

Select Entity Type	Enter Name and City	Date of Exam	
Charter #		Prepared By	

#4 –FIDUCIARY/CORPORATE EARNINGS (Risk Focused)

ASSIGNMENT OVERVIEW

Fiduciary earnings encompass an evaluation of the institutions operating results and earnings trends, and the probable effect thereon of the volume and character of present and anticipated future business. Profit and cost accountability, and the institution's understanding of it, are of considerable importance and will directly or indirectly affect the long-term viability of the institution. Each institution has its own unique mix of accounts and circumstances to be analyzed and monitored for profitability. In conducting any analysis of this area, examiners should recognize that conclusions will be affected by such factors as management's attitude toward the trust function, the limited abilities of smaller institutions, policies on allocation of credits for deposit balances, and the current lack of uniform accounting or profit measurement standards.

INSTRUCTIONS

Examiners must follow the requirements in the Examiner Bulletin addressing Guidelines for Procedures and Work Paper Documentation for Trust Examinations.

All examiners performing these procedures must be listed above in the "Prepared By" section. 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. Items to Consider within the core analysis phase are not required to be commented on unless there are significant issues. The intent is to assist the examiner in expanding their thought process and analysis of that area.

Information on the Summary of Findings page must tie back to the findings noted within the procedure. The SEIC/EIC will determine which information in the Summary of Findings will be included in the Report of Examination.

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

#4 FIDUCIARY EARNINGS

1. Prior Criticisms

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 a copy of audit exceptions and/or prior examination criticisms and management response in work papers or indicate the page number in the prior report of examination where the deficiencies are noted, or summarize exceptions/criticisms below, if applicable.*

Comment:

2. Accounting, Reconciliation, and Call Reports

2a. Evaluate the accounting systems to ensure its effectiveness in relation to the institution's size and earnings level. Determine if management information systems effectively measure and monitor income and expenses.

Comment:

2b. Verify proper categorization of general ledger accounts against the call report Statement of Income and Statement of Condition RC-T (for trust department) and RC and RI (for trust company). If significant errors are detected, instruct the entity to file amended reports. The trust company files amended reports with the Banking Department. Refer to Call Report Instructions as needed. Comment on any deficiencies.

Comment:

3. Budget Process

3a. Evaluate and comment on the adequacy of the budget process. .

Address the following:

1. Is the budget approved by the Board or a Board appointed committee?
2. Does the Board and/or management periodically review budget variances?
3. Are there any significant variances between the budget and actual earnings for the current year? For the prior year? If so, are these variances the result of deficiencies in the planning process or external factors?
4. Is the budget based solely on historical information?
5. Are the budget assumptions reasonable?

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6. Does management allow amendments to the budget throughout the year? If so, what factors would prompt an amendment and what is the amendment procedure?
7. How often does management review fees, expenses, budget variances, and goals?
8. What is process of revising the budget during the year?

Comment:

4. Profitability Trends and Analysis

4a. Determine if the trust department /trust company is profitable. Review current and prior year earnings to determine profit trends. Discuss earnings trends.

Consider the following:

1. Is revenue increasing, decreasing, or stable?
2. Is overhead increasing or decreasing relative to the size of the company?
3. What effects have losses and charge-offs and any settlements, waiver, or similar actions had on earnings?
4. Are expenses reasonable in terms of the size and character of the institution's business?
5. Are profits going up or down?
6. What are the effects of competition and other important market factors?
7. What portion of income results from trust activities?

Comment:

4b. Assess Board/Committee oversight in reviewing the institution's profitability. Determine if management's analysis of earnings and expenses appear reasonable in relation to the institution's size and earnings level.

Consider the following:

1. Does the Board or an appropriate committee thereof review trust profitability at least annually?
2. Does such review provide an adequate basis for the analysis of profitability?
3. Does the review include operating results?
4. Is compliance with or deviations from the budget reviewed?
5. Are direct or indirect salaries and expenses included in the analysis?

Comment:

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4c. If applicable, discuss what effect losses, charge-offs, settlements, waivers, or similar actions have had on earnings.

Comment:

4d. Determine if there are any unusual entries in the income and expense accounts. Discuss their effect on earnings.

Consider the following:

1. Significant deviations from normal amounts
2. Entries from or to an unusual source
3. Multiple or confusing entries
4. Entries labeled “other income” or “other expense” that do not seem reasonable

Unusual Entries Noted

Select Response

Comment:

5. Trust Fees Assessment

5a. Determine if the institution has a published fee schedule or other formal policy or procedure for the pricing of its fiduciary services that is reasonable in relation to the services provided.

Determine how often fee schedules are reviewed by management for possible revision.

Comment:

5b. Determine under what types of circumstances a deviation from the standard fee schedule would be allowed, who has authority to approve the deviation, the procedure for applying the fee reduction, and if that procedure is followed.

Consider the following:

1. What is the procedure for deviating (e.g., reduced or waived fees) from the fee schedule?
2. Are deviations from the schedule or policy approved by appropriate personnel?
3. Are deviations from the schedule or policy documented?
4. Does the Board or a committee thereof, periodically review all fee deviations?
5. Are deviations from the schedule or policy the exception or common practice?

Comment:

5c. Is there an independent review or audit of fees or commissions to determine that they are appropriate, authorized, and properly documented? If yes, describe.

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Consider the following:

1. Does the review include verification that all accounts are charged or billed?
2. Are fees collected traced to the institution's general ledger on a sample basis?
3. Are authorizations for nonstandard or waived fees verified?
4. Is the accuracy of fee income accrual confirmed?

Comment:

5d. Determine if there is an adequate separation of duties and controls regarding the computation of fees and other income/expense items.

Comment:

5e. Determine if any fees paid to an affiliate, subsidiary, servicing company, or other agent are reasonable in relation to the services being performed and that such arrangements are periodically reviewed by the Board.

Consider the following:

1. Does the Board periodically review the quality of services received in relation to the fees paid?
2. How often are fee schedules reviewed by management for possible revision?
3. Are services provided governed under a written service agreement?

Comment:

6. Marketing and Prospects

6a. Evaluate the reasonableness of the marketing plan regarding goals, strategies for goal attainment, identification of products and target customer groups, and procedures for periodic progress reports.

Comment:

6b. What are the extent and estimated effects of competition and other important market factors on earnings?

Comment:

6c. What, if any, are the institution's prospects for future business or new product lines?

Comment:

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7. Trust Departments Only

7a. Determine if direct expenses are reasonable in terms of the size and character of the institution's business and in relation to other similar institutions.

Comment:

7b. Determine if indirect expenses are allocated by a reasonable method . If not allocated, determine if the lack of such allocation is justified (given the institution's size and earnings level).

Comment:

8. Trust Companies Only

8a. Verify income tax expense. Utilize work papers supplied by the accountant and/or other applicable sources of information.

Comment:

8b. Determine to what extent the company is dependent on securities gains, non-recurring items, and extraordinary entries for profitability.

Comment:

9. Final Analysis

9. Complete the Summary of Findings. Refer to Supervisory Memorandum 1001 for trust department ratings and SM 1002 for trust company ratings.

TRUST DEPARTMENT:

Complete the Fiduciary Summary of Findings and assign a rating.

TRUST COMPANY:

Complete the Fiduciary and Corporate Management Summary of Findings and assign ratings

SUMMARY OF FINDINGS FIDUCIARY EARNINGS

#4 -FIDUCIARY EARNINGS

Describe all strengths evident from the evaluation.

Describe all weaknesses evident from the 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.

Determine why weaknesses exist and comment on management's response and plan of action. Identify bank personnel making the response.

SUMMARY RISK RATING ASSIGNED – FIDUCIARY EARNINGS: Select Rating

Risk Rating Definitions

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

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SUMMARY OF FINDINGS CORPORATE EARNINGS

#4 – CORPORATE EARNINGS

Describe all strengths evident from the evaluation.

Describe all weaknesses evident from the 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.

Determine why weaknesses exist and comment on management's response and plan of action. Identify bank personnel making the response.

SUMMARY RISK RATING ASSIGNED-CORPORATE EARNINGS: Select Rating

Risk Rating Definitions

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

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