

Supervisory Section – Examiner Comments

25922

TRUST EXAMINATION DATA

Total Trust Department Assets as of the Date of Examination: \$6,954,725	
Examination Start Date: 08/14/2006	Date Examination Completed: 09/05/2006
Concurrent/Joint/Independent: I	Performed with Commercial examination? N
SHARP No.	Total State Hours: 135
Primary Trust Accounting Software: SEI	Total FDIC Hours: 0

EXAMINER'S COMMENTS AND CONCLUSIONS

The above hours do not include 9.5 hours of travel or 16 training hours for Sheila Patrick. EIC DeRee Allen . 8-13-06 = 37; 8/27/06 = 37.5; 9/03/06 = 32; 9/05/06 = 3; Total =109.5  
Total hours: 109 billable hours; 16 hours training; and 9.5 hours of travel = 135

A committee, consisting of Director Jay Comeaux, Director Jason Green, and President Perry, was formed in February 2005 to review capital investments. The statement for the Capital account is presented to the Board monthly.

Management has not changed since the last examination. However, the office has two vacancies which appear to have a negative effect on the remaining personnel and the trust accounts. This could also be a contributing factor in the repeat recommendations. This examiner considered lowering the Asset Management rating because asset values were not updated on all accounts and these exceptions were not reported to the Board as recommended at previous examinations. The Board minutes of September 29, 2005, included a comment from Director Haymon asking about account reviews and Director Frazer asked that a specific exceptions report be brought to the Board. President Perry is very resistant to presenting this report to the Board, but this report is an industry standard for monitoring the follow up process on annual account reviews.

President Perry stated the members are paid \$1,000 per month for being on the Board.

Compliance is handled by Stanford Group in Houston, Texas. I discussed BSA and other compliance issues with Rhonda Lear.

Disaster Recovery tests are performed annually by SEI.

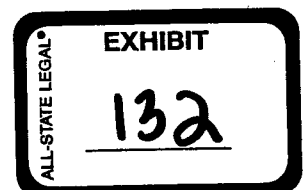
The Trust company's accounting is handled in Houston, Texas. Employees, including President Perry can not make adjustments to the records. The financials are prepared by the Houston office and sent by e-mail to President Perry.

Stanford International Bank CDs are offered only to "Accredited Investors" referred by Stanford Group. These CDs are only held in self directed accounts at this time. These accounts files contain a copy of the customer's driver's license.

**Main Office Addendum:** President J.D. Perry was asked to resign immediately after the examination. Director Jason Green stated that his resignation was requested because he had not been able to move the company in the direction desired by the parent company. Zack Parrish, Jr., Executive Director of Wealth Management for Stanford Group Company, is acting President. A permanent replacement is being sought at this time.

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## Supervisory Section - Committees

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NAME OF COMMITTEE	NO. OF AUTHORIZED MEMBERS	DESIGNATED MEETING DATE	PRINCIPAL DUTIES
(1) Trust Committee	7	Quarterly	All activities required of a trust committee.
(2) Trust Investment	4	Monthly	Review the investments, investment objective, and make changes when necessary.
(3) Trust Policy	3	Quarterly	Review policies and make recommendations to the Board.

COMMITTEE MEMBERS	BIRTH YEAR	COMMITTEE	PRINCIPAL BUSINESS INTERESTS
DANNY BOGAR	1959	(1)	Managing Director, Stanford Group Company Holdings, Houston, Texas. (He is in Miami, Florida)
JAY COMEAUX	1946	(1)(3)	President, Stanford Group Company, Houston, Texas.
THOMAS FRAZER	1945	(1)(3)	Partner/CPA, /Frazer and Persac, Baton Rouge, Louisiana.
JASON GREEN	1962	(1)(2)	Managing Director, Stanford Group Company, Baton Rouge, Louisiana
CORDELL HAYMON	1944	(1)	President, Petroserv, Baton Rouge, Louisiana.
J. D. PERRY	1966	(1)(2)(3)	President, Stanford Trust Company Baton Rouge, Louisiana
CLAUDE REYNAUD		(1)	Partner, Breazcal, Sachse & Wilson, LLP Baton Rouge, Louisiana
DEBRA BOONE	1952	(2)	Trust Operations Manager, STC.
NANCY CASE	1966	(2)	Trust Officer, STC.

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Supervisory Section - Trust Department Officers and Employees 25922

NAME	YEAR OF BIRTH	TITLE AND PRINCIPAL DUTIES	ANNUAL SALARY	TRUST TIME (%)	ANNUAL TRUST SALARY
J. D. Perry	1966	President, Strategic and tactical implementations of business. Budget adherence, peronnel management.	\$150	100%	\$150 None
Joe Klingen	1964	Senior Vice President & Senior Trust Officer, Texas Division Manager.	\$150	100%	\$150 Comm. Based
Debra Boone	1952	Trust Officer and Trust Operations Manager	\$50	100%	\$50 \$10B
Nancy Matthias Case	1965	Trust Officer	\$42	100%	\$42 \$2B
Russ Newton	1959	Vice President and New Business Officer	\$100	100%	\$100 Comm

\* Bonus is based on commissions and new business.

The staff employees listed below includes a receptionist with limited trust duties, a general operations person, and an intern. There are two temp employees working at this time; one is working in the file room, the other is working as a receptionist.

	NUMBER OF STAFF	ANNUAL TRUST SALARY
TOTALS FOR OFFICERS LISTED ABOVE	5	*\$492
TOTALS FOR JUNIOR OFFICERS NOT LISTED ABOVE	0	\$ 0
TOTALS FOR OTHER STAFF EMPLOYEES	3	\$ 80
TOTAL TRUST STAFF AND SALARIES	8	*\$582

**OFFICE OF FINANCIAL INSTITUTIONS RECORD**

Initially between document # 2556 and # 2557

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OFFICE OF FINANCIAL INSTITUTIONS RECORD

Initially between document # 2573 and # 2574

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Board Meeting Agenda  
Stanford Trust Company  
Examination as of June 30, 2006

**CONFIDENTIALITY OF REPORT FINDINGS**

**MANAGEMENT**

- Board is responsible to ensure established policies, procedures and practices are followed. Policies are reviewed by policy committee, consisting of outside directors, with suggestions/recommendations presented to the Board. However, no documentation in minutes of review or approval by Board since February 2005. *Katrina - some mtgs. cancelled*
- Board is generally responsive to recommendations from auditors and regulatory authorities; however, several deficiencies noted in this exam are repeated from previous examinations. - *Exception report to Bo 3/06 Bd. requested such Report, still not in place.*

**OPERATIONS, CONTROLS AND AUDITS**

- \*\*Facilities and operating systems appear under staffed. There are two vacant positions at this time.
- Segregation of duties and internal controls is aided by the parent company performing income processing and bank reconciliations. However, the account administrator is performing some operations duties and is coordinating expense checks.

- No vault audit June 2006 due to limited staff. - *Rhonda has done.*

*Exec/Bo* Trust is included in annual CPA audit of the parent company by BDO Seidman, LLP, Houston, Texas. *met w/SEI today to ensure maximum utilization of the system. They have capacity to address most def Russ' job is to clean up files. Act reviews are exact.*

**EARNINGS**

- Earnings for 2005 income totaled \$381,147, and as of June 30, 2006, net income totals \$305,759.
- Budget projects earnings for 2006 of \$551,667, which includes \$182,700 in gains in investments.
- \*\*TRO office in Texas may continue to impair earnings until they can generate sufficient income to cover the salaries and cost of operating the second location.
- Do not appear dependent upon non-recurring fees, but they have supplemented net income.

**COMPLIANCE**

- \*\*Improvement noted in account administration practices with the establishment of review committee. However, as recommended at the previous examination, a formal "Exceptions Report", listing accounts with exceptions noted during the administrative and investment review, should be reported to the Board. Accounts should remain on the list until corrected.
- Investment portfolios did not match investment objective established for several accounts. Appears to be a break in correspondence between investment advisor and account administrator.
- SEI performs BSA and OFAC check on accounts

**ASSET MANAGEMENT**

- Adequate overall policies, practices and procedures governing asset management.
- Uses SEI system. - *enhance to get max. (Joe + Zack)*
- Industry codes were wrong on a large number of Stanford Intl CDs. Corrected during exam. ✓
- Deficiencies noted in the accounts related to updating the current market value of assets held in the accounts. Regulations LRS 9:2088 requires "accurate annual accounting to clients"; and IRC 408 requires reporting current market value on form 5498. (administrator had correspondence requesting updates)
- \*\*Should improve documentation for method of valuation of miscellaneous assets including real estate, notes, closely held companies, limited partnerships, mineral interests, insurance and other unique assets.

\*\* Indicates comment made at previous examinations.

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Cordell Hayman

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Jason Green

THOMAS FRAZER (Tommy) CPA 3

RUSS NEWTON (att. for STC)

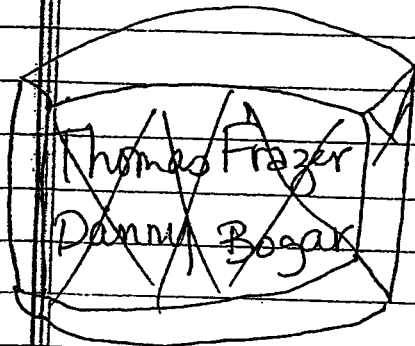
JOE KLINGEN, Sr. Trust Officer Acting Pres.

Zack Parrish, here 1x weekly (Thursday) Head of all Trust Op.

Claude Reynaud

Phone: Jay Comeaux, Director

Rhonda Lehr, Compliance Officer



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