

# The Impact of Standardized Basel II on New Mexico Banks

Prepared for New Mexico Bankers Association



# Executive Summary

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

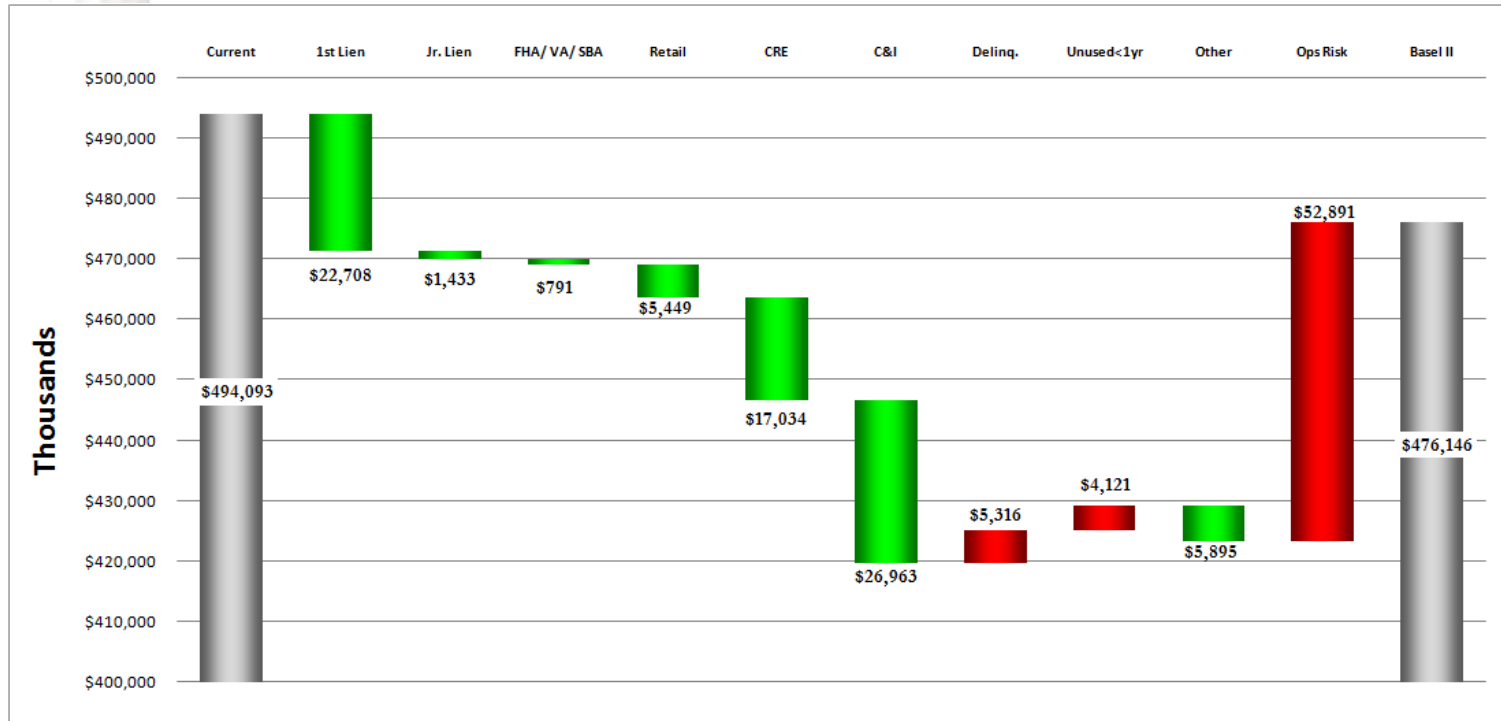


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 47.8% of 46 New Mexico banks and thrifts
  - Aggregate potential capital savings for all 46 banks of \$18 million
  - The median New Mexico bank would save \$0.7 million or -0.1% of their existing Tier 1 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 Mexico Banks can save up to \$18 million in required capital under Standardized Basel II and improve risk management

## Capital savings estimate and asset category contribution

Regulatory Capital Requirement

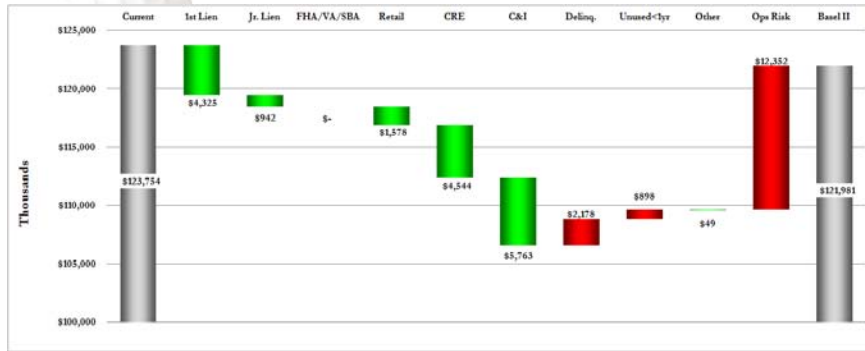


Source: 2008Q3 Call Reports; SPC estimates

# For Trinity Capital Corporation, a representative New Mexico bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$1.8 million or 1.2%

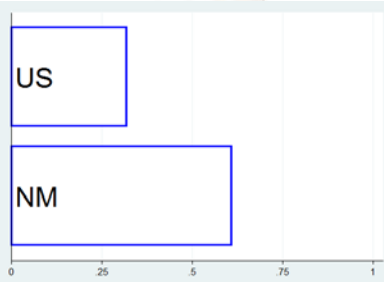
Regulatory Capital Requirement



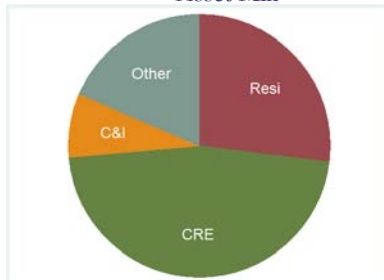
## Trinity Capital Corporation Los Alamos, NM Highlights

- *Stockpile.* Under Basel II, total RBC increases from 12.3% to 12.4%, an amount equal to \$1.8 million or 1.2% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 12.3% total RBC ratio:
  - Issue a special dividend of \$0.27 per share
  - Repurchase shares (number of shares and impact on EPS unavailable for private entity)
  - Organically grow assets by \$18 million

Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$1,419	
Gross Income Margin	4.0%	
Tangible Common Equity	6.5%	
Leverage Ratio	8.8%	
Capital Estimates	Current	Basel II
Tier 1 RBC	10.6%	10.7%
Total RBC	12.3%	12.4%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.27	
Share Repurchase (7/29/2008 price)		
Number of Shares	N/A	
Change in EPS	\$N/A	
Organic Asset Growth (millions)	\$18	

Source: 2008Q3 Call Reports; SPC estimates Page 3

Upon request, Second Pillar Consulting can provide similar information for all 46 New Mexico banks free of charge

# New Mexico 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
Bank of Clovis	Clovis	\$ 115,712	\$ 1,703	19.8%
Western Bank, Artesia, New Mexico	Artesia	\$ 155,570	\$ 2,260	18.7%
Valley Bank of Commerce	Roswell	\$ 120,948	\$ 1,380	16.2%
Western Bank of Clovis	Clovis	\$ 47,741	\$ 704	13.1%
Bank of the Southwest	Roswell	\$ 142,786	\$ 1,579	12.4%
Tucumcari Federal Savings & Loan Association	Tucumcari	\$ 38,773	\$ 323	9.4%
Four Corners Community Bank	Farmington	\$ 168,764	\$ 915	7.2%
Bank 1st	Albuquerque	\$ 80,797	\$ 590	7.0%
BANK'34 (MHC)	Alamogordo	\$ 148,731	\$ 1,811	6.8%
Western Bank	Lordsburg	\$ 107,895	\$ 716	6.1%
Community Bank	Santa Fe	\$ 178,924	\$ 807	6.1%
Community 1st Bank Las Vegas	Las Vegas	\$ 118,719	\$ 565	5.5%
International Bank	Raton	\$ 217,898	\$ 673	4.1%
Main Bank	Albuquerque	\$ 55,859	\$ 203	4.0%
James Polk Stone National Bank	Portales	\$ 138,481	\$ 301	2.2%
Union Savings Bank	Albuquerque	\$ 68,202	\$ 118	1.9%
AmBank	Silver City	\$ 90,425	\$ 152	1.6%
Charter Bank	Santa Fe	\$ 1,448,529	\$ 855	1.4%
Trinity Capital Corporation	Los Alamos	\$ 1,418,587	\$ 1,773	1.2%
Pioneer Bank	Roswell	\$ 557,516	\$ 312	0.7%
<b>Averages</b>		<b>\$ 271,042.85</b>	<b>\$ 886.95</b>	<b>7.3%</b>

Source: 2008Q3 Call Reports; SPC estimates

# New Mexico 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 National Bank of Ruidoso	Ruidoso	\$ 51,874	\$ (27)	-0.4%
First National Bank of New Mexico	Clayton	\$ 157,732	\$ (138)	-1.1%
Bank of Las Vegas	Las Vegas	\$ 170,094	\$ (200)	-1.3%
Western Commerce Bank	Carlsbad	\$ 295,051	\$ (529)	-1.6%
Farmers and Stockmens Bank of Clayton	Clayton	\$ 55,924	\$ (83)	-1.7%
Citizens Bankshares, Inc.	Farmington	\$ 526,494	\$ (923)	-1.7%
My Bank	Belen	\$ 141,795	\$ (256)	-1.8%
Carlsbad National Bank	Carlsbad	\$ 190,670	\$ (453)	-2.3%
Citizens Bank of Las Cruces	Las Cruces	\$ 332,459	\$ (819)	-2.7%
Western Bank	Alamogordo	\$ 71,017	\$ (282)	-3.0%
Valley National Bank	Espanola	\$ 310,470	\$ (1,320)	-3.2%
Centinel Bank of Taos	Taos	\$ 144,882	\$ (442)	-3.4%
New Mexico Banquest Corporation	Santa Fe	\$ 602,405	\$ (1,996)	-3.6%
First New Mexico Financial Corporation	Deming	\$ 279,226	\$ (1,661)	-3.8%
First National Bank in Alamogordo	Alamogordo	\$ 212,373	\$ (1,665)	-6.3%
High Desert State Bank	Albuquerque	\$ 93,154	\$ (749)	-6.4%
Citizens Bank of Clovis	Clovis	\$ 209,298	\$ (2,818)	-8.2%
Lea County State Bank	Hobbs	\$ 203,895	\$ (1,431)	-8.4%
Mesilla Valley Bank	Las Cruces	\$ 17,678	\$ (299)	-9.2%
First State Bank	Socorro	\$ 108,653	\$ (1,044)	-9.9%
<b>Averages</b>		<b>\$ 208,757</b>	<b>\$ (857)</b>	<b>-4.0%</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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