Bank: **Date of Exam:**
Charter #: **Prepared By:**

#17– OTHER ASSETS (Risk Focused)

ASSIGNMENT OVERVIEW

As used in this section, Other Assets include all balance sheet asset accounts not covered specifically in other areas of the examination. Often, such accounts may be immaterial to the overall financial condition of the bank. However, significant sub-quality assets may be uncovered in banks lacking proper internal controls and procedures. For additional guidance, consult Section 3.7 "Other Assets and Liabilities" in the FDIC Examination Manual. The related DOB Reference Material document for this procedure identifies useful regulations, guidance, and other issuances by various regulatory authorities.

INSTRUCTIONS

All examiners performing these procedures must be listed above in the "Prepared By" section. All of the CORE ANALYSIS PHASE should be completed. Comments and findings for each step should be made in the comment box below each question. Reference to work paper documentation should also be included here. Documentation is to be sufficient to allow an audit trail of the examiner's thought process and all significant findings.

Based on any weaknesses or risks noted in the CORE ANALYSIS PHASE or as directed by the EIC, the applicable SUPPLEMENTAL ASSESSMENT PHASE (SAP) should also be performed. Responses should be entered in the SAP. All of the important findings/deficiencies identified while performing the SAP should be summarized in the corresponding CORE ANALYSIS comment section.

The EIC/AEIC should review this procedure when complete. Acknowledgement that this procedure has been reviewed by the EIC/AEIC will be noted on the SCOPE FORM.

EXAMINERS ARE RESPONSIBLE FOR EXERCISING SOUND JUDGMENT AND UTILIZING REASONABLE INVESTIGATIVE AND ANALYTICAL SKILLS TO ARRIVE AT AN ACCURATE ASSESSMENT OF THE RISK PROFILE OF THIS SEGMENT OF THE INSTITUTION'S OPERATIONS. PERFORMING ALTERNATE PROCEDURES NOT LISTED WITH THESE GUIDELINES MAY BE NECESSARY TO COMPLETE THIS RISK ANALYSIS.

CORE ANALYSIS PHASE

#17 – Other Assets

1. Prior Criticism

1. Determine whether deficiencies noted in the last examination and most recent internal/external audit have been addressed and/or corrected by management. Detail how deficiencies were corrected. *Include copy of exam and/or audit exceptions and management response in work papers, or summarize exceptions/criticisms below or indicate the page number in the last examination report where deficiencies are noted, if applicable.*

Comment:

2. Reconcile

2. Reconcile material Other Assets to the GL and verify Call Report schedule RC-F. Comment on any deficiencies noted (Ensure credit balances have been transferred to other liabilities or vice versa, according to Call instructions.) *Include copy of reconciliation and materiality calculation in 17-A of work papers.*

Comment:

3. Review and Analysis

3a. If the bank booked any deferred tax asset as a result of Net Operating Losses, complete the **SAP**.

Comment:

3b. If the bank has any repossessed assets, discuss with management the asset's value to determine that the asset is reported at the lower of BV or MV. Also consider the assets condition, age, and marketing efforts, if any, to determine appropriate classifications. Comment on deficiencies and note classifications. *If applicable, include list of repossessed assets in 17-B of work papers.*

Comment:

3c. If the bank has intangible assets, complete the **SAP** section. Refer to **Appendix** for additional guidance.

Comment:

3d. If the bank owns mortgage servicing rights, refer to the FDIC Examination Manual, and evaluate compliance to call report instructions and ASC Topic-860 *Transfers and Servicing*, formerly FAS 140. Document any exceptions noted.

#17 – Other Assets
Comment:
3e. Determine that each prepaid expense account is valid, has a remaining benefit to the bank, and is amortized over a reasonable period correlating with their estimated economic life.
Comment
3f. Determine the validity and benefit of any other asset account including suspense accounts. For guidance on suspense accounts, refer to **Appendix**. Comment on any deficiencies noted.
Comment:
4. Final Analysis
4. Complete the **Summary of Findings**.

SUMMARY OF FINDINGS

#17 OTHER ASSETS
Describe all strengths evident from the evaluation.
Describe all weaknesses evident from evaluation, including violations of law/regulation/rules; noncompliance with Departmental policies/guidelines; internal policy deficiencies/ noncompliance; internal control weaknesses; MIS problems; and deficiencies in management supervision.
Report Worthy:
Not Report Worthy:
Determine why weaknesses exist and comment on management's response and plan of action. Identify bank personnel making the response.
SUMMARY RISK RATING ASSIGNED: enter rating here

Risk Rating Definitions:
1-Strong; 2-Satisfactory; 3-Less than satisfactory; 4-Deficient; 5-Critically deficient; NR-Not Rated

Provide copy of this page to EIC/AEIC. Receipt and review of this form by the EIC/AEIC will be evidenced by his/her initials in the appropriate column for this procedure on the SCOPE FORM.

Return to Core Analysis

SUPPLEMENTAL ASSESSMENT PHASE

SAP

Document findings within the SAP and summarize (include weaknesses and statements on compliance with regulations or policies) in the corresponding CORE ANALYSIS section.

DEFERRED TAX ASSETS (Q3a)

1. For deferred tax assets which can be realized only through future taxable earnings, review for compliance with limits under *12 CFR 325 for regulatory capital (or 12 CFR 208, Regulation H, for Fed member banks).*

   Note: *Generally, the amount of deferred tax assets which may be used in calculating regulatory capital is limited to the lesser of the amount that can be realized within one year of the quarter-end report date or 10% of Tier 1 Capital.*

   Net Book Value of Deferred Tax Asset __________ vs.

   Amount Bank Expects to Realize Within One Year

   __________ vs. 10% of Tier 1 Capital __________.

2. Determine if the amount in deferred tax assets is reasonable and realizable by reviewing the bank's calculation **performed by their accountant**.

   Refer to the FDIC Risk Management Manual of Examination Policies - Section 3.7 Other Assets and Liabilities and the Glossary section of the Call Report Instruction Book.

3. Verify if management reassesses the value of the net deferred tax asset account at least annually and adjusts accordingly.

4. If any excessive amount is identified, verify that the bank either established a valuation allowance account for any temporary difference or charged off any excess amount.

Comment:

Return to Core Analysis

SAP
Document findings within the SAP and summarize (include weaknesses and statements on compliance with regulations or policies) in the corresponding CORE ANALYSIS comment section.
INTANGIBLE ASSETS (Q3c)
1. Review the bank's work papers to determine the type of intangible. Identifiable intangible (i.e. Deposits and Loans) versus unidentifiable intangible (Goodwill). (Refer to ASC Topic 350 - *Intangibles—Goodwill and Other*, formerly FASB Statement 142, for definitions). 2. Review calculations of intangibles to determine if values are reasonable and justified. 3. Ensure the intangibles are being amortized correctly. Refer to ASC Topic 350 - *Intangibles—Goodwill and Other (*Formerly FASB 142) and Call Report Instructions-Glossary, Business Combinations. 4. Determine if the value of Goodwill is tested for impairment at least annually. If an impairment of value has occurred, the asset must be written down to reflect its diminished value. (Refer to ASC Topic 350 - *Intangibles—Goodwill and Other* for guidelines for impairment testing.) *Include copy of impairment testing in workpapers.*
Comments:
Return to Core Analysis

APPENDIX

GOODWILL AND INTANGIBLES

Goodwill is an unidentifiable intangible asset that is acquired in connection with a business combination accounted for as a purchase, including an acquisition of a bank to which push down accounting applies. This intangible asset is recorded on the balance sheet when the cost of an acquisition exceeds the fair value of the identifiable tangible and intangible assets acquired less the fair value of the liabilities assumed.

Some banks remain unaware of the accounting changes for the treatment of goodwill and other intangible assets. This could be a sign of an incompetent or inadequate internal audit. Goodwill should not be amortized in most cases after January 1, 2002, but should be tested for impairment annually. Core deposit intangibles should be recognized separately from goodwill in most cases. If these assets are not recognized appropriately Capital levels could be skewed.

For additional guidance refer to:

ASU 2011-08 *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*.

ASC Topic 850 – Business Combinations, formerly FAS 141, for the requirements on recognizing intangible assets separate from goodwill.

ASC Topic 350, Intangibles – Goodwill and Others, formerly FAS 142, for the accounting treatment of acquired intangibles including impairment testing.

Call Report Instructions-Glossary, Business Combinations

Return to Core Analysis

APPENDIX

SUSPENSE ACCOUNTS

Consider the following:

- Items included in suspense accounts should be periodically aged and reviewed for propriety by responsible personnel.
- Proper adjustments should be made periodically to clear this account to zero.
- Stale items held in the account that are more than 30 days old should be considered for charge-off.

***Review transactions since the last examination for any large or unusual activity. Trace the origination and final disposition (if cleared) of the following:**

- Material items posted to the account.
- A series of transactions or a single day aggregating a material amount.
- Stale items as determined to be significant.

* For accounts with high activity a random sampling of transactions may be appropriate. Document the method used to determine the sample.

Return to Core Analysis