

# The Impact of Standardized Basel II on Idaho Banks

Prepared for Idaho 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 88.2% of 17 Idaho banks and thrifts
  - Aggregate potential capital savings for all 17 banks of \$24 million
  - The median Idaho bank would save \$1.3 million or 3.7% 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

# Idaho Banks can save up to \$24 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 Idaho Banking Company, a representative Idaho bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$1.6 million or 6.2%

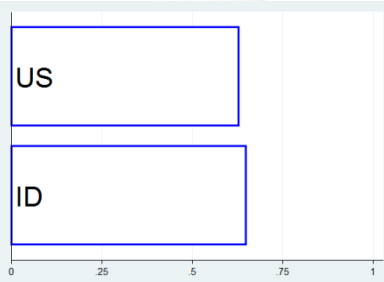
Regulatory Capital Requirement



## Idaho Banking Company Garden City, ID Highlights

- *Stockpile.* Under Basel II, total RBC increases from 11.6% to 12.4%, an amount equal to \$1.6 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 11.6% total RBC ratio:
  - Issue a special dividend of \$0.87 per share
  - Repurchase 231,305 shares, increasing EPS \$0.11 or 14.3%
  - Organically grow assets by \$14 million

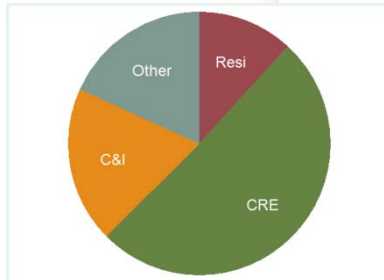
Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$239	
Gross Income Margin	4.5%	
Tangible Common Equity	10.1%	
Leverage Ratio	10.2%	
Capital Estimates	Current	Basel II
Tier 1 RBC	10.4%	11.0%
Total RBC	11.6%	12.4%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.87	
Share Repurchase (7/29/2008 price)	231,305	
Change in EPS	\$0.11	
Organic Asset Growth (millions)	\$14	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 17 Idaho banks free of charge

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

Name	City	Asset Size (\$000's)	Basel II Capital Impact	
			Dollar Change (\$000)	Percent Change
Idaho First Bank	McCall	\$ 58,381	\$ 865	15.4%
First Federal Savings Bank of Twin Falls	Twin Falls	\$ 451,190	\$ 4,934	12.8%
Idaho Trust National Bank	Boise	\$ 108,865	\$ 2,218	9.4%
Syringa Bank	Boise	\$ 293,382	\$ 3,092	7.5%
Bankcda	Coeur d'Alene	\$ 92,603	\$ 705	6.9%
Idaho Banking Company	Garden City	\$ 238,659	\$ 1,584	6.2%
Ireland Bancorp, Limited	Malad City	\$ 210,905	\$ 986	4.9%
First Bank of Idaho, FSB	Ketchum	\$ 481,462	\$ 1,657	3.7%
Western Capital Bank	Boise	\$ 39,312	\$ 819	2.5%
Bank of Idaho	Idaho Falls	\$ 251,668	\$ 496	2.1%
Home Federal Bank	Nampa	\$ 676,457	\$ 2,639	1.8%
Bank of Commerce	Idaho Falls	\$ 741,665	\$ 1,348	1.1%
D. L. Evans Bancorp	Burley	\$ 800,692	\$ 320	0.4%
Farmers National Bank of Buhl	Buhl	\$ 373,569	\$ 67	0.1%
Idaho Independent Bank	Coeur D'Alene	\$ 604,542	\$ (76)	-0.1%
Intermountain Community Bancorp	Sandpoint	\$ 1,049,898	\$ (2,168)	-2.0%
<b>Averages</b>		<b>\$ 404,578.13</b>	<b>\$ 1,217.92</b>	<b>4.5%</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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