

# The Impact of Standardized Basel II on Delaware Banks

Prepared for Delaware Bankers Association



# Executive Summary

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

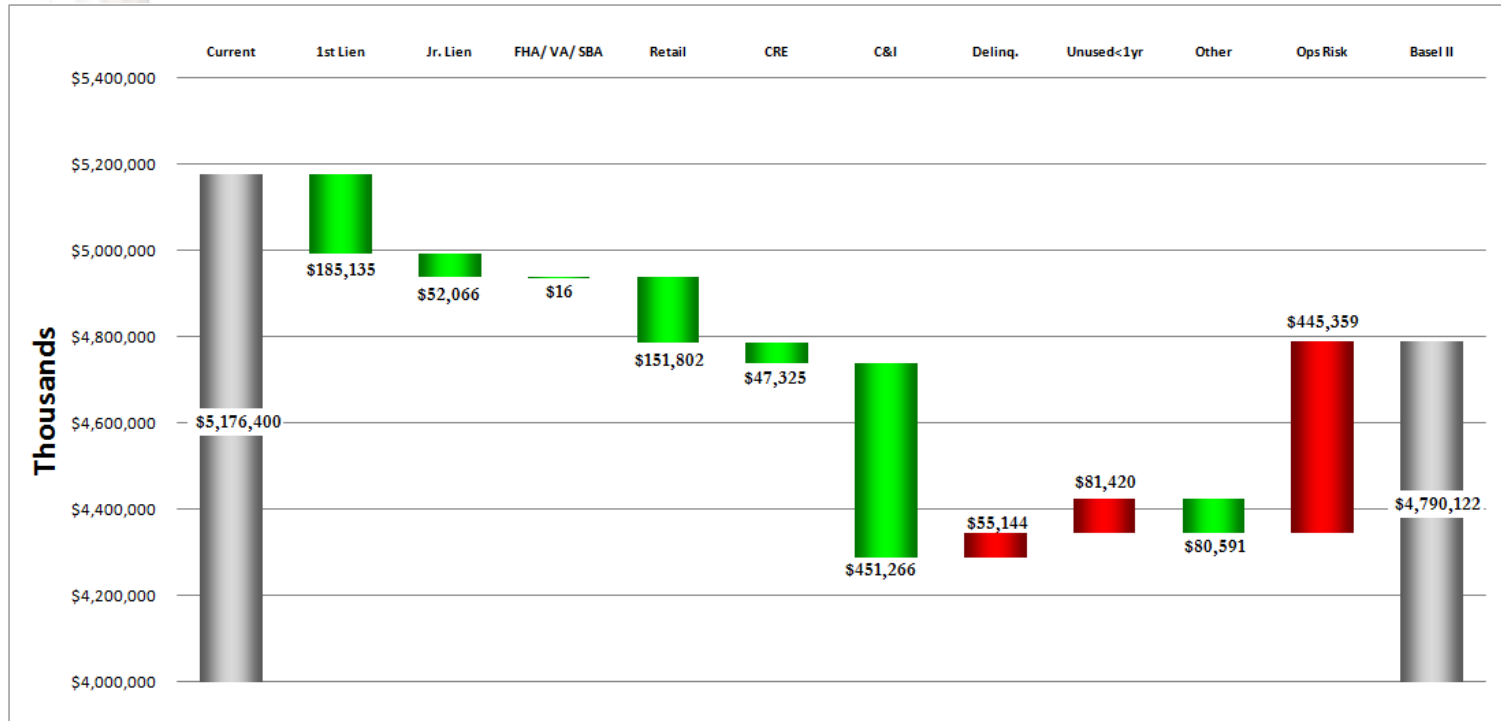


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 37.5% of 16 Delaware banks and thrifts
  - Aggregate potential capital savings for all 16 banks of \$386 million
  - The median Delaware bank would save \$7.1 million or -2.6% of their existing Tier 1 capital 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

# Delaware Banks can save up to \$386 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

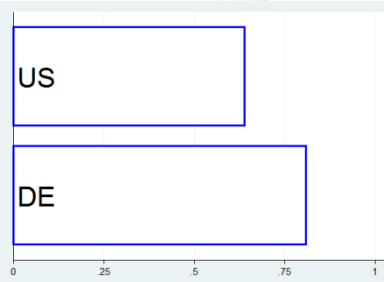
# For Wilmington Savings Fund Society, FSB, a representative Delaware bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$18.4 million or 6.4%

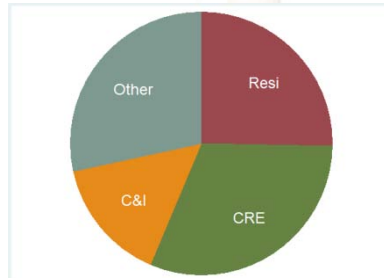
Regulatory Capital Requirement



Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$3,253	
Gross Income Margin	3.5%	
Tangible Common Equity	8.6%	
Leverage Ratio	8.8%	
Capital Estimates	Current	Basel II
Tier 1 RBC	11.0%	11.7%
Total RBC	11.9%	12.7%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$2.98	
Share Repurchase (7/29/2008 price)	420,453	
Change in EPS	\$0.31	
Organic Asset Growth (millions)	\$191	

## Wilmington Savings Fund Society, FSB Wilmington, DE Highlights

- *Stockpile.* Under Basel II, total RBC increases from 11.9% to 12.7%, an amount equal to \$18.4 million or 6.4% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 11.9% total RBC ratio:
  - Issue a special dividend of \$2.98 per share
  - Repurchase 420,453 shares, increasing EPS \$0.31 or 6.9%
  - Organically grow assets by \$191 million

Upon request, Second Pillar Consulting can provide similar information for all 16 Delaware banks free of charge

# Standardized Basel II capital implications for a sample of Delaware banks

Name	City	Asset Size (\$000's)	Basel II Capital Impact	
			Dollar Change (\$000)	Percent Change
Community Bank Delaware	Lewes	\$ 61,087	\$ 1,757	19.0%
MidCoast Community Bank	Wilmington	\$ 95,193	\$ 2,034	12.1%
AIG Federal Savings Bank	Wilmington	\$ 1,320,093	\$ 10,275	8.2%
Wilmington Savings Fund Society, FSB	Wilmington	\$ 3,252,861	\$ 18,399	6.4%
Harris Financial Corp.	Wilmington	\$ 69,275,826	\$ 349,827	5.3%
Bancorp, Inc.	Wilmington	\$ 1,780,942	\$ 3,986	2.8%
Wilmington Trust Corporation	Wilmington	\$ 12,386,648	\$ (8,109)	-0.6%
First National Bank of Wyoming	Wyoming	\$ 305,111	\$ (1,102)	-2.0%
Artisans' Bank	Wilmington	\$ 596,298	\$ (2,291)	-3.3%
County Bank	Rehoboth Beach	\$ 355,500	\$ (2,131)	-6.1%
Lehman Brothers Bank, FSB	Wilmington	\$ 7,207,117	\$ (100,110)	-9.0%
Discover Bank	Greenwood	\$ 32,935,658	\$ (805,588)	-16.2%
First Bank of Delaware	Wilmington	\$ 124,466	\$ (9,658)	-19.5%
<b>Averages</b>		<b>\$ 9,976,676.92</b>	<b>\$ (41,746.96)</b>	<b>-0.2%</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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