

The Impact of Standardized Basel II on New Jersey Banks

Prepared for New Jersey Bankers Association



Executive Summary

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

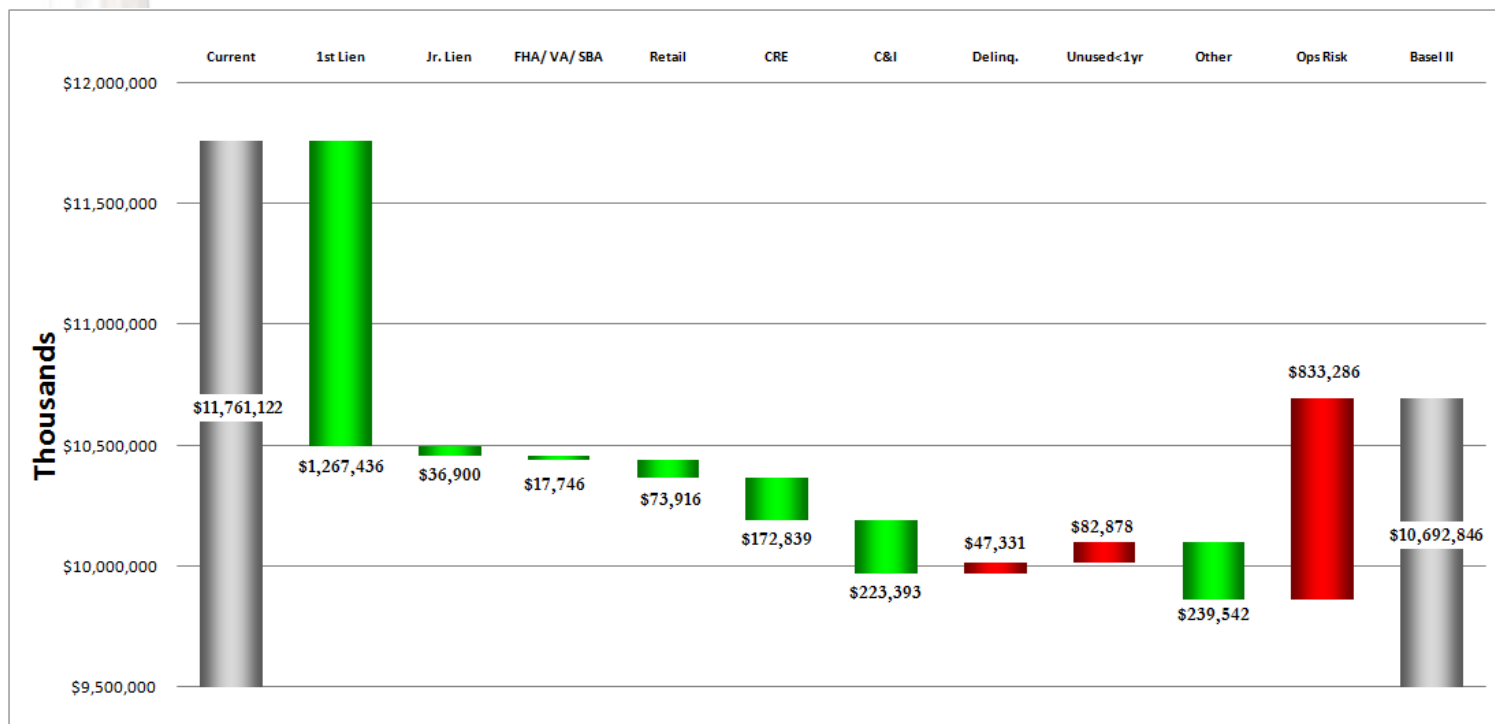


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 80.7% of 119 New Jersey banks and thrifts
 - Aggregate potential capital savings for all 119 banks of \$1,068 million
 - The median New Jersey bank would save \$2.0 million or 6.6% of their existing Tier 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 Jersey Banks can save up to \$1,068 million in required capital under Standardized Basel II and improve risk management

Capital savings estimate and asset category contribution

Regulatory Capital Requirement

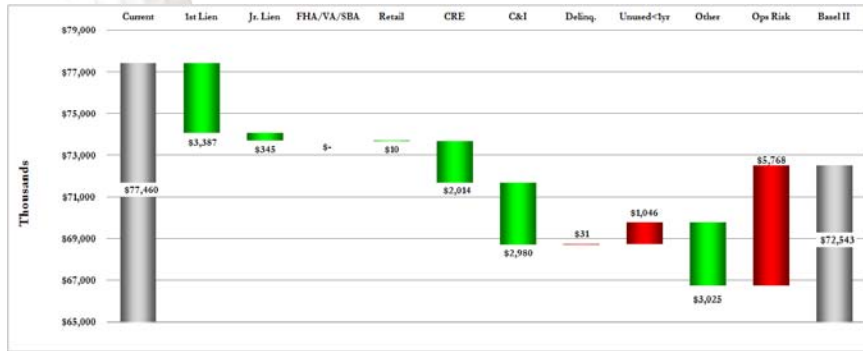


Source: 2008Q3 Call Reports; SPC estimates

For Center Bancorp, Inc., a representative New Jersey bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$4.9 million or 6.3%

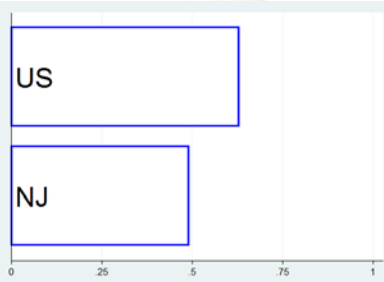
Regulatory Capital Requirement



Center Bancorp, Inc. Union, NJ Highlights

- *Stockpile.* Under Basel II, total RBC increases from 11.1% to 11.8%, an amount equal to \$4.9 million or 6.3% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 11.1% total RBC ratio:
 - Issue a special dividend of \$0.37 per share
 - Repurchase 586,757 shares, increasing EPS \$0.01 or 4.4%
 - Organically grow assets by \$60 million

Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$1,043	
Gross Income Margin	2.4%	
Tangible Common Equity	6.2%	
Leverage Ratio	7.8%	
Capital Estimates	Current	Basel II
Tier 1 RBC	10.3%	10.9%
Total RBC	11.1%	11.8%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.37	
Share Repurchase (7/29/2008 price)	586,757	
Number of Shares	\$0.01	
Change in EPS	\$60	
Organic Asset Growth (millions)	\$60	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 119 New Jersey banks free of charge

New Jersey 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
First Bank	Williamstown	\$ 54,398	\$ 1,430	24.6%
Saddle River Valley Bank	Saddle River	\$ 51,775	\$ 1,290	22.7%
First State Bank	Cranford	\$ 224,810	\$ 3,647	21.7%
Heritage Community Bank	Randolph	\$ 83,006	\$ 2,419	21.0%
Harvest Community Bank	Pennsville	\$ 181,861	\$ 2,662	20.6%
Cornerstone Bank	Moorestown	\$ 238,850	\$ 2,844	20.4%
Rumson-Fair Haven Bank & Trust Co.	Rumson	\$ 142,214	\$ 2,283	17.8%
Highlands State Bank	Vernon	\$ 63,440	\$ 1,289	17.8%
Liberty Bell Bank	Cherry Hill	\$ 150,374	\$ 2,144	17.2%
Bogota Savings Bank	Bogota	\$ 309,847	\$ 4,623	14.9%
Regal Bank	Livingston	\$ 55,395	\$ 1,688	14.5%
First Choice Bank	Lawrenceville	\$ 97,982	\$ 2,448	14.3%
Noble Community Bank	Sparta	\$ 44,909	\$ 653	13.8%
Bank of New Jersey	Fort Lee	\$ 271,070	\$ 5,914	13.5%
Capital Bank of New Jersey	Vineland	\$ 75,359	\$ 2,180	13.1%
Hudson City Savings Bank	Paramus	\$ 51,616,117	\$ 490,360	13.1%
Ocean City Home Bank (MHC)	Ocean City	\$ 680,832	\$ 7,678	13.0%
Northern State Bank	Closter	\$ 46,049	\$ 464	12.8%
Colonial Bank, FSB (MHC)	Vineland	\$ 524,298	\$ 4,336	12.3%
GCF Bank	Sewell	\$ 434,703	\$ 3,335	12.2%
Averages		\$ 2,767,364.45	\$ 27,184.42	16.6%

Source: 2008Q3 Call Reports; SPC estimates

New Jersey 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
New Millennium Bank	New Brunswick	\$ 227,118	\$ (89)	-0.3%
Llewellyn-Edison Savings Bank, FSB	West Orange	\$ 120,874	\$ (149)	-0.7%
BCB Community Bank	Bayonne	\$ 582,890	\$ (398)	-0.7%
Wavel Savings Bank (MHC)	Wallington	\$ 92,216	\$ (151)	-0.9%
Oritani Bank (MHC)	Township of Washington	\$ 1,535,736	\$ (2,175)	-1.0%
Pamrapo Savings Bank, SLA	Bayonne	\$ 596,008	\$ (689)	-1.1%
Freehold Savings and Loan Association	Freehold	\$ 218,407	\$ (406)	-1.4%
Century Savings Bank (MHC)	Vineland	\$ 254,471	\$ (794)	-1.6%
Amboy Bancorporation	Old Bridge	\$ 2,625,613	\$ (6,065)	-1.7%
Roselle Savings Bank	Roselle	\$ 383,899	\$ (1,312)	-2.2%
GSL Savings Bank	Guttenberg	\$ 88,694	\$ (378)	-2.6%
ISN Bank	Cherry Hill	\$ 138,897	\$ (263)	-3.0%
First National Bank of Absecon	Absecon	\$ 138,289	\$ (435)	-3.2%
NVE Bancorp, MHC	Englewood	\$ 576,144	\$ (3,613)	-4.4%
Crown Bank	Brick	\$ 344,722	\$ (4,181)	-7.0%
United Roosevelt Savings Bank (MHC)	Carteret	\$ 88,142	\$ (1,117)	-7.1%
Citizens Community Bank	Ridgewood	\$ 44,768	\$ (277)	-15.3%
Sumitomo Trust and Banking Co. (U.S.A.)	Hoboken	\$ 902,056	\$ (25,090)	-16.9%
Cenlar FSB	Trenton	\$ 537,893	\$ (11,647)	-23.2%
First Investors Federal Savings Bank	Edison	\$ 58,203	\$ (3,491)	-24.5%
Averages		\$ 477,752	\$ (3,136)	-5.9%

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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