

# The Impact of Standardized Basel II on New Hampshire Banks

Prepared for New Hampshire Bankers  
Association



# Executive Summary

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

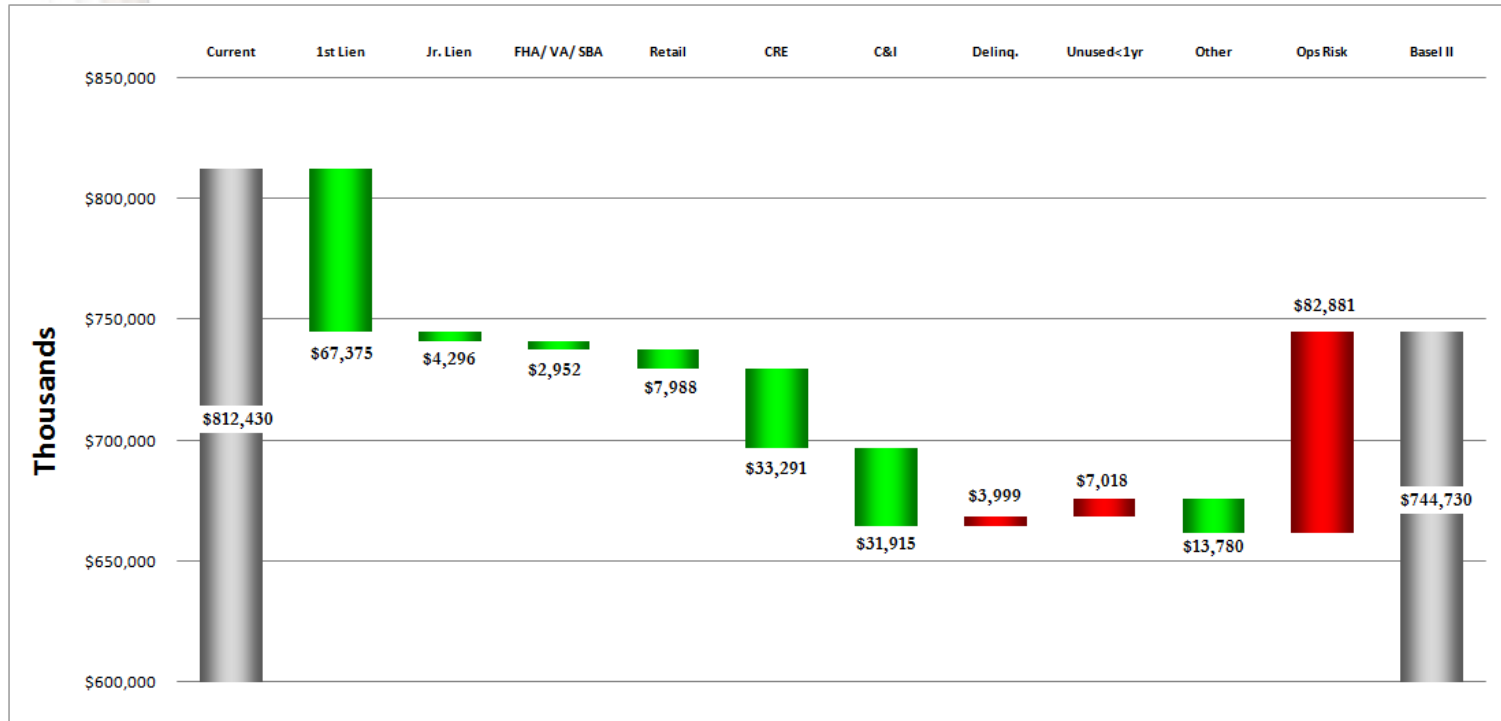


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 100.0% of 23 New Hampshire banks and thrifts
  - Aggregate potential capital savings for all 23 banks of \$68 million
  - The median New Hampshire bank would save \$3.0 million or 9.6% of their existing 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

# New Hampshire Banks can save up to \$68 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 Centrix Bank & Trust, a representative New Hampshire bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$4.6 million or 13.2%

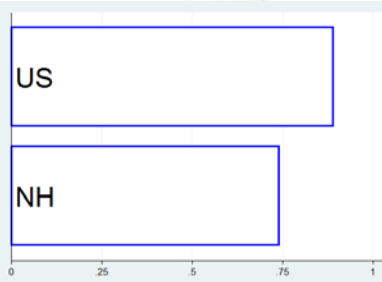
Regulatory Capital Requirement



## Centrix Bank & Trust Bedford, NH Highlights

- *Stockpile.* Under Basel II, total RBC increases from 10.7% to 12.1%, an amount equal to \$4.6 million or 13.2% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 10.7% total RBC ratio:
  - Issue a special dividend of \$1.61 per share
  - Repurchase 438,898 shares, increasing EPS \$0.17 or 17.2%
  - Organically grow assets by \$53 million

Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$458	
Gross Income Margin	3.1%	
Tangible Common Equity	6.7%	
Leverage Ratio	6.9%	
Capital Estimates	Current	Basel II
Tier 1 RBC	8.1%	9.2%
Total RBC	10.7%	12.1%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$1.61	
Share Repurchase (7/29/2008 price)		
Number of Shares	438,898	
Change in EPS	\$0.17	
Organic Asset Growth (millions)	\$53	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 23 New Hampshire banks free of charge

# New Hampshire 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
Optima Bank & Trust Company	Portsmouth	\$ 38,211	\$ 1,812	24.7%
Monadnock Community Bank	Peterborough	\$ 110,638	\$ 1,570	20.9%
Nashua Bank	Nashua	\$ 48,076	\$ 1,965	20.1%
Lake Sunapee Bank, FSB	Newport	\$ 825,796	\$ 6,894	18.3%
Piscataqua Savings Bank	Portsmouth	\$ 193,065	\$ 4,824	16.3%
Savings Bank of Walpole	Walpole	\$ 253,385	\$ 2,884	14.7%
Centrix Bank & Trust	Bedford	\$ 457,685	\$ 4,608	13.2%
Woodsville Guaranty Savings Bank	Woodsville	\$ 336,696	\$ 3,039	13.0%
Federal Savings Bank	Dover	\$ 254,499	\$ 2,793	12.2%
Franklin Savings Bank	Franklin	\$ 338,712	\$ 3,530	10.9%
<b>Averages</b>		<b>\$ 285,676</b>	<b>\$ 3,392</b>	<b>16.4%</b>

Source: 2008Q3 Call Reports; SPC estimates

# New Hampshire 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
Claremont Savings Bank	Claremont	\$ 304,235	\$ 3,709	9.2%
Mascoma Savings Bank (MHC)	Lebanon	\$ 801,525	\$ 6,508	8.3%
Merrimack Bancorp MHC	Concord	\$ 557,655	\$ 3,521	7.9%
First Colebrook Bank	Colebrook	\$ 191,701	\$ 1,061	7.4%
Meredith Village Savings Bank	Meredith	\$ 567,712	\$ 3,694	6.1%
Community Guaranty Savings Bank	Plymouth	\$ 96,259	\$ 449	5.8%
LSB Financial	Laconia	\$ 905,430	\$ 3,772	4.6%
Northway Financial, Inc.	Berlin	\$ 721,111	\$ 1,206	2.2%
Ledyard National Bank	Hanover	\$ 339,383	\$ 676	2.0%
Bank of New England	Salem	\$ 479,949	\$ 81	0.1%
<b>Averages</b>		<b>\$ 496,496</b>	<b>\$ 2,468</b>	<b>5.4%</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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