

<b>Trust Company</b>		<b>Date of Exam</b>	
<b>Charter #</b>		<b>Prepared By</b>	

## #10 – TRUST COMPANY EARNINGS (Risk Focused)

### ASSIGNMENT OVERVIEW

Earnings are a necessary ingredient of any successful fiduciary operation. A reliable income stream provides for capital accretion, timely discharge of routine business expenses, and dividends to nurture investor confidence. Earnings are evaluated by a review of revenues and expenses, trends, and anticipated future business. Factors which can affect operating results include management control of overhead and operating expenses, the size and location of the institution, the range of services offered, public policy, dependence on nonrecurring fees, and changes in demand for fiduciary products. As fiduciary fees typically generate the bulk of revenue in most institutions, procedures for the review of both corporate and fiduciary earnings are provided in this section. However, the examiner should also refer to #4 Fiduciary Earnings Procedures when evaluating overall earnings performance.

### INSTRUCTIONS

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

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 significant/critical findings 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.** Conclusions from performing the SAP should be added to the corresponding CORE ANALYSIS comment section. Indicate if the SAP is performed, in the comment section.

The Summary of Findings page contains strengths, weaknesses, and management’s response to the weaknesses. The SEIC/EIC should determine which comments on 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 PHASE

### #10 TRUST COMPANY EARNINGS

#### 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 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. Budget Process

2a. Evaluate the adequacy of the budget process. Include a review of management's system for monitoring variances, the reasonableness of budget assumptions, and the process for budget approval. Comment on any deficiencies, and complete the SAP if numerous weaknesses are observed.

**Comment:**

2b. Determine if current year projections resemble historical performance. If not, comment on anticipated changes in operations.

**Comment:**

2c. Compare the *previous* year-end earnings to the previous year's budget and the *current* year-to-date earnings to the current year's budget/profit plan. Discuss material variances with management and determine if the variances are the result of planning deficiencies, or external factors beyond management's control.

**Comment:**

#### 3. Analyze Overall Profitability

3a. Determine to what extent the company is operationally profitable. Refer to the Appendix for guidance.

**Comment:**

3b. Determine to what extent the company is dependent on securities gains, non-recurring items, and extraordinary entries for profitability.

**Comment:**

3c. Ensure that any fees paid to an affiliate, subsidiary, servicing company, or other agent is reasonable

## #10 TRUST COMPANY EARNINGS

in relation to the services being performed and that such arrangements are periodically reviewed by the Board.

**Comment:**

**3d.** Verify income tax expense. Utilize work papers supplied by the accountant and/or other applicable sources of information.

**Comment:**

### 4. Accounting System and Call Reports

**4a.** Evaluate the accounting system to ensure its effectiveness in relation to the institution's size and earnings level. Refer to the [Appendix](#) for guidance.

**Comment:**

**4b.** Verify proper categorization of general ledger accounts against the call report Statement of Income and Statement of Condition. If significant errors are detected, instruct the company to file amended reports with the Banking Department. Refer to Call Report Instructions as needed. Comment on any deficiencies.

**Comment:**

### 5. Final Analysis

**5.** Complete the [Summary of Findings](#).

## SUMMARY OF FINDINGS

### #10 - TRUST COMPANY EARNINGS

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.

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

**SUMMARY RISK RATING ASSIGNED:** Choose an item.

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



Ratings  
Definitions.xlsm

*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 in the SAP. Summarize conclusions in the CORE ANALYSIS.**

#### Budget Process

Determine the following:

- Are budgets and/or profit plans derived entirely from previous years' results?
- Are strategic initiatives factored into budgets/plans?
- Are budgets approved by the Board?
- Do earnings reports going to the Board compare actual performance to the budget/plan with an explanation of material differences?
- How often does management review fees, expenses, budget variances, and goals?
- What is process of revising the budget during the year?

**Comments:**

[Return to Core Analysis – Q2a](#)

## APPENDIX

### Analyze Overall Profitability

Consider the following:

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

[Return to Core Analysis-Q3a](#)

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### Accounting System

Consider the following:

- Does the institution engage in an independent review or audit of fees or commissions to determine that they are appropriate, authorized, and properly documented?
- In reviewing the detailed general ledger for income and expense, are there any entries noted that appear out of the ordinary or inappropriate?
- Are there any entries that appear contrary to the accounts, i.e. debits to an income account?

[Return to Core Analysis-Q4a](#)