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# OUR SERVICES

**11<sup>th</sup> Floor, Federated Investors Tower  
1001 Liberty Avenue  
Pittsburgh, PA 15222**

**800.843.9190 (Phone)  
412.355.2957 (Fax)  
[www.ficap.com](http://www.ficap.com)**

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## DEPOSITORY & NON-DEPOSITORY INSTITUTIONS

### Credit Risk

**Commercial Loan Grading** — Seasoned professionals conduct this critical piece of work, not entry-level staff. FiCap® utilizes an institution's grading system to verify that a proper grade has been assigned to all loans, or to assist with grading loans for the first time when a system is adopted.

**Commercial Loan Grading System** — One of the more critical areas of risk in a lending institution is the true understanding of credit risk to the capital of the organization. Key to this understanding is a grading system that captures the essence of risk within the commercial loan portfolio. FiCap is expert in the development, implementation, and updating of this critical system.

**Legal Remedies** — Occasionally loan collection can go far beyond the norm. Defaulted borrowers may be out-of-trust, or even claim lender liability. Whatever the issue, the seasoned attorneys from FiCap member Keevican Weiss Bauerle & Hirsch LLC, working with your local counsel, are available to handle even the most difficult cases, in or out of the courtroom.

**Loan File Review** — The experts at FiCap will conduct a full loan file documentation and organization review to guard against potential loss. Missing documentation will be noted per file and any overall file organization comments delivered to management.

**Loan Underwriting Policy** — The professionals at FiCap can provide information to management about the latest trends and patterns in loan underwriting policies. This knowledge can then be used to develop a new policy tailored to the institution's own level of risk tolerance.

## Compliance Risk

**Director Education** — An outside director often has difficulty grasping the full scope of the regulatory and business environment of a financial institution. From regulatory issues, to basic banking practices, to liability issues and beyond, FiCap is adept at providing the knowledge and information base required, enabling all directors to participate fully and add value to the organization.

**Director Liability** — FiCap completes a thorough evaluation of all issues related to a director's liability. Is the Board packet adequate? Are issues fully discussed and disclosed? Does the Board demonstrate awareness of its responsibilities? These issues and many others are addressed in this critical piece of work.

**Policy/Procedure Review** — FiCap conducts a third-party review of staff adherence to all policies and procedures within the organization. The work can be completed as a review only, or as a review with suggestions to further facilitate compliance by the staff with the policies/procedures reviewed. This review is a key to risk management as policies and procedures are of little value if they are not followed by all employees.

**Privacy Regulation Compliance** — Is your organization following the compliance regulations? Are systems properly programmed to catch any potential violations? In this modern era of computer generated databases, even a small error in privacy can cause damage to an institution's reputation and result in a loss of funding sources—its core customers. The team of experts at FiCap will provide the necessary analysis to ensure that the financial institution and its customers are fully protected.

**Regulatory Response** — When a financial institution becomes involved in a regulatory action, it, like most other financial institutions, is uncertain as to how to respond to the action, and what is actually expected of it. The professionals at FiCap have many years of very successful experience in assisting its clients in their response to regulatory sanctions. A quick, concise and strategic response is critical to the speedy resolution of these actions, otherwise they may continue for many years. The FiCap team will assist the institution's management in providing the necessary response with minimal disruption to the day-to-day business activities.

## CompVal Report<sup>SM</sup>

FiCap helps to answer the difficult questions that confront mid-range financial institutions today. Our innovative CompVal Report<sup>SM</sup> enables institutions to capitalize on their specific and unique qualities, providing continuing assistance to management and directors as they implement the strategies they have adopted.

FiCap begins by conducting a strategic assessment of an institution. A complete review of the current competitive situation and shareholder value is analyzed first. The assessment also includes:

- ◆ Customer relationships, demographics, and market share
- ◆ Product profitability and costs
- ◆ Delivery systems
- ◆ Valuation of non-maturity deposits
- ◆ Balance sheet structure and its present value
- ◆ Interest rate risk to income and equity
- ◆ Unique history, characteristics, and risk profile of the institution

This analysis often uncovers unrealized value, leading to the development of strategies to unlock such value.

The strategic assessment also offers a fresh look at the institution's legal underpinnings. The review encompasses the institution's charter documents, governance arrangements, relationships with key shareholders, existing anti-takeover defenses, and regulatory issues that must be addressed.

All findings are synthesized in the CompVal Reports<sup>SM</sup>. The Report presents an unbiased analysis of the institution's strengths and weaknesses. It describes tangible measures that can be taken to unlock the value hidden within the institution and increase shareholder value.

Perhaps most importantly, the CompVal Reports<sup>SM</sup> presents FiCap's assessment of the institution's true present and prospective value. This enables management and directors to view merger and acquisition opportunities objectively, and to negotiate from a position of strength without outside interference.

## **Internal Audit**

### **Lending Practices**

- Determine if lending relationships have crossed or approached legal limit boundaries
  - ◆ Analyze the reserve for Loan and Lease Losses and its conformity to regulatory requirements for determining the required reserves. Identify weaknesses in assumptions and any other errors in methodology for determining the allowance. Recommend corrective measures to ensure

that the allowance is computed in conformity with all applicable accounting and legal requirements.

- ◆ Analyze (or implement) the institution's system for grading loans. Compare actual implementation of grading system with system requirements and loan policy. Offer and implement recommendations for improving grading methodology.
- Review personnel policies and procedures.
- Evaluate the internal and external audit function and determine how the audit function should be managed in the future.
- Investigate areas of the organization in which any negligent activity or malfeasance may be occurring.
- Construct audit and management procedures, including separation of control, that will eliminate the opportunity for fraud, embezzlement, theft, or regulatory transgression to occur.
- Assess methodologies employed for disbursing funds, including: internal controls on disbursement accounts, record keeping, accounting practices, and procedures.

### **Legal Issues**

- Director and officer legal compliance, particularly Regulation O, insider loans, and disclosure of conflicts of interest.
- Compliance with lending requirements such as truth in lending and truth in savings.
- Verification that product offerings in fact conform to representations made about offerings (e.g., calculation of interest).
- Review of operating contracts including:
  - ◆ Managers and executives
  - ◆ Intellectual property and systems
  - ◆ Data processing
- Loan documentation practices and procedures.
- Legal issues are addressed by FiCap member Keevican Weiss Bauerle & Hirsch LLC

## Interest Rate Risk and ALM

**ALM/IRR Audit** — A comprehensive review of the IRR process, this audit considers the model(s) utilized, complexity of the balance sheet, data processing integration, workflow, checks and balances, policies and procedures, staffing, ALCO and other relevant areas. Recommendations for needed improvement in the risk management process will be made. Given the current regulatory and management emphasis on the overall risk management process, this product should be of interest to all, and is of particular interest to those with internal audit departments.

**ALM/IRR Risk Limit-Setting Assistance** — Provides assistance relative to the initial implementation of IRR risk limits consistent with current regulatory requirements. This service is of particular value to institutions that have recently begun utilization of a net present value IRR model. It is a key to prudent risk management under FDICIA #305 and all agencies' examination guidelines.

**Investment Portfolio Review** — A written report prepared four times a year that summarizes the performance and structure of the portfolio. It also addresses investment strategies and general market trends, and integrates the portfolio with the financial institution's balance sheet. A demonstration of the IRR embedded within the portfolio is included in the reports. This is a perfect support tool for the part-time portfolio manager and an appropriate reporting supplement to board packets.

**IRR Policies and Procedures Review** — Assists management in the creation/development of specific policies and procedures necessary for prudent IRR risk management. The policies and procedures will be developed to “dovetail” with the institution's risk assessment model. This is an annual service and includes updates during the year if regulatory, accounting, or other outside influences so dictate.

**Model Set-Up Assistance** — Generally a one-day, on-site project designed to assist in proper set-up of a new ALM/IRR model, or corrected set-up of an existing model. Proper set-up assistance will generally save the operator multiple days' set-up time and allows for correct modeling.

**Non-Maturity Deposit Review** — The understanding of non-maturity deposits is key to correct modeling of IRR. Regulatory models generally assign much shorter blanket maturities to these deposits than are actually experienced. This work consists of a review of the history of these accounts, which results in a clear understanding of their optionality-stressed duration behavior. The Review will demonstrate the stability of the accounts over time, and the client's efforts to understand these non-maturity accounts. Consequently, in general, institutions find that they can safely extend the assumed duration of assets—safely carry longer duration assets—which often results in increased profitability.

**Non-Maturity Deposit Study** — Is a much more comprehensive body of work than the Non-Maturity Deposit Review. The service is designed for the institution that wishes a solid empirical foundation on which to base its IRR process. These studies provide a statistically defensible estimate of the effective maturity (duration) of these deposits. Not only is the sensitivity of these deposits to interest rates studied, but the impact of other variables is also considered. The effective duration of such deposits can have dramatic effect on NPV and the volatility of IRR and often results in a dramatically different risk profile than previously demonstrated. Longer duration liabilities allow for longer duration assets, which generally increase profitability.

**Policy Development** — Often an institution's policies and procedures become stale or require updating due to regulatory or accounting changes. FiCap's broad view of the industry ensures efficient creation of the proper platform for development, saving management untold investigative hours toward the creation or recreation of effective and useful policies.

**Product Profitability Study** — See **Profitability Issues**

**Strategic IRR Review** — Prepared four times a year, this review is a written evaluation of the client's interest rate risk position. The Report is prepared based on the results of the client's ALM/IRR model, strategic plan, set risk limits and other factors. It provides recommendations relative to actions that can be taken to manage IRR, as well as profitability action steps that may be taken.

**Subjective Assumption Determination** — This most critical study addresses the subjective assumptions utilized in the production of any ALM/IRR model output. These assumptions have a critical impact on the answers derived from a model, and are the subject of most disagreements between institutions and regulators regarding IRR. A Subjective Assumption Determination requires a minimum of one day, on-site work with key personnel, including a session with senior management.

## **Legal Risk**

**Regulatory** — Coordinate responses to regulatory action letters. Assess degree to which recommendations from auditors, regulators, or others are being implemented. Pinpoint specific weaknesses in implementation approach and recommend necessary improvements.

**Anti-Take Over Defenses** — An institution wishes to be free of outside interference while executing its strategic plan. The legal team at FiCap member Keevican Weiss Bauerle & Hirsch LLC will conduct a thorough review of the legal defenses of the institution and make recommendations for changes to tighten or modify the client institution's defenses.

## Liquidity Risk

**Alternative Liquidity Sources** — The FiCap team can help an institution uncover untapped liquidity sources. These projects range from solving temporary liquidity needs, to providing viable longer-term solutions from both on and off-balance sheet sources. Many times, creativity is the password.

**Liquidity Policy Development** — Often an institution's policies and procedures become stale or require updating due to regulatory or accounting changes. FiCap's broad view of the industry saves management untold investigative hours toward the creation or recreation of effective and useful policies.

**Also see Reputation Risk for other issues that address Liquidity Risk.**

## Price Risk

**Asset Holdings Analysis** — Embedded options held by borrowers, ever changing economic conditions, varying spread relationships, and many other factors can dramatically change the market price of an asset. The analysis conducted by FiCap can help identify the risks and opportunities that may cause potential changes in price beyond the linear values often assumed. This becomes especially important in the era of asset securitization and asset production sales. FiCap's work can uncover potential risk to earnings or capital due to price risk.

**Investment Portfolio Analysis** — FiCap provides an analysis of the risk to price of the investment portfolio under varying scenarios. In today's world of complex investment vehicles, the rule that price is not a linear equation is particularly appropriate. The convexity, created by embedded options and credit considerations, of some instruments and the negative convexity of others can make the assessment of price risk difficult under varying future scenarios. This service assesses values of individual holdings and the portfolio as a basket under varying economic and interest rate scenarios.

## Profitability Issues

**Product Profitability Analysis** — Financial institutions are bundles of products that assist customers in the management of their financial affairs. In the past, financial institutions controlled most loan and depository products. In today's environment,

with limited resources available, increasing competitive pressures for both customers and narrowing spreads, financial institutions must allocate available resources to the most attractive business opportunities available, and those with the greatest possibilities for success.

FiCap's work demonstrates the fully loaded cost of each product offered, on both the asset and liability side of the balance sheet. The driving factors for the profitability of each product are identified. Recommendations are made to increase profitability through redesign of products, utilization of available efficiencies, new products, or through elimination of those products that may never be profitable.

**Incentive Plans** — In this era when competition comes from all sides, and banks and thrifts are moving toward more sales-based cultures to survive, high performance incentive plans are a must. Often poorly conceived incentive programs can become disincentive plans, leading to disappointment and poor morale at the staff, and even management levels. FiCap develops well-designed plans—results driven plans—that motivate and reward employees for desired behavior and performance patterns.

**Transfer Pricing** — Transfer pricing mechanisms are utilized as a management tool to increase profitability and, ultimately, share value. Through the use of these systems in combination with options adjusted pricing systems, management can effectively determine the profitability of each unit or department. This information is essential as business lines are analyzed for inclusion in the institution's product mix.

FiCap is expert in the development and audit of transfer pricing systems for these internal funds that are the central point of a true Treasury function. These models provide clear accountability by department or unit by charging for funds' use while providing credits for revenues or budget adherence.

## Reputation Risk

**Media Control** – When reputation risk arises and the media is involved, the experienced media and public relations team at FiCap can smooth troubled waters. FiCap provides experts who can assist an institution when the institution needs to convey information in the most positive light while conforming with regulatory and legal requirements.

**Strategic Plans** – Any organization must have a clear view of its future and its position within its market. FiCap works with the Board, management, and staff to develop detailed plans based on the institution's strengths and market opportunities.

These detailed plans are empirically developed and designed to create long-term shareholder value.

## Transaction Risk

**Personnel** — FiCap conducts a fresh, outside review of the organization's personnel policies and procedures. This review is conducted from a risk management perspective, rather than from just a human resource compliance perspective.

**Systems** — This critical piece of work reviews the systems' capabilities and system management while also addressing the adequacy of internal controls.

**Internal Audit Function** — Are the audit functions completed and accurate? FiCap can answer this question with our evaluation of both the internal and external audit function. If oversights are apparent, FiCap will map out a path for the audit functions and how they should be managed in the future. This work includes separation of control analysis that may help to eliminate the opportunity for fraud, embezzlement, theft, or regulatory transgressions to occur.

**Workflow** — FiCap conducts a review of organizational workflow in each area of operations, which is designed to provide results and recommendations that will assure efficiency and increased productivity while limiting opportunities for circumvention of controls.

## Strategic Risk

**Accountability Issues** — Please see **Organization Structure and Charting** below, and the Section entitled **Incentive Plans**.

**CompVal Report<sup>SM</sup>** — See the separate section for this industry leading work.

**Public Positioning** - When an institution has developed a Strategic Plan and wishes to implement the Plan, the media team at FiCap can position the client to its customers and the public to clearly define the organization and its goals.

**Organization Structure and Charting** – Strategically, an organization may be on the ideal path, but unless the organization is properly structured, achievement of a proposed strategy may not be possible. Accountability must be built into every organizational structure. FiCap assists boards and management in the development and creation of an organizational structure that brings accountability to the staff, and share value to stockholders.

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**Workflow** — FiCap conducts a review of organizational workflow in each area of operations, which is designed to provide results and recommendations that will assure efficiency and increased productivity while limiting opportunities for circumvention of controls.

### Accounting and Record-Keeping Risk

**Overhead Disbursements** — FiCap assesses methodologies employed for disbursing funds, including: internal controls on disbursement accounts, record-keeping, and accounting practices and procedures.

**Fictitious Vendors/Claimants Reviews** — FiCap pulls sample files of both vendors and insurance claims and reviews each file for evidence of irregular behavior.

**Payables Cycle Analysis** — This work consists of a review of the accounts payable records to determine the rate at which they turn over. The report will recommend any necessary modifications that should be implemented.

**Commission Disbursement Analysis** — Insurance operations practices relative to disbursement of commissions are analyzed. In addition to a comfort letter format, the report will consider any improvements in the currently utilized internal methodology and make any recommendations for improvements.

**Contingency Commission Analysis** — This is a thorough assessment of the policies and compliance applied in determining and paying both contingent and regular commissions. Are agents/brokers' interests aligned with the financial institution's interests? If not, FiCap suggests modifications in order to assure such alignment .

**Investment Accounting Audit or Review** — Large portfolios of complex instruments can create inadvertent errors in postings. The FiCap team can conduct either a review or a full audit of the accounting practices for the investment portfolio.

**Policy Acquisition Cost Calculation Analysis** — A thorough analysis of the methodology used to determine the cost of acquiring policies is conducted here. This service can be critical in the assessment of the product profitability of any company. This cost accounting review determines whether the methodology utilized takes sufficient account of all applicable costs. The written review includes suggestions or modifications for improved accuracy and profitability capture.

**Wire Transfer Process** — A standard outside review of the wire transfer process that will also determine use or need for customary security measures such as backup tapes. FiCap will recommend any structural changes necessary in this key process.

**Billings and Collections Processes** — This service may be completed as a review or a full audit of the process for billings and collections. The process includes measurement of timeliness, efficiency, internal controls, and so forth. It will identify opportunities for improvement including electronic bill payment and presentment given the recent implementation of digital signature legislation. Also included is a review of the premium audit procedures for timeliness, accuracy of billings and collection.

**Follow-up Review on Outside Auditor Comments and Regulatory Reviews or Market Conduct Exams** — This important follow-up work assesses the degree to which recommendations from auditors, regulators or others are being implemented. FiCap will pinpoint any specific weaknesses in implementation approach and recommend necessary improvements.

**File Inventories for Underwriting** — This review will verify compliance with the institution's underwriting/documentation procedures and the integrity of the institution's MIS database. The work will isolate specific weaknesses and propose necessary improvements.

**Return Premium and Cancellation Procedures and Analysis** — This work will confirm compliance with the financial institution's underwriting/documentation procedures regarding policy cancellations and return premiums. It determines compliance with state cancellation/notification requirements and locates specific weaknesses and proposes necessary improvements.

**File Inventory Claims for Premium Testing** — FiCap will verify compliance with an institution's claims payment and reserve change/documentation procedures and the integrity of the institution's MIS claims database, including state and LOB coding. As with all reviews, a written report is provided. The report includes an analysis of the process and identifies problem areas and weaknesses.

**Loss Control Review** — Test procedures for ensuring loss control recommendations are implemented, or surcharges are applied where applicable. FiCap will recommend and implement changes as necessary.

**Testing of Retropremium Calculations** — Are retrospective premium calculations being made in accordance with contract methodologies? FiCap will test and validate the process and propose adjustments as appropriate.

**Reinsurance Review (Claims Coding and Agreement Compliance and Reporting Process)** — This important work establishes whether reinsurance treaties are being accurately implemented. Tests claims coding and reporting process.

**Reserves Calculations and/or Validation** — This work is completed to verify the accuracy of loss information used in actuarial analysis and reporting.

## **CompVal Report<sup>SM</sup>**

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FiCap begins by conducting a strategic assessment of an organization. A complete review of the current competitive situation and shareholder value is analyzed first. The assessment also includes:

- ◆ Customer relationships, demographics, and market share
- ◆ Product profitability and costs
- ◆ Delivery systems
- ◆ Valuation of funding sources
- ◆ Balance sheet structure and its present value
- ◆ Interest rate risk to income and equity
- ◆ Unique history, characteristics, and risk profile of the company

This analysis often uncovers unrealized value, leading to the development of strategies to unlock such value.

The strategic assessment also offers a fresh look at the institution's legal underpinnings. The review encompasses the institution's charter documents, governance arrangements, relationships with key shareholders, existing anti-takeover defenses, and regulatory issues that must be addressed.

All findings are synthesized in the CompVal Report<sup>SM</sup>. The Report presents an unbiased analysis of the institution's strengths and weaknesses. It describes tangible measures that can be taken to unlock the value hidden within the institution and increase shareholder value.

Allow 12 to 16 weeks for completion of this groundbreaking work.

## Legal Reviews

The qualified practicing attorneys at FiCap member Keevican Weiss Bauerle & Hirsch LLC provide comfort to clients in many areas. These areas include:

- ◆ Director and Officer Legal Compliance — particularly Regulation O, insider loans, and disclosure of conflicts of interest
- ◆ Loan Documentation — practices and procedures
- ◆ Compliance with Lending Requirements — such as truth in lending, truth in savings
- ◆ Product Verification — verification that product offerings do in fact conform to representations made about offerings (e.g., calculation of interest)
- ◆ State Law Compliance — compliance with licensing requirements; compliance with lobbying rules and other government affairs matters; securities law compliance (as applicable)

### Operating Contract Review

- Brokers and agents, including commission structure and payments
- Managers and executives
- Intellectual property and systems
- Reinsurance contracts
- Other risk sharing arrangements

### Fraud Review

- By claimants
- By agents and brokers
- By others

## Other Risks

**Analysis of Securitizations** — With residual interests coming under ever more scrutiny by regulators, directors, shareholders and analysts, this work becomes of utmost importance to many clients. FiCap will:

- ◆ Analyze the performance of the structure versus the projected performance, and develop likely scenarios for future cash flows and performance
- ◆ Conduct residual valuations and analysis
- ◆ Determine the institution's compliance with the legal structure of the issue if the institution was the structure sponsor

**Policy Loan Review** — The professionals at FiCap provide assistance to management by providing current knowledge of practices and procedures for granting policy loans. This knowledge can then be used to develop a new policy tailored to the institution's own level of risk tolerance. Whether or not change is indicated, FiCap will determine whether loans are being made in compliance with policy and will reveal the financial impact of existing policy loan procedures.

**Whole Loan Sales and Sale Document Review** — FiCap will review an institution's practices with respect to sales of whole loans, or assist the institution in installing initial practices prior to the onset of activities. A full review of the documentation used for this purpose is conducted, and recommendations for implementation or improvements are made as necessary.

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