Provide all supervisory ratings assigned during the examination and for the two previous examinations, any significant supervisory concerns, and general conclusions. Include any specialty or target examination ratings assigned or other assessments, including findings from other on-site visits during the recent Federal Reserve examination cycle.

	Exam Date mm/dd/yyyy	Prior Exam mm/dd/yyyy	Prior Exam mm/dd/yyyy
Uniform Composite Rating – Bank	X	X	X
Component Ratings:			
[C]apital	X	X	X
[A]sset Quality	X	X	X
[M]anagement	X	X	X
[E]arnings	X	X	X
[L]iquidity	X	X	X
[S]ensitivity to Market Risk	X	X	X
Risk Management	X	X	X
Bank Holding Company RFI/C (D) Rating			
[R]isk Management	X	X	X
[F]inancial Condition	X	X	X
[I]mpact Potential	X	X	X
[C]omposite Rating	X	X	X
[D]epository Institutions	X	X	X

Other examination area ratings *(if applicable):*	Date of Examination	Composite Rating
Trust	mm/dd/yyyy	X
Compliance	mm/dd/yyyy	X
CRA	mm/dd/yyyy	X

Page X of Y

SCOPE / MATTERS REQUIRING BOARD ATTENTION
AND EXAMINATION CONCLUSIONS AND COMMENTS

UNIFORM COMPOSITE RATING

Bank

BHC

Other

Examiner-In-Charge's
Signature

Page X of Y

ANALYSIS OF FINANCIAL FACTORS

Include analysis and conclusions for each financial component in this section using subheadings to depict ratings and analysis of individual components and other topics of discussion. The order is optional; however, the more significant issues should be addressed up front. In addition to the CAELS components listed below, the Bank Holding Company Rating component analysis should be written in this section, if applicable. Financial tables and graphs may be included on this page or in an appendix.

Asset Quality (__)

Asset quality is considered ____

Liquidity Position (___)

The bank's liquidity position and funds management are ___.

Sensitivity to Market Risk (_ _)

Interest rate risk (IRR) management is __________ and exposure to market risk is ____________.

Capital Adequacy (_ _)

The bank's capital position is _____.

Earnings (___)

Earnings performance is ________.

Page X of Y

MANAGEMENT / ADMINISTRATION

AND RISK MANAGEMENT

The management and risk management analysis, rating, and conclusion for the bank and holding company, if applicable, should be included in this section.

Management (X)

Management is X.

Risk Management (X)

Mandatory Risk Management Assessment - Provide the risk management numerical rating and discussion of risk factors and the adequacy of risk management associated with risk levels and risk trends. The impact of specialty examination areas on relevant risk areas should be incorporated. For example, the impact of any information technology concerns on operational and other relevant risks should be discussed, as well as the impact on legal or other risks of any findings with respect to fiduciary activities or compliance concerns.

Risk Management is X.

Optional Risk Assessment Matrix - A risk assessment matrix may be included either in the Management/Administration and Risk Management section or in the Examination Conclusions and Comments section, as appropriate.

Risk Assessment Matrix *(Optional)*

Type of Risk	Inherent Risk	Adequacy of Risk Management	Composite Risk	Trend
Credit	Moderate	Weak	Moderate	Increasing
Market	Low	Weak	Low	Stable
Liquidity	High	Strong	Moderate	Decreasing
Operational	Low	Acceptable	Low	Stable
Legal	Low	Acceptable	Low	Stable
Reputational	Low	Acceptable	Low	Stable

Credit Risk (*Mandatory)*

Market Risk (*Mandatory*)

Liquidity Risk (*Mandatory*

Operational Risk (*Mandatory)*

Legal Risk (*Mandatory)*

Reputational Risk (*Mandatory)*

Page X of Y

SUMMARY OF ITEMS SUBJECT TO ADVERSE CLASSIFICATION /
SUMMARY OF ITEMS LISTED AS SPECIAL MENTION

	Adversely Classified Categories			
Asset Category	Substandard	Doubtful	Loss	Total Classifications
Loans/Leases	$			
Securities	$			
Other Real Estate Owned	$			
Other Assets	$			
Totals at This Exam *date*	$			
Totals at Prior Exam *date*	$			

SUMMARY OF ITEMS LISTED FOR SPECIAL MENTION

Loans/Leases	$		

Page X of Y

COMPARATIVE STATEMENTS OF FINANCIAL CONDITION

(Amounts Reported in Thousands)

ASSETS	mm/dd/yyyy	mm/dd/yyyy
Total Loans and Leases		
Less: Allowance for Loan & Lease Losses		
Loans and Leases (net)		
Interest-Bearing Balances		
Federal Funds Sold and Securities Purchased Under Agreements to Resell		
Trading Account Assets		
Securities: Held-to-Maturity (at Amortized Cost)		
Available-for-Sale (at Fair Value)		
Total Earning Assets		
Cash and Noninterest-Bearing Balances		
Premises and Fixed Assets		
Other Real Estate Owned		
Intangible Assets		
Other Assets		
TOTAL ASSETS		

LIABILITIES AND EQUITY CAPITAL		
Deposits		
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase		
Other Borrowed Money		
Other Liabilities		
Subordinated Notes and Debentures		
Total Liabilities		
Equity Capital		
Perpetual Preferred Stock		
Common Equity Capital		
Includes net unrealized holding gains (losses) on available-for-sale securities.		
Other Equity Capital		
Total Equity Capital		
TOTAL LIABILITIES AND EQUITY CAPITAL		

OFF-BALANCE-SHEET ITEMS		
Unused Loan Commitments		
Letters of Credit		
Interest Rate Contracts		
Appreciation (Depreciation) in Held-to-Maturity Securities		
Other Off-Balance-Sheet Items		

Footnotes:

Page X of Y

COMPARATIVE STATEMENT OF INCOME (Amounts reported in $ thousands)

ITEMS	mm/dd/yyyy	mm/dd/yyyy	mm/dd/yyyy
INTEREST INCOME:			
Interest and fee income on loans			
Income from lease financing			
Interest on balances with depository institutions			
Income on Federal funds sold and repos			
Interest from assets held in trading accounts			
Interest and dividends on:			
U.S. government securities			
Obligations of states and political subdivisions			
Other securities			
TOTAL INTEREST INCOME			
INTEREST EXPENSE:			
Interest on deposits			
Expense on Federal funds purchased and repos			
Interest on demand notes, other borrowed money, mortgages, and capitalized leases			
Interest on subordinated notes and debentures			
TOTAL INTEREST EXPENSE			
NET INTEREST INCOME			
NONINTEREST INCOME:			
Services charges on deposit accounts			
Other fee income			
All other noninterest income			
TOTAL NONINTEREST INCOME			
NONINTEREST EXPENSE:			
Salaries and employee benefits			
Premises and fixed assets expense (net of rental income)			
Other noninterest expense			
TOTAL NONINTEREST EXPENSE			
Provision for loan and lease losses			
Provision for allocated transfer risk			
Securities gains (losses)			
NET OPERATING INCOME (PRETAX)			
Applicable income taxes			
NET OPERATING INCOME (AFTERTAX)			
Extraordinary credits (charges) net of income tax			
NET INCOME			
Cash dividends declared on common stock			
Other increases or decreases			
NET CHANGE IN EQUITY ACCOUNTS			

Page X of Y

COMPARATIVE STATEMENT OF INCOME (Amounts reported in $ thousands)

Footnotes:

Page X of Y

SIGNATURE OF DIRECTORS

We, the undersigned directors of ________Bank, have personally reviewed the contents of the report of examination dated _______________, ______

Signature of Directors	Date
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NOTE: This form should remain attached to the report of examination/inspection and be retained in the bank's file for review during subsequent examinations. The signature of committee members will suffice only if the committee includes outside directors and a resolution has been passed by the full board delegating the review to such committee.

Page X of Y

CONFIDENTIAL SECTION

Page X of Y

CONFIDENTIAL SECTION

DIRECTORS AND OFFICERS

Name & Committees Address Year of Birth	Meetings Missed[1]	Years on Board	Shares Owned	Compensation (Bonus)	Occupation or Principal Business Affiliation

Chairman

Directors

Principal Officers

Insert statements on qualifications of individual officers and directors as appropriate.

Regular schedule of directors' meetings:

Fee paid each director:

Committees:

[1] Number of meetings missed out of a total of X held since X

Page X of Y

CONFIDENTIAL SECTION

GENERAL INFORMATION

Include a discussion of strategic plans, future technology plans, planned bank products or services, and/or prospects for the bank; significant or sensitive matters regarding the bank's management not previously addressed; applicable comments on the extent a particular insider controls or dominates the organization and any adverse effect of insiders on operating policies, procedures, or overall financial condition of the bank; and a discussion of any recommendations for supervisory actions and any additional material matters of a sensitive or confidential nature not previously addressed. To the extent not included on the Directors and Officers page, this discussion should also include a list of each major shareholder of the bank (5 percent or more) and the respective percentage of ownership. When the major shareholder is a bank holding company, its major shareholders and the percent controlled should be listed. Include a listing of critical turnkey software vendors, and/or service providers, and any client institutions for which processing services are provided. Include any significant matters of a confidential nature regarding vendors or third-party service providers. In addition, include a listing of e-banking activities.

Page X of Y

OPTIONAL PAGES

COMPLIANCE WITH ENFORCEMENT ACTIONS

Page X of Y

INFORMATION TECHNOLOGY ASSESSMENT

Mandatory if an Information Technology (URSIT) rating is assigned (refer to SR 00-3 for details) or if significant supervisory concerns exist. Information technology activities should be evaluated based upon the nature and extent of information technology risks including management processes, architecture, integrity, security and availability. Supporting rationale for composite and/or component IT ratings should be included. Note whether a list of technical exceptions was provided to management. Conclusions should also be reflected in Analysis of Financial Factors and/or the Management/Administration and Risk Management sections of the report, as appropriate, and any significant supervisory concerns should be reflected in the Matters Requiring Board Attention and Examination Conclusions section.

Page X of Y

FIDUCIARY ACTIVITIES ASSESSMENT

Mandatory if a Trust (UITRS) or transfer agent rating is assigned during the most recent Federal Reserve examination cycle or if significant supervisory concerns exist in these areas. Fiduciary activities should be evaluated relative to management's oversight of fiduciary activities and the nature and extent of risk to the institution represented by the fiduciary activities or business lines evaluated. Management's ability to assess the risk of fiduciary products and services offered, including new products, should be evaluated. Note whether a list of technical exceptions was provided to management. Supporting rationale for any ratings assigned should be included. Conclusions should also be reflected in Analysis of Financial Factors and/or the Management/Administration and Risk Management sections of the report, as appropriate, and any significant supervisory concerns should be reflected in the Matters Requiring Board Attention and Examination Conclusions and Comments section.

Page X of Y

LOAN AND LEASE FINANCING RECEIVABLES/
PAST DUE AND NONACCRUAL LOANS AND LEASES

Date: ____________________

Category	Amount	Percent
Real estate loans		
Installment loans		
Credit card and related plans		
Commercial loans		
All other loans and leases		
Gross loans and leases	$	100.00%

PAST DUE AND NONACCRUAL LOANS AND LEASES

Asset Category	Past Due Amount		Total Past Due		Nonaccrual		Total Past Due and Nonaccrual	
	30 - 89 Days	90 Days or More	Amount	Percent	Amount	Percent	Amount	Percent
Real estate loans								
Installment loans								
Credit card and related plans								
Commercial loans and all other loans and leases								
Totals								

Memorandum:

Restructured loans and leases included in the above totals.								

Comments:

Page X of Y

ITEMS SUBJECT TO ADVERSE CLASSIFICATION

Includes assets and off-balance-sheet items which are detailed in the following categories:

Substandard Assets - A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful Assets - An asset classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss Assets - An asset classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future. Amounts classified loss should be promptly charged off.

	Classification Category		
Amount, Description, and Comments	Substandard	Doubtful	Loss

Page X of Y

ITEMS LISTED FOR SPECIAL MENTION

Includes assets and off-balance-sheet items which are detailed as follows:

Special Mention Assets - A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the asset or in the institution's credit position. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Description	Amount

Page X of Y

ASSETS WITH CREDIT-DATA OR COLLATERAL-DOCUMENTATION EXCEPTIONS

Includes assets with technical defects not corrected during the examination for which deficiency the appropriate number or description is noted in the "Deficiency" column.

1 – Appraisal
2 – Title Search or Legal Opinion
3 – Borrowing Authorization
4 – Recordation
5 – Insurance
6 – Collateral Assignment
7 – Financial Statement
8 –
9 –
10 –

Name or Description	Amount	Date of Most Recent Financial Statement	Deficiency Description

Page X of Y

CONCENTRATIONS

Page X of Y

VIOLATIONS OF LAWS AND REGULATIONS

Page X of Y

OTHER MATTERS

Page X of Y

CAPITAL CALCULATIONS

Tier 1 Capital	$(000's)	$(000's)
Common Stock		
Surplus		
Undivided Profits and Capital Reserves		
Does not include appreciation (depreciation) on held-to-maturity and available-for-sale securities		
Noncumulative Perpetual Preferred Stock & Surplus		
Minority Interests		
Subtotal: Tier 1 Capital Elements		
Add:		
Less:		
Tier 1 Capital		
Tier 2 Capital		
Allowance for Loan & Lease Losses		
Add:		
Adjusted Allowance for Loan & Lease Losses		
Less:		
Eligible Allowance for Loan & Lease Losses		
Cumulative Perpetual Preferred Stock		
Subordinated Debt		
Other:		
Tier 2 Capital (Not to Exceed 100% of Tier 1 Capital)		
Total Capital		
Tier 1 Plus Tier 2 Capital		
Less :		
Total Capital		
Risk-Weighted Assets and Average Total Assets Calculations		
Risk-Weighted Balance-Sheet Items		
Risk-Weighted Off-Balance-Sheet Items		
Less: Risk-Weighted Amounts Deducted from Capital		
Gross Risk-Weighted Assets		
Less: Ineligible Portion of ALLL & ATRR		
Total Risk-Weighted Assets		
Average Total Assets (From 01/01/__ Call Report)		
Less: Amounts Deducted from Tier 1 Capital		
Adjusted Average Total Assets		
MEMORANDA		
Securities Appreciation (Depreciation)		
Contingent Liabilities/Potential Loss		

Footnotes:

Page X of Y

OTHER FINANCIAL INFORMATION

Page X of Y

The Federal Reserve has adopted a flexible, letter-format report in lieu of the standard, longer-form report for communicating the findings of on-site safety-and-soundness examinations and inspections of community banking organizations[1] that result in composite supervisory ratings of “4” or “5.” Examiners may use a letter-format report for examination and inspections of community banking organizations rated “4” or “5,” provided all mandatory and any applicable optional information is in the report. (See SR-13-10.)

The option of using a flexible letter-format for such community banking organizations will enable Reserve Banks to better focus their reports on key findings and improve the communication of supervisory expectations to companies in need of significant improvement. In addition, given the increased examination frequency of community banking organizations with a “4” or “5” rating (typically every six months), the letter format will also hasten the communication of supervisory expectations.

Examiners are to continue to follow the examination report guidance provided in SR-01-19, “Reports of Examination of Community Banking Organizations,” for full scope examinations of community banking organizations rated “1,” “2,” or “3.”[2] That guidance provides for some flexibility in the structuring of the examination reports, so long as all mandatory and applicable optional content is covered. Examiners have flexibility in writing the narrative portion of reports.

CONTENT OF THE LETTER-FORMAT REPORT OF EXAMINATION

A letter-format report of examination for state member banks rated “4” or “5” should be tailored to fit the particular circumstances of the institution under review and should fully address the key areas that are routinely covered in the mandatory pages of the open and confidential sections of the standard report of examination.[3] These areas in the open section of the examination report include

- scope of the examination,
- matters requiring board attention,
- conclusions regarding management and risk management (addressing risk factors and the adequacy of risk management associated with risk levels and trends, which may include a risk-assessment matrix),
- analysis of financial factors,
- summary of items subject to classification or listed as special mention,
- signature of directors, and
- any applicable areas that are described as optional pages in the standard report of examination instructions and are necessary to support examiners’ findings. Examples of these areas include compliance with enforcement actions and violations of laws or regulations.

These areas in the confidential section of the examination report include

- directors and officers, which includes information such as duties, length of service, and committee assignments;
- general information about the institution, including sensitive matters not addressed in the open section of the report such as strategic and information technology plans, planned new products and services, insider influence, and recommended supervisory actions; and
- risk-assessment matrix (if not included in the open section).

CONTENT OF THE LETTER-FORMAT REPORT OF INSPECTION

The letter-format report of inspection prepared in support of on-site bank and savings and loan

1. Community banking organizations include state member banks, bank holding companies, and savings and loan holding companies with assets of $10 billion or less.

2. The flexible letter-format may also be used on target examinations of 3-rated community banking organizations, as applicable.

3. See SR-01-19, “Reports of Examinations of Community Banking Organizations.”

holding company[4] inspections that result in a rating of ‘‘4’’ or ‘‘5’’ should be tailored to each company and should fully address the areas typically covered in the core section of the standard inspection report format.[5] These areas include

- scope of the inspection;
- matters requiring board attention;
- analysis of consolidated, parent company, nonbank and bank subsidiary financial factors; and
- conclusions regarding the internal and external audit program.

4. See SR-11-11/CA letter 11-5, ‘‘Supervision of Savings and Loan Holding Companies (SLHCs),’’ and SR-13-8/CA-13-5, ‘‘Extension of the Use of Indicative Ratings for Savings and Loan Holding Companies,’’ concerning indicative ratings of SLHCs.

5. See the *Bank Holding Company Supervision Manual*, section 5010.0, ‘‘Procedures for Inspection Report Preparation (Inspection Report References).’’

In addition, any applicable areas that are described as optional pages in the standard report of inspection instructions and are necessary to support examiners’ findings should be included.

COMMUNICATION OF SUPERVISORY FINDINGS

As with standard reports of examination and inspection, the letter-format reports must notify a banking organization and its board of the organization’s supervisory rating and the confidential nature of the letter. The letter-format report should also set forth the deadline by which the organization must reply to the Federal Reserve Bank, including the organization’s plans to address any matters requiring immediate attention or matters requiring attention that are noted in the report.

WHAT'S NEW IN THIS REVISED SECTION

Effective April 2017, this section is revised to

- *provide updated terminology associated with the examination of information technology, trust, transfer agent, and securities dealer activities;*
- *include a reference to the December 2016 final rule that amended Regulation H and Regulation K that raised the total asset threshold for an insured depository institution to be eligible for an 18-month examination cycle;*
- *briefly describe the Federal Reserve's consumer compliance supervisory responsibility after the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; and*
- *add a partial list of key guidance and resources that apply to the supervision of the entities and activities described in this section.*

This section deals specifically with Federal Reserve System policies, practices, and procedures relating to the examination of domestic and international banking departments of state-chartered commercial banks that are members of the Federal Reserve System. The Federal Reserve also has certain supervisory and oversight responsibilities in other areas of banking, both domestic and international, for which it has developed specialized examination procedures, conducts on-site examinations, and completes separate examination reports. These areas are not covered in depth in this manual; Federal Reserve policies and examination procedures relating to each of them are covered in either separate manuals or supervisory letters (SR-letters) issued by the Federal Reserve Board.

HOLDING COMPANIES

The Federal Reserve has the sole regulatory responsibility for supervising bank holding companies (BHCs) and savings and loan holding companies (SLHCs). These organizations control commercial banks and thrifts that hold most of the insured commercial banking assets in the United States. Substantially all BHCs and SLHCs may be subject to an on-site inspection by the Federal Reserve System. The frequency and scope of inspections are determined by the composite rating, asset size, amount of debt, and complexity of the organization. Inspections cover both financial and managerial factors and include analysis at the parent company, bank, nonbank subsidiary, and consolidated levels.

INTERNATIONAL

Overseas Operations of U.S. Banking Organizations

Under provisions of the Federal Reserve Act and the Board's Regulation K, member banks may establish branches in foreign countries subject to, in most cases, the Board's prior approval. Furthermore, section 25 of the Federal Reserve Act permits the Board to order special examinations of foreign banks or branches as it may deem best. However, the Federal Reserve's examinations of a state member bank's (SMB) overseas operations and activities are usually conducted at the head office in the United States, where the ultimate responsibility for the overseas activities and facilities may lie. To adequately supervise international operations, examiners and supervisory staff should continuously monitor the bank's international activities to understand and assess the extent of its international strategy, trends, operations, and legal-entity structure, as well as related governance, risk management, and internal controls.

Edge Act and Agreement Corporations

Under sections 25 and 25A of the Federal Reserve Act, Edge Act and agreement corporations may engage in international banking and foreign financial transactions, and the Federal Reserve is responsible for conducting annual examinations of these entities and their branches. (See Regulation K, 12 CFR 211.) Edge corporations are chartered by the Board to conduct an international banking business. Agreement corporations are state-chartered companies that enter into an agreement with the Board to limit their operations to international banking. These corporations, which are usually subsidiaries of member banks, provide their owner organizations with additional powers in two areas: (1) they may conduct a deposit and loan business in states other than that of the parent, provided that the business is strictly related to international transactions and (2) they have somewhat broader foreign-investment powers than member banks, being able to invest in foreign financial organizations, such as finance companies and leasing companies, as well as in foreign banks.

U.S. Activities of Foreign Banking Organizations

Foreign entities have rapidly expanded their operations in the United States and are a significant element in the U.S. banking system. The Federal Reserve has significant authority over foreign banking organizations (FBOs). Its role was enhanced by the Foreign Bank Supervision Enhancement Act of 1991 (FBSEA). The Federal Reserve has broad oversight authority for the supervision and regulation of FBOs that engage in banking in the United States through branches, agencies, commercial lending companies, and subsidiary banks. In fulfilling this responsibility, the Federal Reserve conducts its own examinations and may also use reports of other agencies.

Section 83001 of the Fixing America's Surface Transportation Act[1] amended the FDI Act. It increased from $500 million to $1 billion the total asset threshold below which a federal banking agency may examine an insured depository institution (IDI) on an 18-month examination cycle, rather than a 12-month examination cycle. In February 2016, the Board approved an interim final rule that amended Regulation H to raise the total asset threshold for a SMB to be eligible for the 18-month examination cycle to the new statutory maximum, from less than $500 million to less than $1 billion. The Board also approved a parallel amendment to Regulation K, which governs the on-site examination cycle for Board-supervised U.S. branches and agencies of foreign banks, consistent with section 7(c)(1)(C) of the International Banking Act of 1978. The interim final rule was made effective February 29, 2016, with the Board approving the interim final rule as a final rule in December 2016.[2] The final rule adopted the interim final rule without change.

A U.S. branch or agency of a foreign bank with less than $1 billion in total assets may be eligible for an 18-month on-site examination cycle if it received, at its most recent examination, a composite condition rating of "1" or "2" under the supervisory rating system and if it satisfies the following criteria:

1) Either: (a) the foreign bank's most recently reported tier 1 and total risk-based capital ratios are at least 6 percent and 10 percent, respectively, on a consolidated basis; *or* (b) the branch or agency has maintained on a daily basis, over the past three quarters, eligible assets in an amount not less than 108 percent of the preceding quarter's average third-party liabilities (determined consistent with applicable federal and state law) and sufficient liquidity is currently available to meet its obligations to third parties;
2) The branch or agency is not subject to a formal enforcement action or order by the Board, Federal Deposit Insurance Corporation (FDIC), or Office of the Comptroller of the Currency (OCC); and
3) The branch or agency has not experienced a change in control during the preceding 12-month period in which a full-scope, on-site examination would have been required but for the 18-month examination cycle eligibility provision.[3]

The Federal Reserve may consider additional factors when determining the eligibility of a U.S. branch or agency of a foreign bank for an 18-month examination cycle, including whether (1) any of the individual components of the supervisory rating system of a branch or agency of a foreign bank is rated "3" or worse; (2) the results of any off-site surveillance indicate a deterioration in the condition of the branch or agency; (3) the size, relative importance, and role of a particular branch or agency in the context of the foreign bank's entire U.S. operations otherwise necessitate an annual examination; and (4) the condition of the foreign bank

1. Public Law No. 114-94, 129 Stat. 1312 (2015).

2. For the final rule, see 81 *Fed. Reg.* 90949 (December 16, 2016)

3. 12 CFR 211.26(c).

gives rise to such a need.[4] Refer to SR-17-2, "Updates to the Expanded Examination Cycle for Certain State Member Banks and U.S. Branches and Agencies of Foreign Banking Organizations."

FBSEA also requires Federal Reserve approval for establishment of new FBO offices in the United States, and it gives the Federal Reserve the authority to terminate such offices.

INFORMATION TECHNOLOGY ACTIVITIES

The Federal Reserve is responsible for conducting information technology (IT) examinations of SMBs, FBOs, and Edge Act corporations. Section 3 of the Bank Service Corporation Act (12 USC 1863, redesignated as the Bank Service Company Act) generally authorizes bank service companies to perform significant clerical, bookkeeping, or accounting functions, such as demand-deposit accounting and loan processing. Section 7 of the Bank Service Company Act (12 USC 1867) empowers the appropriate federal regulatory agency to examine banking services and operations regardless of whether these services are performed on or off the premises of a particular financial institution. When a financial institution contracts with an external company to provide data processing services, the third-party technology service provider's activities that pertain to financial institutions are subject to examination. Larger companies that operate in more than one regulatory district or region are examined pursuant to the Significant Service Provider (SSP) examination program. IT examinations, whether of independent processing companies or a state member bank's own information technology functions, are operational in nature and focus on evaluations of internal controls and audit effectiveness. IT examiners have experience that enables them to assess the performance of each data center in four critical functions: audit, management, systems development and programming, and computer operations.

4. 12 CFR 211.26(c)(ii)

TRUST DEPARTMENTS AND TRUST COMPANIES

The Federal Reserve examines trust departments of state member banks, state-chartered trust companies that are members of the Federal Reserve System, and certain nondepository trust company subsidiaries of holding companies. The Federal Reserve also has a program of examinations for those trust companies not supervised by any other federal banking agency. In addition, examinations are conducted of Edge Act corporations that conduct foreign trust or fiduciary services, in accordance with Regulation K (12 CFR 211). These examinations determine whether the trust functions are conducted in accordance with applicable fiduciary principles and with other appropriate laws and regulations. The federal banking agencies originally adopted the Uniform Interagency Trust Rating System (UITRS) in 1978 to evaluate the fiduciary activities of financial institutions on a uniform basis. The Federal Financial Institutions Examination Council (FFIEC) issued modifications to the UITRS in 1998, in part, to align the UITRS rating definitions with existing safety and soundness ratings definitions and to emphasize the importance of sound risk management processes.

To engage in providing trust or fiduciary services, a bank must have proper authorization under state or federal law. Under the laws of most states, this requires a specific approval of the state financial supervision agency. Similarly, pursuant to the Board's Regulation H (12 CFR 208.3(d)(2)), the Board's permission must be obtained before changing the general character of a bank's business.

TRANSFER-AGENT ACTIVITIES

Transfer agents record changes of ownership of a security, maintain the issuer's security holder records, cancel and issue certificates, and distribute dividends. A state chartered bank that is a member bank of the Federal Reserve, a subsidiary thereof, or a holding company that conducts transfer agent activities is required to register as a transfer agent with the Federal Reserve. Federal Reserve examiners conduct separate examinations of, and complete separate reports for, the transfer-agency activities of those state member banks and holding companies that are registered with the Board of Governors as transfer agents.

MUNICIPAL SECURITIES DEALERS, GOVERNMENT SECURITIES DEALERS, AND CLEARING AGENCIES

As a result of the Securities Act Amendments of 1975, the Board is responsible for supervising state member banks and holding companies that act as municipal securities dealers or clearing agencies. Federal Reserve examiners conduct separate examinations of and complete separate reports for both of these activities. A bank, a separate department or division of a bank, or a holding company is required to register as a municipal securities dealer if it deals in municipal securities for its own account other than in a fiduciary capacity.

The Government Securities Act of 1986 (GSA), as amended, gives the Federal Reserve responsibility for examining the government securities activities of a state member bank, foreign bank, uninsured state branch or state agency of a foreign bank, or commercial lending company owned or controlled by a foreign banking organization, or Edge Act or agreement corporation. The GSA requires all government securities brokers or dealers to register with the Securities and Exchange Commission. Government securities brokers and dealers receive specialized examinations to determine compliance with the GSA. For banks that have a lower level of government securities activities, compliance with the GSA is determined as part of the commercial examination.

The responsible staff at the Reserve Bank conducting the examination needs to ensure that they fully consider their supervisory responsibilities under the GSA in formulating their supervisory plans and conducting risk-focused examinations. In this regard, two key factors should be considered concerning government securities custodial activities. First, all depository institutions that hold government securities for customers, including securities under repurchase agreements, are subject to Treasury's GSA custody rules. Second, certain financial institutions that are exempt from the definition of a government securities broker or dealer are, nevertheless, subject to the Treasury government securities broker or dealer custody rules when they engage in hold-in-custody repurchase agreements. Under such agreements, the financial institution retains custody of securities that are the subject of a repurchase agreement between the financial institution and a counterparty.[5] These issues are more fully described in the examination procedures pertaining to government securities activities.

Reserve Bank staff are to separately report to Board staff only the results of reviews of government securities broker-dealer activities (and such broker-dealer's related custodial activities). See SR-06-8, "Reports of Examinations of Government Securities Activities," and its attachment, which includes the instructions for the report's transmittal. When preparing these reports, Reserve Banks have the option of either using the Summary Report of Examination of Government Securities Broker-Dealer Activities and Custodial Activities (GSB-D report) or forwarding a copy of the relevant section of the examination report that contains the same information as required in the GSB-D report.

A clearing agency acts as a custodian of securities for the settlement of securities transactions by bookkeeping entries. Separate reporting on the GSB-D form is not required for a government securities custodian that engages in hold-in-custody repurchase agreements but which is otherwise exempt from filing notice as a government securities broker or dealer. See the U.S. Department of Treasury's regulation on Protection of Customer Securities and Balances (17 CFR 403.5(a) and (d)), and SR-93-40, "Department of the Treasury Interpretation Regarding Allocation of Securities to Customer Accounts in Hold-in-Custody Repurchase Transactions."

CONSUMER EXAMINATIONS

Some banking laws, such as the Truth in Lending Act and the Truth in Savings Act, require banks to disclose information that helps consumers evaluate product options open to them. Other laws (for example, the Community Reinvestment Act and the Equal Credit Opportunity Act) require banks to help meet the credit needs in

5. See the U.S. Department of Treasury's regulation on Custodial Holdings of Government Securities by Depository Institutions, which governs holdings of government securities for customers, except those held in a fiduciary capacity (17 CFR 450.3).

their communities and promote the availability of credit to all creditworthy applicants. Finally, laws such as the Fair Credit Reporting Act and the Fair Debt Collection Act provide consumer safeguards for the extension, collection, and reporting of consumer credit. At the Federal Reserve, specialized examiners conduct examinations to determine banks' compliance with these laws and their implementing regulations.

In 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which established the Consumer Financial Protection Bureau (CFPB). Under the Dodd-Frank Act, the CFPB has authority to examine insured depository institutions and insured credit unions with consolidated assets of more than $10 billion and their affiliates, to assess compliance with the requirements of 18 enumerated federal consumer financial laws, and to assess risks to consumers and financial markets from consumer financial products and services. The Federal Reserve has consumer compliance supervisory responsibility for 1) state member banks with consolidated assets of more than $10 billion for their compliance with consumer protection laws not specifically assigned to the CFPB, and 2) state member banks with consolidated assets of $10 billion or less for their compliance with all consumer protection laws. The Federal Reserve is also responsible for conducting Community Reinvestment Act (CRA) examinations for state member banks, regardless of asset size.

Table 1
Other Types of Examinations and Relevant Guidance

Examination Type or Examined Entity	*Relevant Guidance*
Holding Companies	• Federal Reserve's *Bank Holding Company Supervision Manual*
Overseas Operations of U.S. Banking Organizations	• Sections 1050.1 and 1050.2 of the *Bank Holding Company Supervision Manual* • SR-08-9, "Consolidated Supervision of Bank Holding Companies and the Combined U.S. Operations of Foreign Banking Organizations"
Edge Act and Agreement Corporations	• SR-08-9, "Consolidated Supervision of Bank Holding Companies and the Combined U.S. Operations of Foreign Banking Organizations" • SR-90-21, "Rating System for International Examinations"
U.S. Activities of Foreign Banking Organizations	• SR-12-17/CA-12-14, "Consolidated Supervision Framework for Large Financial Institutions" • SR-08-9, "Consolidated Supervision of Bank Holding Companies and the Combined U.S. Operations of Foreign Banking Organizations" • SR-00-14, "Enhancements to the Interagency Program for Supervising the U.S. Operations of Foreign Banking Organizations" • SR-96-36, "Guidance on Evaluating Activities Under the Responsibility of U.S. Branches, Agencies and Nonbank Subsidiaries of Foreign Banking Organizations (FBOs)"

Examination Type or Examined Entity	*Relevant Guidance*
Information Technology Examinations	• *FFIEC Information Technology Examination Handbook* • Section 4060 of this manual • SR-00-3, "Information Technology Examination Frequency" • SR-99-8, "Uniform Rating System for Information Technology"
Trust Departments and Trust Companies	• Section 4200 of this manual • SR-01-5, "Examination of Fiduciary Activities" • SR-98-37, "Uniform Interagency Trust Rating System" • SR-96-10, "Risk-Focused Fiduciary Examinations"
Transfer Agent Activities	• Section 4200 of this manual • SR-01-5, "Examination of Fiduciary Activities"
Municipal Securities Dealers Government Securities Dealers Clearing Agencies	• SR-06-8, "Reports of Examinations of Government Securities Activities" • SR-94-5, "Government Securities Act Amendments of 1993" • SR-93-40, "Department of the Treasury Interpretation Regarding Allocation of Securities to Customer Accounts in Hold-in-Custody Repurchase Transactions" • SR-90-1, "Examination of State Branches and Agencies of Foreign Banks for Compliance with Regulations Related to Government Securities Activities" • SR-88-26, "Examination Procedures Relating To Government Securities Activities" • SR-87-37, "Examination Procedures Relating to Government Securities Activities" • SR-86-40, "Revised Municipal Securities Dealer Examination Procedures and Report Forms"
Consumer Examinations	• Federal Reserve's *Consumer Compliance Handbook*