

The Impact of Standardized Basel II on Colorado Banks

Prepared for Colorado Bankers Association



Executive Summary

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

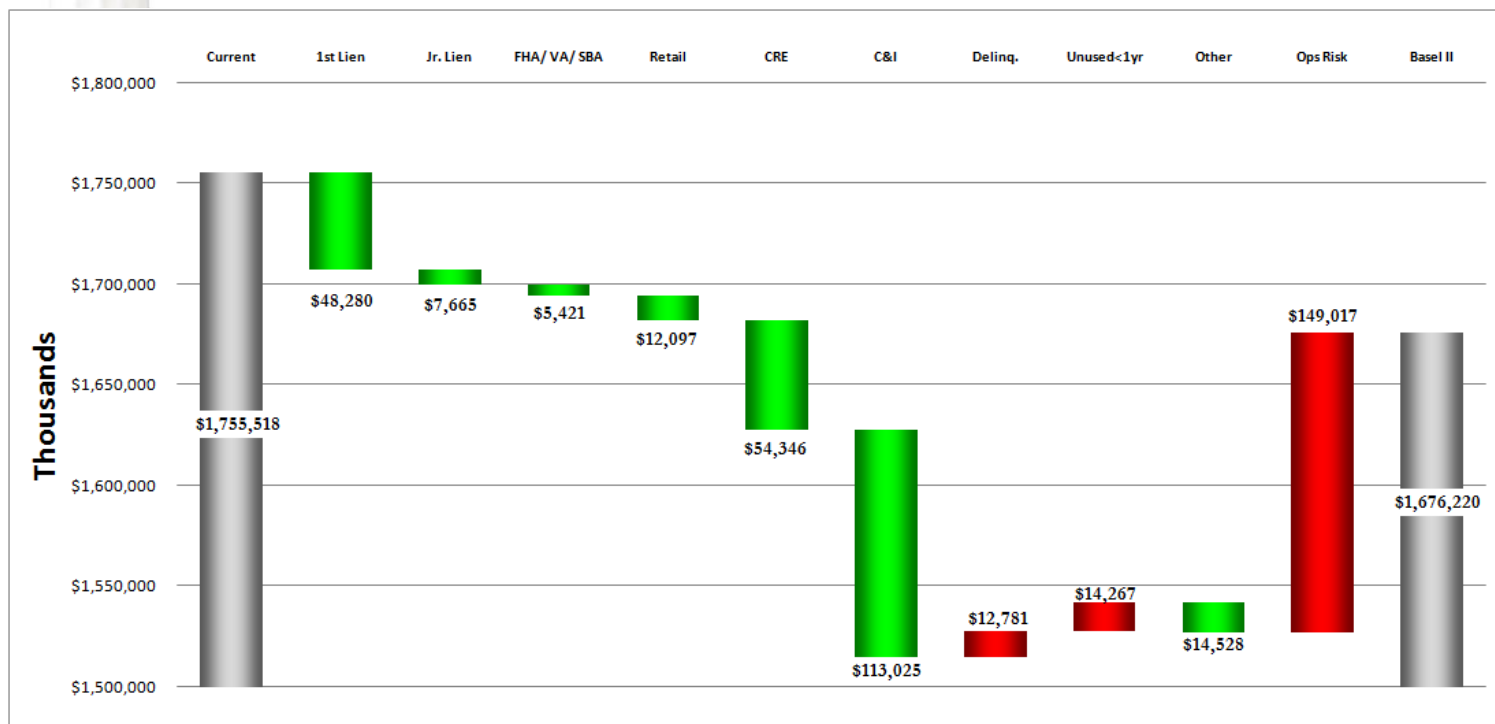


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 65.5% of 110 Colorado banks and thrifts
 - Aggregate potential capital savings for all 110 banks of \$79 million
 - The median Colorado bank would save \$0.6 million or 2.2% of their existing Tier 1 capital 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

Colorado Banks can save up to \$79 million in required capital under Standardized Basel II and improve risk management

Capital savings estimate and asset category contribution

Regulatory Capital Requirement

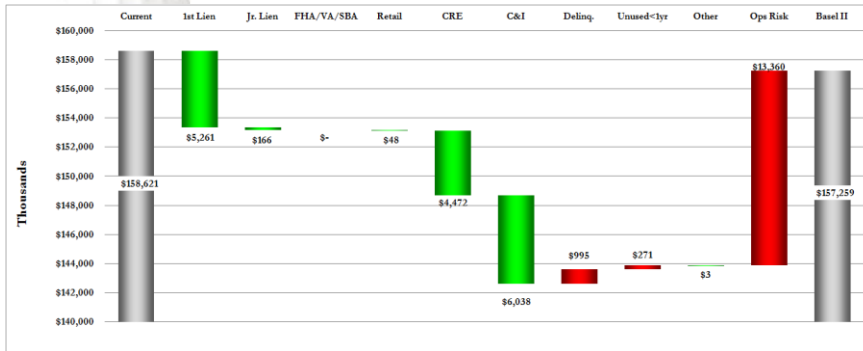


Source: 2008Q3 Call Reports; SPC estimates

For United Western Bank, a representative Colorado bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$1.4 million or 1.2%

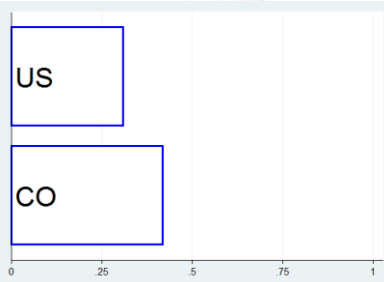
Regulatory Capital Requirement



United Western Bank Denver, CO Highlights

- *Stockpile.* Under Basel II, total RBC increases from 10.6% to 10.8%, an amount equal to \$1.4 million or 1.2% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 10.6% total RBC ratio:
 - Issue a special dividend of \$0.19 per share
 - Repurchase 152,668 shares, increasing EPS \$0.03 or 2.1%
 - Organically grow assets by \$18 million

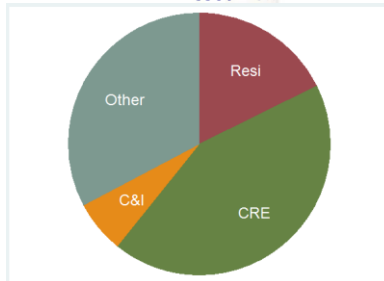
Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$2,222	
Gross Income Margin	3.4%	
Tangible Common Equity	6.1%	
Leverage Ratio	7.0%	
Capital Estimates	Current	Basel II
Tier 1 RBC	9.8%	9.9%
Total RBC	10.6%	10.8%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.19	
Share Repurchase (7/29/2008 price)	152,668	
Change in EPS	\$0.03	
Organic Asset Growth (millions)	\$18	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 110 Colorado banks free of charge

Colorado 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
MontroseBank	Montrose	\$ 188,988	\$ 2,549	16.7%
Morgan Federal Bank	Fort Morgan	\$ 97,769	\$ 842	16.2%
First Colorado National Bank	Paonia	\$ 39,402	\$ 624	16.1%
Colorado Federal Savings Bank	Greenwood Village	\$ 86,425	\$ 1,374	15.4%
AMG National Trust Bank	Englewood	\$ 99,683	\$ 1,862	15.1%
Grand Mountain Bank, FSB	Granby	\$ 128,327	\$ 1,285	14.8%
Equitable Savings and Loan Association	Sterling	\$ 179,311	\$ 2,265	13.2%
Del Norte Federal Bank	Del Norte	\$ 43,893	\$ 304	12.9%
Home Loan State Bank	Grand Junction	\$ 40,232	\$ 550	12.3%
First Western Trust Bank	Denver	\$ 332,457	\$ 3,094	12.0%
Mountain Valley Bank	Walden	\$ 129,485	\$ 1,378	11.7%
International Bank	Trinidad	\$ 72,257	\$ 762	11.5%
Signature Bank	Windsor	\$ 77,327	\$ 869	11.3%
Timberline Bank	Grand Junction	\$ 229,561	\$ 2,336	11.3%
Millennium Bank	Edwards	\$ 293,799	\$ 2,532	10.8%
Gunnison Savings and Loan Association	Gunnison	\$ 92,629	\$ 945	10.7%
Yampa Valley Bank	Steamboat Springs	\$ 144,044	\$ 1,152	10.3%
Cache Bank and Trust	Greeley	\$ 141,620	\$ 1,219	10.2%
Steele Street Bank & Trust	Denver	\$ 243,424	\$ 2,245	10.1%
Mancos Valley Bank	Mancos	\$ 76,432	\$ 570	9.5%
Averages		\$ 136,853.25	\$ 1,437.72	12.6%

Source: 2008Q3 Call Reports; SPC estimates

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

Name	City	Asset Size (\$000's)	Basel II Capital Impact	
			Dollar Change (\$000)	Percent Change
Guaranty Bancorp	Denver	\$ 2,052,944	\$ (6,766)	-3.1%
Colorado Community Bank	Yuma	\$ 459,755	\$ (1,834)	-3.3%
Kit Carson State Bank	Kit Carson	\$ 53,262	\$ (238)	-3.6%
Points West Community Bank	Julesburg	\$ 95,094	\$ (355)	-3.7%
First Pioneer National Bank	Wray	\$ 128,607	\$ (821)	-4.3%
High Plains Bank	Flagler	\$ 90,742	\$ (532)	-4.5%
First National Bank, Cortez	Cortez	\$ 73,264	\$ (321)	-4.6%
5Star Bank	Colorado Springs	\$ 152,611	\$ (1,789)	-5.0%
FirstBank Holding Company	Lakewood	\$ 9,319,932	\$ (40,757)	-5.1%
Citizens National Bank of Akron	Akron	\$ 46,991	\$ (483)	-5.3%
Colorado State Bank of Walsh	Walsh	\$ 34,618	\$ (301)	-5.4%
Bankers' Bank of the West	Denver	\$ 528,492	\$ (2,907)	-5.6%
Farmers State Bank of Brush	Brush	\$ 36,272	\$ (335)	-5.6%
Premier Bank	Denver	\$ 89,169	\$ (622)	-6.8%
McClave State Bank	McClave	\$ 18,375	\$ (181)	-9.4%
Bank of Burlington	Burlington	\$ 52,451	\$ (429)	-10.4%
Clear Creek National Bank	Georgetown	\$ 26,228	\$ (315)	-10.8%
Pueblo Bank & Trust Company	Pueblo	\$ 356,583	\$ (9,493)	-16.6%
Centennial Bank	Centennial	\$ 43,533	\$ (1,813)	-19.3%
Trust Company of America	Englewood	\$ 416,373	\$ (6,581)	-23.3%
Averages		\$ 703,765	\$ (3,844)	-7.8%

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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