

The Impact of Standardized Basel II on Hawaii Banks

Prepared for Hawaii 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 9 Hawaii banks and thrifts
 - Aggregate potential capital savings for all 9 banks of \$234 million
 - The median Hawaii bank would save \$2.0 million or 4.0% 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

Hawaii Banks can save up to \$234 million in required capital under Standardized Basel II and improve risk management

Capital savings estimate and asset category contribution

Regulatory Capital Requirement

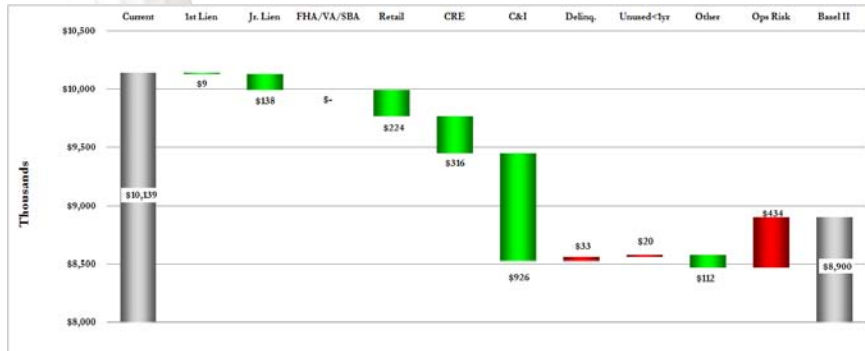


Source: 2008Q3 Call Reports; SPC estimates

For Ohana Pacific Bank, a representative Hawaii bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$1.2 million or 12.9%

Regulatory Capital Requirement



Ohana Pacific Bank Honolulu, HI Highlights

- *Stockpile.* Under Basel II, total RBC increases from 19.2% to 21.6%, an amount equal to \$1.2 million or 12.9% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 19.2% total RBC ratio:
 - Issue a special dividend of \$0.88 per share
 - Repurchase 123,872 shares, increasing EPS \$-0.10 or 9.7%
 - Organically grow assets by \$7 million

Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$64	
Gross Income Margin	2.8%	
Tangible Common Equity	15.8%	
Leverage Ratio	15.6%	
Capital Estimates	Current	Basel II
Tier 1 RBC	17.9%	20.2%
Total RBC	19.2%	21.6%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.88	
Share Repurchase (7/29/2008 price)		
Number of Shares	123,872	
Change in EPS	\$-0.10	
Organic Asset Growth (millions)	\$7	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 9 Hawaii banks free of charge

Standardized Basel II capital implications for a sample of Hawaii banks

Name	City	Asset Size (\$000's)	Basel II Capital Impact	
			Dollar Change (\$000)	Percent Change
Pacific Rim Bank	Honolulu	\$ 127,787	\$ 1,977	19.1%
Ohana Pacific Bank	Honolulu	\$ 64,344	\$ 1,239	12.9%
American Savings Bank, F.S.B.	Honolulu	\$ 5,514,655	\$ 33,124	7.2%
BancWest Corporation	Honolulu	\$ 76,458,299	\$ 194,319	5.8%
Hawaii National Bank	Honolulu	\$ 498,499	\$ 1,978	4.0%
Territorial Savings Bank (MHC)	Honolulu	\$ 1,203,953	\$ 1,298	1.1%
Finance Factors, Ltd.	Honolulu	\$ 704,021	\$ (519)	-0.7%
Bank of Hawaii Corporation	Honolulu	\$ 10,335,046	\$ (30,305)	-3.5%
Central Pacific Financial Corp.	Honolulu	\$ 5,504,304	\$ (22,138)	-4.1%
Averages		\$ 11,156,767.56	\$ 20,108.13	4.6%

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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