

# The Impact of Standardized Basel II on Connecticut Banks

Prepared for Connecticut Bankers Association



# Executive Summary

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

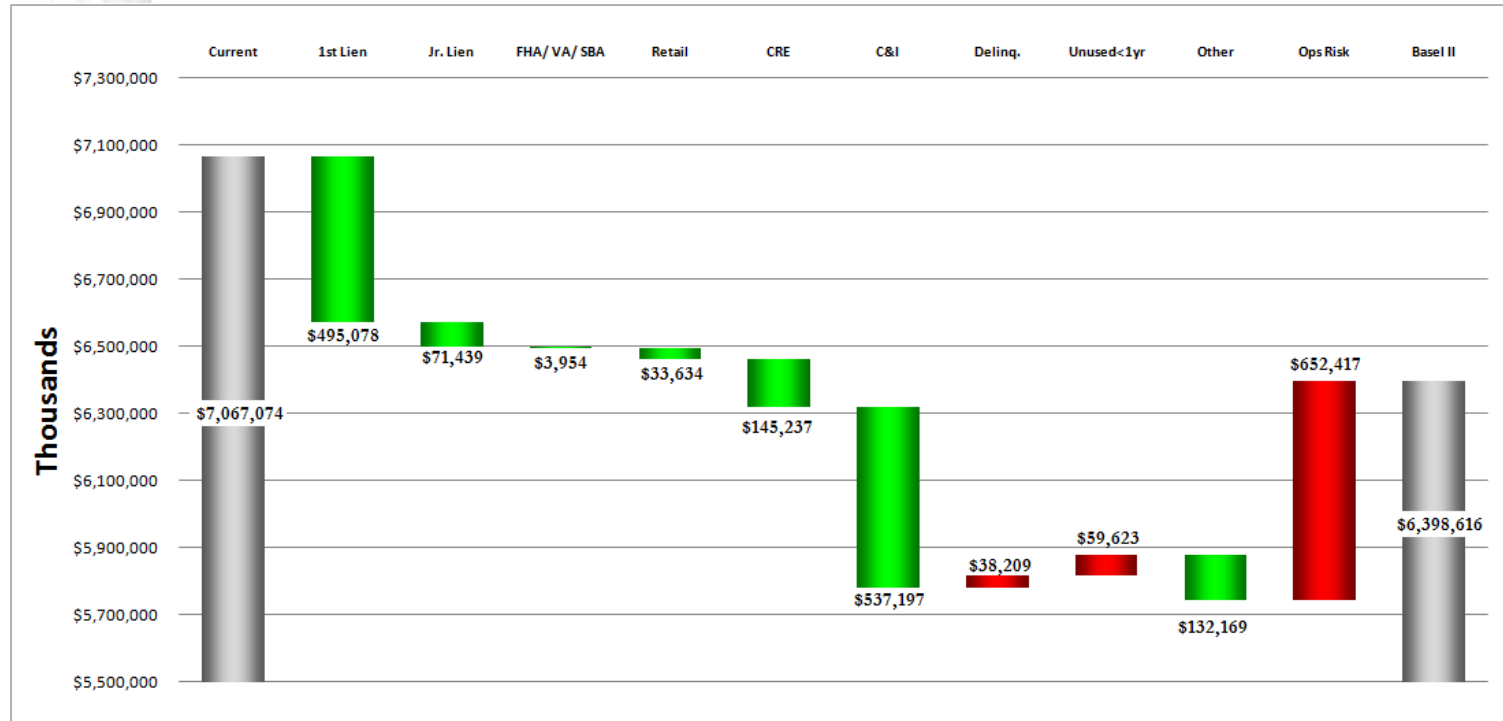


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 89.1% of 55 Connecticut banks and thrifts
  - Aggregate potential capital savings for all 55 banks of \$669 million
  - The median Connecticut bank would save \$2.5 million or 7.5% of their existing Tier 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

# Connecticut Banks can save up to \$669 million in required capital under Standardized Basel II and improve risk management

## Capital savings estimate and asset category contribution

Regulatory Capital Requirement

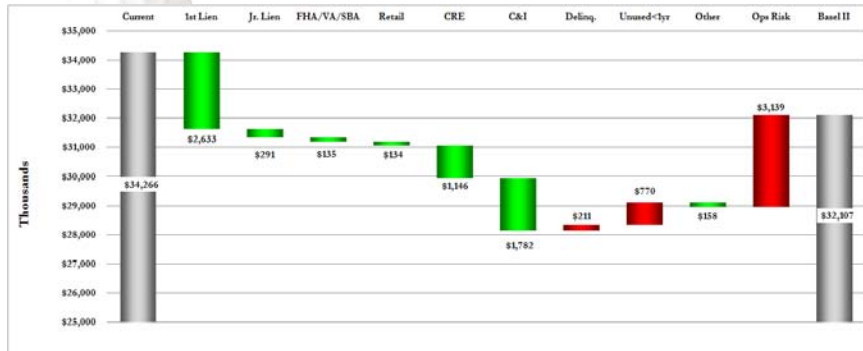


Source: 2008Q3 Call Reports; SPC estimates

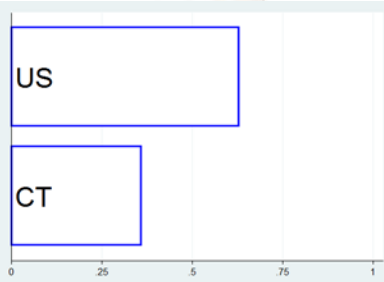
# For First Litchfield Financial Corporation, a representative Connecticut bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$2.2 million or 6.2%

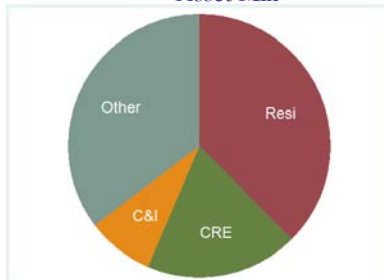
Regulatory Capital Requirement



Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$507	
Gross Income Margin	3.3%	
Tangible Common Equity	4.0%	
Leverage Ratio	6.3%	
Capital Estimates	Current	Basel II
Tier 1 RBC	9.6%	10.2%
Total RBC	10.2%	10.8%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.91	
Share Repurchase (7/29/2008 price)		
Number of Shares	308,411	
Change in EPS	\$0.12	
Organic Asset Growth (millions)	\$30	

## First Litchfield Financial Corporation Litchfield, CT Highlights

- *Stockpile.* Under Basel II, total RBC increases from 10.2% to 10.8%, an amount equal to \$2.2 million or 6.2% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 10.2% total RBC ratio:
  - Issue a special dividend of \$0.91 per share
  - Repurchase 308,411 shares, increasing EPS \$0.12 or 14.9%
  - Organically grow assets by \$30 million

Upon request, Second Pillar Consulting can provide similar information for all 55 Connecticut banks free of charge

# Connecticut 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
Prime Bank	Orange	\$ 46,723	\$ 1,597	24.9%
Prudential Bank & Trust, FSB	Hartford	\$ 1,560,204	\$ 22,852	21.3%
Darien Rowayton Bank	Darien	\$ 77,857	\$ 895	17.6%
Connecticut Bank and Trust Company	Hartford	\$ 223,465	\$ 3,068	17.2%
Castle Bank & Trust Company	Meriden	\$ 71,960	\$ 861	16.8%
People's United Bank	Bridgeport	\$ 18,727,567	\$ 298,364	14.7%
Connecticut River Community Bank	Wethersfield	\$ 166,836	\$ 1,898	14.4%
Collinsville Savings Society	Collinsville	\$ 148,665	\$ 1,757	14.4%
Bank of Greenwich	Greenwich	\$ 40,046	\$ 874	14.3%
Apple Valley Bank & Trust Company	Cheshire	\$ 84,583	\$ 737	14.1%
Valley Bank	Bristol	\$ 238,334	\$ 2,730	13.3%
Naugatuck Valley Savings & Loan (MHC)	Naugatuck	\$ 514,519	\$ 4,074	10.5%
InsurBanc	Farmington	\$ 134,165	\$ 1,781	10.4%
Torrington Savings Bank	Torrington	\$ 726,668	\$ 10,523	9.7%
Eastern Federal Bank	Norwich	\$ 207,139	\$ 1,262	9.7%
Bank of Southern Connecticut	New Haven	\$ 115,997	\$ 1,590	9.5%
First National Bank of Suffield	Suffield	\$ 179,104	\$ 1,849	9.1%
Newtown Savings Bank	Newtown	\$ 932,752	\$ 6,253	9.0%
Savings Bank of Danbury	Danbury	\$ 680,773	\$ 6,225	9.0%
Windsor Federal Savings & Loan Association	Windsor	\$ 323,555	\$ 2,057	9.0%
<b>Averages</b>		<b>\$ 1,260,045.60</b>	<b>\$ 18,562.33</b>	<b>13.4%</b>

Source: 2008Q3 Call Reports; SPC estimates

# Connecticut 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
First Litchfield Financial Corporation	Litchfield	\$ 506,539	\$ 2,159	6.2%
Putnam Bank (MHC)	Putnam	\$ 480,954	\$ 2,321	6.1%
NewAlliance Bancshares, Inc.	New Haven	\$ 8,265,828	\$ 46,873	5.5%
Connecticut Mutual Holding Company	Winsted	\$ 489,801	\$ 2,504	5.4%
Thomaston Savings Bank	Thomaston	\$ 542,584	\$ 4,094	5.1%
Liberty Bank	Middletown	\$ 2,799,685	\$ 20,929	4.9%
Connecticut Community Bank, National As	Westport	\$ 410,575	\$ 1,943	4.8%
Bank of New Canaan	New Canaan	\$ 226,068	\$ 826	4.7%
Dime Bank	Norwich	\$ 684,687	\$ 2,558	3.9%
Naugatuck Savings Bank	Naugatuck	\$ 735,503	\$ 2,987	3.6%
Salisbury Bank & Trust Company	Lakeville	\$ 484,227	\$ 985	2.7%
Chelsea Groton Savings Bank	Norwich	\$ 707,324	\$ 2,246	2.0%
Patriot National Bancorp, Inc.	Stamford	\$ 904,761	\$ 347	0.4%
Essex Savings Bank	Essex	\$ 272,114	\$ 59	0.2%
Stafford Savings Bank	Stafford Springs	\$ 203,400	\$ (187)	-0.4%
Citizens National Bank	Putnam	\$ 266,114	\$ (282)	-0.8%
Jewett City Savings Bank	Jewett City	\$ 206,963	\$ (337)	-1.0%
National Iron Bank	Salisbury	\$ 97,079	\$ (183)	-2.6%
Wilton Bank	Wilton	\$ 101,836	\$ (2,046)	-10.3%
Bankers Bank Northeast	Glastonbury	\$ 125,297	\$ (2,199)	-19.7%
<b>Averages</b>		<b>\$ 925,567</b>	<b>\$ 4,280</b>	<b>1.0%</b>

Source: 2008Q3 Call Reports; SPC estimates

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

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- 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

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- 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

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- 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

## Contact Information

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