



DEPOSITORY DIVISION EXAMINATION PROCESS

OFFICE OF THE COMMISSIONER OF FINANCIAL INSTITUTIONS



IBE & IFE EXAMINATION COMPONENTS

- **C**apital Adequacy
- **A**sset Quality
- **M**anagement Quality
- **E**arnings
- **O**perations

■ **COMPLIANCE**

- *Local laws and regulations*
- *IT*
- *Bank Secrecy Act /Anti-money Laundering (BSA/AML), and OFAC*



CAPITAL ADEQUACY

- The level and quality of capital
- The ability to obtain additional capital
- Balance sheet composition, market, concentration and risks associated
- The quality of earnings

ASSET QUALITY

- The adequacy of loan and investment policies, procedures and practices
- The adequacy of underwriting standards and credit administration
- The adequacy of the allowance for loan and leases losses
- The credit risk and off-balance sheet transactions
- The diversification and quality of the loan and investment portfolios
- Asset concentrations
- The ability of management to properly identify, monitor, and control risk

MANAGEMENT

- Oversight and support of all institution activities
- Board of Directors and Management
- The adequacy of audits and internal controls
- Compliance with laws and regulations
- Responsiveness to recommendations
- Management depth and succession
- Reasonableness of compensation policies

EARNINGS

- The level of earnings, including trends and stability;
- The ability to provide for adequate capital through retained earnings;
- The quality and sources of earnings;
- The level of expenses in relation to operations;
- The adequacy of provisions to maintain the allowance for loan and lease losses
- The adequacy of the budgeting systems

OPERATIONS

- Adequacy of policies, procedures and effectiveness of internal controls,
- Reliability and accuracy of financial records,
- Accuracy and timeliness of regulatory reports,
- Coverage and frequency of internal and external audits,
- Compliance with laws and regulations,
- Liquidity levels and sources

BSA/AML

OCFI examiners verify that the BSA/AML compliance programs of the banks are adequate in the following BSA/AML program pillars:

- BSA/AML Compliance Officer
- BSA/AML Training
- BSA/AML Internal Controls
- BSA/AML Audit

First Pillar - BSA/AML Compliance Officer

- The BSA/AML Compliance Officer is responsible for the daily coordination and monitoring of the BSA/AML Compliance Program.
- The Board of Directors of the banks must designate a BSA/AML Compliance Officer.
- The BSA/AML Compliance Officer must be fully knowledgeable of the BSA/AML Regulations.
- The BSA/AML Compliance Officer must have sufficient authority and resources to effectively administer the BSA/AML Compliance Program.

Second Pillar – BSA/AML Training

- The banks must provide ongoing BSA/AML training for all the employees.
- The BSA/AML training should be tailored to the employee's specific responsibilities.

Third Pillar – BSA/AML Internal Controls

The entities must comply with the following BSA/AML internal controls:

- Adequate risk-assessment.
- Adequate Customer Identification Program (CIP).
- Adequate high-risk account identification and monitoring practices.
- Adequate suspicious activity monitoring program and reporting.
- Adequate written policies and procedures.

Fourth Pillar - BSA/AML Audit

- BSA/AML Audit should be performed at least every 12 to 18 months.
- BSA/AML Audit has to be independent.
- BSA/AML Audit must include the verification of all BSA/AML high-risk areas.

Fifth Pillar - Beneficial Ownership

- The **fifth pillar** aims first to ensure that financial institutions understand the nature and purpose of customer relationships—in part, through a “beneficial ownership” requirement for information about business customers' ownership structure and management control.

BSA Examination Manual

- The OCFI Examiners use the Federal Financial Institutions Examination Council (FFIEC)-Bank Secrecy Act/Anti-Money Laundering Examination Manual as a guide for the BSA/AML and Office of Foreign Assets Control (OFAC) examinations.
- The FFIEC Bank Secrecy Act/Anti-Money Laundering Manual is also used by the examiners of FDIC and of the Federal Reserve Bank for the BSA/AML examinations.