

**POLICY TO ESTABLISH ACCOUNTING AND AUDITING STANDARDS
PURSUANT TO I.C. 28-13-10-8**

ANNUAL AUDIT

Effective July 1, 1992, I.C. 28-13-10-8 requires the Board of Directors of each corporation to engage a Certified Public Accountant to perform an examination (audit) of the corporation one time each calendar year. I.C. 28-10 defines a corporation for the purposes of IC 28-13 as:

- (1) A bank and trust company.
- (2) A bank.
- (3) A savings association.
- (4) A mutual savings bank formed as the result of a conversion under IC 28-1-21.7 and governed by IC 28-6.1.
- (5) A stock savings bank that was:
 - (a) formed as the result of a conversion under IC 28-1-21.8 or IC 28-1-21.9; or
 - (b) incorporated under IC 28-12;
and governed by IC 28-6.1.
- (6) A trust company.
- (7) A corporate fiduciary.

An Industrial Loan and Investment Company is subject to the accounting and auditing standards of this policy pursuant to IC 28-11-3-1(c).

The Department establishes the following accounting and auditing standards necessary to comply with the examination (audit) requirements of IC 28-13-10-8 and IC 28-11-3-1(c) by the adoption of this policy. The corporation must utilize one the following options to comply with the requirements of this policy:

1. Full Scope Audit

The Board of Directors of the corporation may engage an independent Certified Public Accountant or firm of Certified Public Accountants, to perform an audit of the corporation's financial statements in accordance with applicable Generally Accepted Auditing Standards (GAAS) and include financial statement disclosures in accordance with applicable accounting principles generally accepted in the United States of America.

An audit of the corporation's holding company will satisfy the requirements of the statute for the corporation if the audit is conducted in accordance with the requirements of this option. The Department reserves the right pursuant to IC 28-11-3-1 to require a subsidiary of a holding company to undergo separate external auditing and reporting procedures if deemed necessary and appropriate by the Department.

2. **Restricted Scope Balance Sheet Only Audit**

The Board of Directors of the corporation may engage an independent Certified Public Accountant or firm of Certified Public Accountants to perform an audit of the corporation's balance sheet in accordance with applicable GAAS, except that an evaluation of the adequacy of the allowance for loan and lease losses account may be omitted. In performing the audit, the Certified Public Accountant or firm of Certified Public Accountants must follow the applicable auditing and accounting guidelines for banks and savings institutions established in accordance with standards generally accepted in the United States of America. The corporation's balance sheet must be presented in accordance with applicable Generally Accepted Accounting Principles in the United States of America (GAAP). An "except for" opinion is required when a restricted scope balance sheet only audit is performed. A "disclaimer of opinion" based upon a scope restriction is not an acceptable opinion.

Additional requirements of these options are as follows:

- A. Communications required pursuant to applicable GAAS concerning internal control structure and other related audit matters must be in compliance with current Statement on Auditing Standards (SAS) literature except that all such communications must be documented in writing in the management letter.
- B. The audit report, any required communication pursuant to generally accepted auditing standards, and any other material written communications from the Certified Public Accountant or firm of Certified Public Accountants must be submitted to the Department within 120 days of the balance sheet date.
- C. All audit services required by this policy shall be performed only by an independent Certified Public Accountant or firm of Certified Public Accountants who (1) has agreed in writing to provide the Department access to all work papers and other audit documentation requested by the Department; and (2) is currently in compliance with a quality review program that meets guidelines which are acceptable to the Director of the Department. A Certified Public Accountant or firm of Certified Public Accountants will automatically qualify under this requirement if it has received a current unqualified report while enrolled in an American Institute of Certified Public Accountants approved practice monitoring program. An independent Certified Public Accountant or firm of Certified Public Accountants receiving a quality review report other than that described above must submit the report to the Director of the Department together with a request for approval to provide services required by this Policy. The Director of the Department will advise the accountant in writing whether the request is approved or denied.

- D. Each corporation shall provide written notification to the Department of the resignation or dismissal of the corporation's independent auditor or the engagement of a new independent auditor by the corporation. A notification disclosing the reasons for such change must be submitted to the Department within fifteen (15) calendar days of the occurrence of the event.

AUDIT POLICY

The Board of Directors of the corporation shall establish an audit policy addressing internal and external audit programs, and review its appropriateness annually. The review shall be documented in the minutes of the Board meeting.

The policy must address the provisions detailed in the following federal issuances:

1. Interagency Policy Statement on the Internal Audit Function and its Outsourcing dated March 17, 2003,
2. FIL-17-2003 issued by the Federal Deposit Insurance Corporation titled "Corporate Governance, Audits, and Reporting Requirements", and
3. Statement on Application of Recent Corporate Governance Initiatives to Non-Public Banking Organizations dated May 5, 2003 issued by The Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

Corporate governance, auditor independence, and the various other requirements detailed in these issuances will be reviewed and assessed during the examination process. Nondepository trust companies and corporate fiduciaries should follow the requirements of the Interagency Policy Statement on the Internal Audit Function and its Outsourcing dated March 17, 2003 and FIL-17-2003 to ensure compliance with this policy.

The Members of the Indiana Department of Financial Institutions formally adopted this policy on February 12, 2004.

David Bochnowski, Chairman