

The Impact of Standardized Basel II on Maine Banks

Prepared for Maine Bankers Association



Executive Summary

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

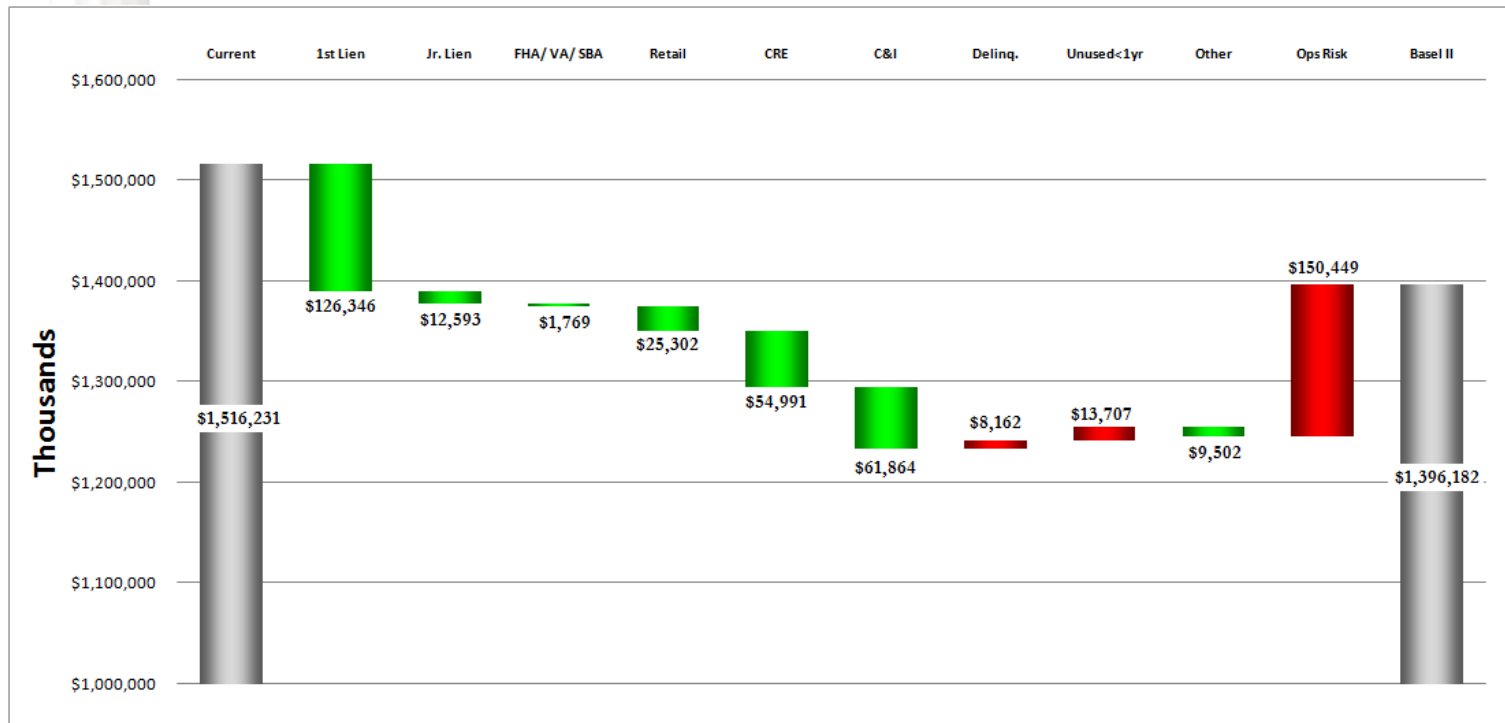


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 100.0% of 29 Maine banks and thrifts
 - Aggregate potential capital savings for all 29 banks of \$120 million
 - The median Maine bank would save \$3.3 million or 8.7% of their existing Tier 1 capital requirement
- 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

Maine Banks can save up to \$120 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

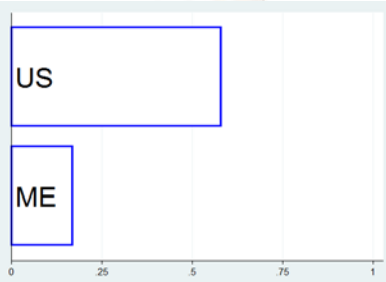
For Camden National Corporation, a representative Maine bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$9.3 million or 5.5%

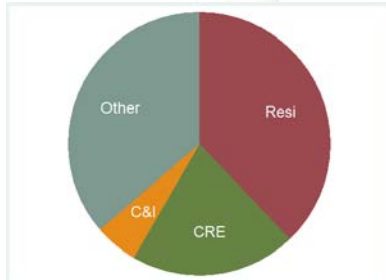
Regulatory Capital Requirement



Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$2,311	
Gross Income Margin	2.7%	
Tangible Common Equity	4.9%	
Leverage Ratio	7.1%	
Capital Estimates	Current	Basel II
Tier 1 RBC	11.0%	11.6%
Total RBC	12.2%	12.9%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$1.43	
Share Repurchase (7/29/2008 price)		
Number of Shares	331,138	
Change in EPS	\$0.16	
Organic Asset Growth (millions)	\$118	

Camden National Corporation Camden, ME Highlights

- *Stockpile.* Under Basel II, total RBC increases from 12.2% to 12.9%, an amount equal to \$9.3 million or 5.5% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 12.2% total RBC ratio:
 - Issue a special dividend of \$1.43 per share
 - Repurchase 331,138 shares, increasing EPS \$0.16 or 5.3%
 - Organically grow assets by \$118 million

Upon request, Second Pillar Consulting can provide similar information for all 29 Maine banks free of charge

Maine 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
Border Trust Company	Augusta	\$ 94,162	\$ 1,131	18.3%
TD Banknorth Inc.	Portland	\$ 117,600,000	\$ (203,703)	17.3%
Sanford Institution for Savings	Sanford	\$ 446,411	\$ 6,051	16.1%
Kennebec Savings Bank	Augusta	\$ 667,376	\$ 9,020	14.7%
Bar Harbor Savings & Loan Association	Bar Harbor	\$ 36,850	\$ 846	14.5%
Katahdin Bankshares Corporation	Patten	\$ 465,345	\$ 4,897	14.1%
Kennebec Federal Savings and Loan Assoc.	Waterville	\$ 78,852	\$ 632	12.8%
Auburn Savings Bank, FSB (MHC)	Auburn	\$ 68,354	\$ 446	12.7%
Biddeford Savings Bank	Biddeford	\$ 312,413	\$ 3,297	12.1%
Saco & Biddeford Savings Institution	Saco	\$ 727,024	\$ 7,035	11.0%
Averages		\$ 12,049,679	\$ (17,035)	14.4%

Source: 2008Q3 Call Reports; SPC estimates

Maine 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
Bath Savings Institution	Bath	\$ 505,655	\$ 3,234	6.5%
Machias Bancorp, MHC	Machias	\$ 929,848	\$ 6,275	6.4%
Northeast Bancorp	Lewiston	\$ 605,183	\$ 2,977	6.3%
First Federal Savings and Loan Association	Bath	\$ 109,230	\$ 961	6.2%
Gorham Bancorp, MHC	Gorham	\$ 796,007	\$ 3,709	5.8%
Camden National Corporation	Camden	\$ 2,311,238	\$ 9,331	5.5%
Rockland Savings & Loan Association	Rockland	\$ 67,084	\$ 533	5.1%
Skowhegan Savings Bank	Skowhegan	\$ 414,830	\$ 2,402	4.6%
Bar Harbor Bankshares	Bar Harbor	\$ 942,004	\$ 2,641	3.7%
Kennebunk Savings Bank	Kennebunk	\$ 773,468	\$ 1,933	2.4%
Averages		\$ 745,455	\$ 3,400	5.2%

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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