

The Impact of Standardized Basel II on Illinois Banks

Prepared for Illinois Bankers Association



Executive Summary

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

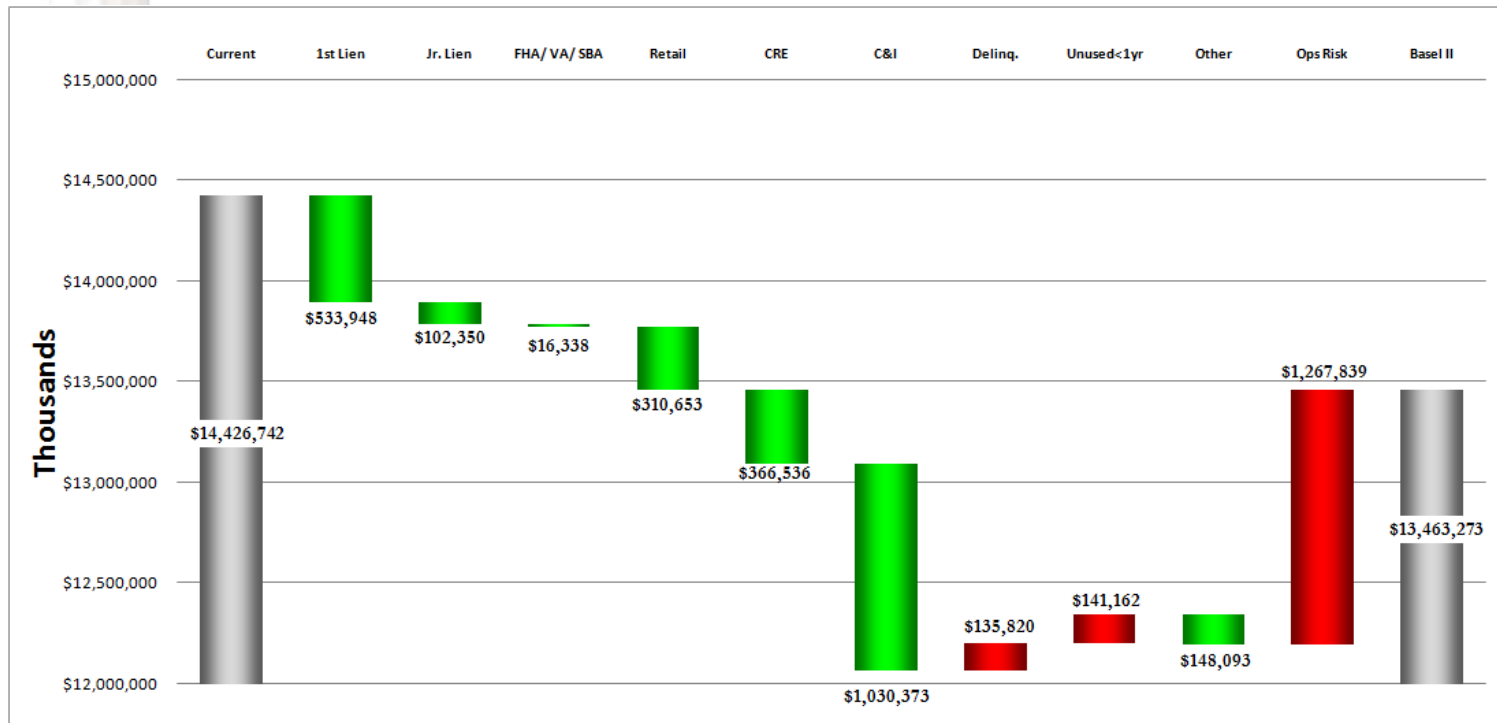


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 77.2% of 606 Illinois banks and thrifts
 - Aggregate potential capital savings for all 606 banks of \$964 million
 - The median Illinois bank would save \$0.6 million or 3.5% of their existing Tier 1 capital 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

Illinois Banks can save up to \$964 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 BankFinancial, FSB, a representative Illinois bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$8.3 million or 4.4%

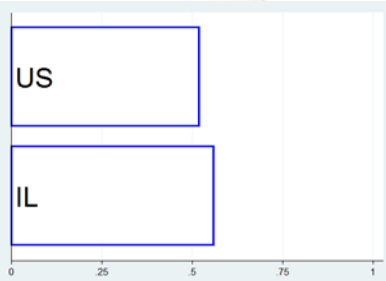
Regulatory Capital Requirement



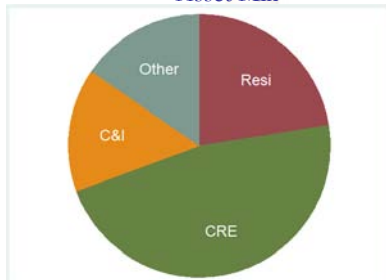
BankFinancial, FSB Olympia Fields, IL Highlights

- *Stockpile.* Under Basel II, total RBC increases from 15.7% to 16.4%, an amount equal to \$8.3 million or 4.4% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 15.7% total RBC ratio:
 - Issue a special dividend of \$0.37 per share
 - Repurchase 760,647 shares, increasing EPS \$0.01 or 3.8%
 - Organically grow assets by \$59 million

Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$1,449	
Gross Income Margin	3.8%	
Tangible Common Equity	12.5%	
Leverage Ratio	13.2%	
Capital Estimates	Current	Basel II
Tier 1 RBC	14.9%	15.5%
Total RBC	15.7%	16.4%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.37	
Share Repurchase (7/29/2008 price)	760,647	
Number of Shares	\$0.01	
Change in EPS	\$59	
Organic Asset Growth (millions)	\$59	

Illinois 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
Evergreen Bank Group	Oak Brook	\$ 322,420	\$ 6,108	23.2%
Pan American Bank	Chicago	\$ 76,431	\$ 1,356	22.7%
Community First Bank of the Heartland	Mount Vernon	\$ 56,721	\$ 1,117	22.7%
Bank of Dwight	Dwight	\$ 47,140	\$ 1,002	22.4%
SouthernTrust Bank	Goreville	\$ 37,664	\$ 758	21.9%
Preferred Bank	Casey	\$ 53,916	\$ 842	21.5%
LincolnWay Community Bank	New Lenox	\$ 126,535	\$ 2,553	20.6%
Town Community Bank and Trust	Antioch	\$ 82,348	\$ 1,410	20.5%
Metropolitan Capital Bank	Chicago	\$ 86,664	\$ 1,561	20.1%
Providence Bank, LLC	South Holland	\$ 211,669	\$ 3,850	19.6%
Bank of Montgomery	Montgomery	\$ 34,053	\$ 715	19.3%
Savanna-Thomson State Bank	Savanna	\$ 72,924	\$ 977	19.2%
Signature Bank	Chicago	\$ 159,549	\$ 2,670	19.2%
Arcola Homestead Savings Bank	Arcola	\$ 9,935	\$ 384	18.8%
Gold Coast Bank	Chicago	\$ 84,818	\$ 1,342	18.7%
Park Ridge Community Bank	Park Ridge	\$ 224,379	\$ 3,634	18.0%
First Bank & Trust Company of Murphysboro	Murphysboro	\$ 56,126	\$ 1,000	17.7%
1st Equity Bank	Skokie	\$ 116,430	\$ 2,212	17.7%
First Community State Bank	Staunton	\$ 51,997	\$ 721	17.6%
Allied First Bank, SB	Oswego	\$ 151,434	\$ 1,875	17.6%
Averages		\$ 103,157.65	\$ 1,804.33	20.0%

Source: 2008Q3 Call Reports; SPC estimates

Illinois 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 State Bank of West Salem	West Salem	\$ 15,134	\$ (251)	-6.8%
Elkville State Bank	Elkville	\$ 19,341	\$ (281)	-7.0%
Hyde Park Bank & Trust Company	Chicago	\$ 334,574	\$ (2,513)	-7.1%
Maroa Forsyth Community Bank	Maroa	\$ 21,785	\$ (196)	-7.1%
Covenant Bank	Chicago	\$ 33,811	\$ (353)	-7.4%
InBank	Oak Forest	\$ 212,956	\$ (1,873)	-8.0%
Peoples National Bank of Kewanee	Kewanee	\$ 213,827	\$ (3,389)	-8.0%
Texico State Bank	Texico	\$ 9,494	\$ (69)	-8.2%
Illinois-Service Federal Savings and Loan A	Chicago	\$ 141,006	\$ (1,355)	-8.5%
Broadway Bancorp, Inc.	Chicago	\$ 1,236,412	\$ (12,076)	-8.9%
SBC, Incorporated	Countryside	\$ 951,801	\$ (11,024)	-8.9%
Reynolds State Bank	Reynolds	\$ 72,990	\$ (1,534)	-9.5%
Builders Financial Corporation	Chicago	\$ 516,434	\$ (6,585)	-10.2%
American Union Savings and Loan Associa	Chicago	\$ 7,295	\$ (114)	-12.6%
Corus Bankshares, Inc.	Chicago	\$ 8,435,851	\$ (161,832)	-13.1%
Hershenvorn Bancorporation, Inc.	Palatine	\$ 391,751	\$ (12,352)	-13.1%
Heritage Community Bank	Glenwood	\$ 227,612	\$ (1,835)	-13.1%
American Home Bank	Chicago	\$ 160,207	\$ (9,876)	-15.4%
First Illinois Bank	East Saint Louis	\$ 45,398	\$ (1,380)	-22.1%
Kenney Bank and Trust	Kenney	\$ 58,995	\$ (2,552)	-23.9%
Averages		\$ 655,334	\$ (11,572)	-11.0%

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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