

The Impact of Standardized Basel II on Alaska Banks

Prepared for Alaska Bankers Association



Executive Summary

- Basel II bank capital regulations are in the news ...

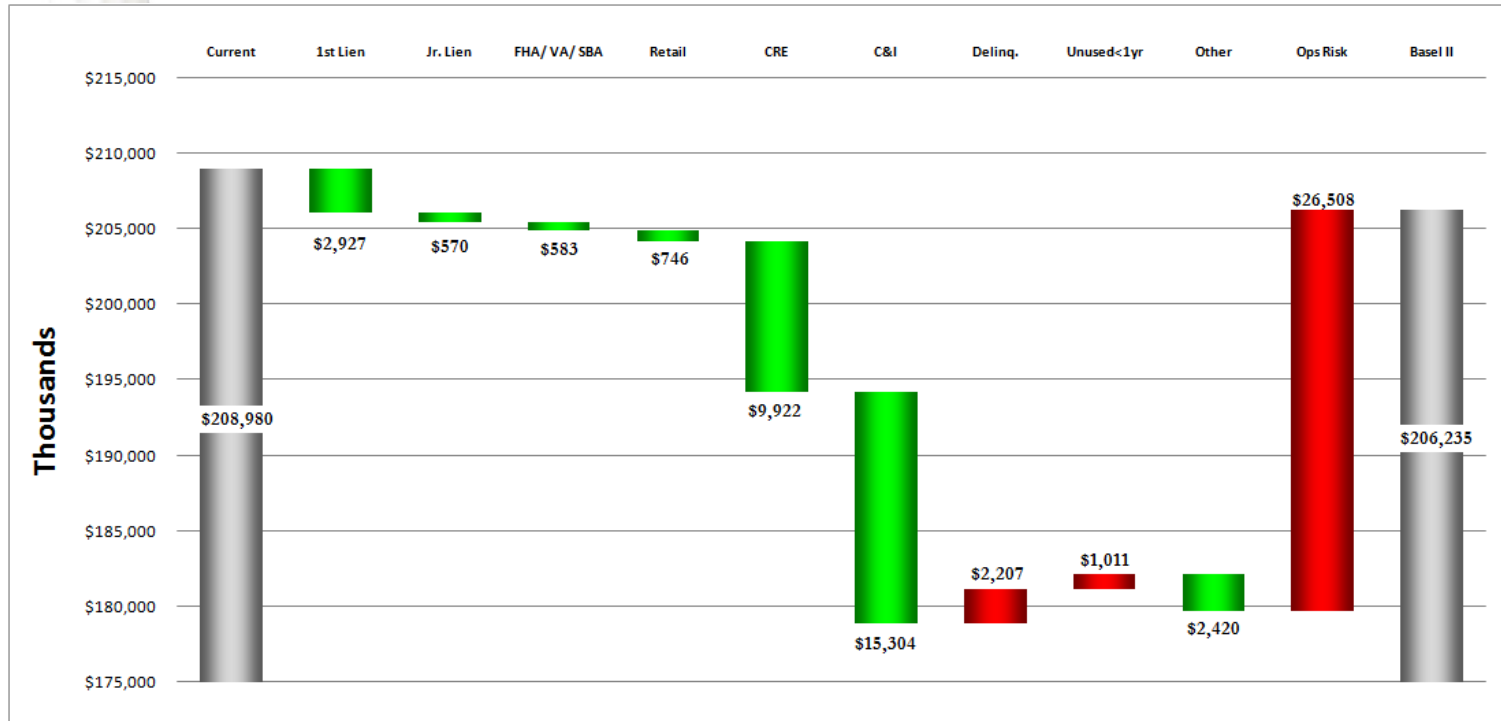


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 66.7% of 6 Alaska banks and thrifts
 - Aggregate potential capital savings for all 6 banks of \$3 million
 - The median Alaska bank would save \$0.7 million or 0.8% of their existing Tier 1 capital requirement
- Implementation is not without its challenges
 - Pillar II reporting can be complex and costly
 - Compliance requires demonstrated capital management capabilities
- Are your members aware of and prepared for these changes?
 - Second Pillar Consulting is uniquely positioned to help banks comply with Pillar II and obtain the capital relief they deserve

Alaska Banks can save up to \$3 million in required capital under Standardized Basel II and improve risk management

Capital savings estimate and asset category contribution

Regulatory Capital Requirement

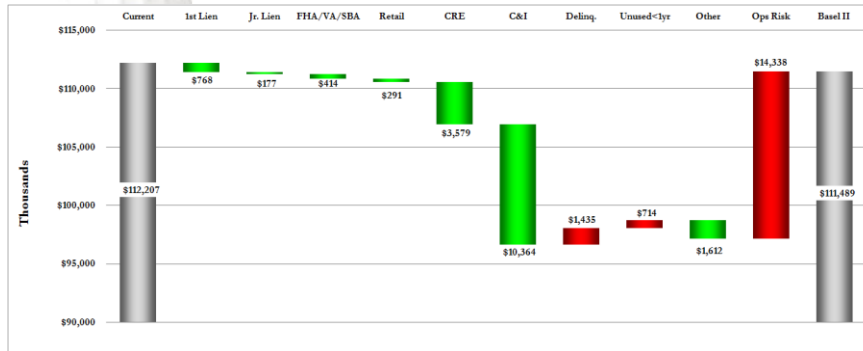


Source: 2008Q3 Call Reports; SPC estimates

For Northrim BanCorp, Inc., a representative Alaska bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$0.7 million or 0.6%

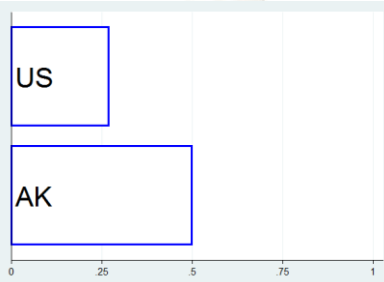
Regulatory Capital Requirement



Northrim BanCorp, Inc. Anchorage, AK Highlights

- *Stockpile.* Under Basel II, total RBC increases from 14.0% to 14.1%, an amount equal to \$0.7 million or 0.6% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 14.0% total RBC ratio:
 - Issue a special dividend of \$0.11 per share
 - Repurchase 57,157 shares, increasing EPS \$0.02 or 0.9%
 - Organically grow assets by \$6 million

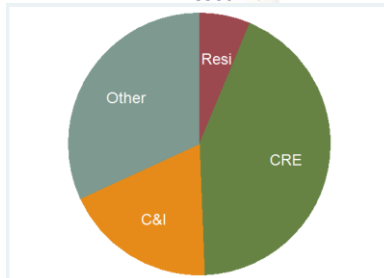
Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$1,009	
Gross Income Margin	5.9%	
Tangible Common Equity	9.4%	
Leverage Ratio	11.5%	
Capital Estimates	Current	Basel II
Tier 1 RBC	12.8%	12.8%
Total RBC	14.0%	14.1%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.11	
Share Repurchase (7/29/2008 price)	57,157	
Number of Shares	\$0.02	
Change in EPS	\$6	
Organic Asset Growth (millions)	\$6	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 6 Alaska banks free of charge



Alaska banks with the highest percentage changes in regulatory capital under Standardized Basel II

Name	City	Asset Size (\$000's)	Basel II Capital Impact	
			Dollar Change (\$000)	Percent Change
Alaska Pacific Bank	Juneau	\$ 205,558	\$ 862	4.9%
First Bank	Ketchikan	\$ 447,145	\$ 650	1.9%
Mount McKinley Bank	Fairbanks	\$ 284,104	\$ 514	1.0%
Northrim BanCorp, Inc.	Anchorage	\$ 1,009,291	\$ 718	0.6%
Denali State Bank	Fairbanks	\$ 235,420	\$ (55)	-0.3%
First National Bank Alaska	Anchorage	\$ 2,495,617	\$ (32,078)	-6.3%
Averages		\$ 779,522.50	\$ (4,897.93)	0.3%

Source: 2008Q3 Call Reports; SPC estimates

Alaska banks with the lowest or negative percentage changes in regulatory capital under Standardized Basel II

Source: 2008Q3 Call Reports; SPC estimates

But banks must be prepared to answer the tough risk management questions posed by Basel II compliance

- Do you have a well-functioning risk oversight structure?
- Do you have clear risk management policies and procedures?
- Have you identified the important risks faced by your institution?
- Have you articulated an institutional appetite for risk-taking?
- Do you have accessible data on the risk characteristics of your existing portfolio?
- Do you have accessible data on the past performance of your portfolio?
- Do you have personnel that can fill critical risk assessment gaps?
- Do you actively manage and plan your capital position?
- Are you committed to enhancing your overall risk and capital management?

Second Pillar Consulting can help banks prepare for Basel II compliance

- Our principals have over thirty years of experience in enterprise risk management, regulatory capital compliance, and regulatory relations
 - Supported International Basel II compliance at a top-ten bank
 - Developed analytical and reporting capabilities
 - Created governance structure and supporting policies
 - Led regulatory exams for approval
 - Managed risk in retail banking, commercial banking, and insurance
 - Focused on building strong regulatory relationships
 - Active participants in several Basel II industry and regulatory forums that facilitated drafting the new rules
 - Frequent speakers at industry and regulatory conferences on Basel
 - Several Basel II academic papers written jointly with regulators

Summary

- Second Pillar Consulting is uniquely positioned to help banks comply with Basel II and get the capital relief they deserve
 - Services
 - Detailed Capital Savings Estimate
 - Gap Analysis
 - The Internal Capital Adequacy Assessment Process or ICAAP
 - Education
 - We conduct seminars for institutions and organizations on topics including Basel II compliance, Enterprise Risk Management, Capital Management, and Balance Sheet Strategy
 - Facilitation
 - We are currently coordinating the NPR response for the Risk Management Association and can help organizations and institutions with their response

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