

The Impact of Standardized Basel II on Ohio Banks

Prepared for Ohio Bankers Association



Executive Summary

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

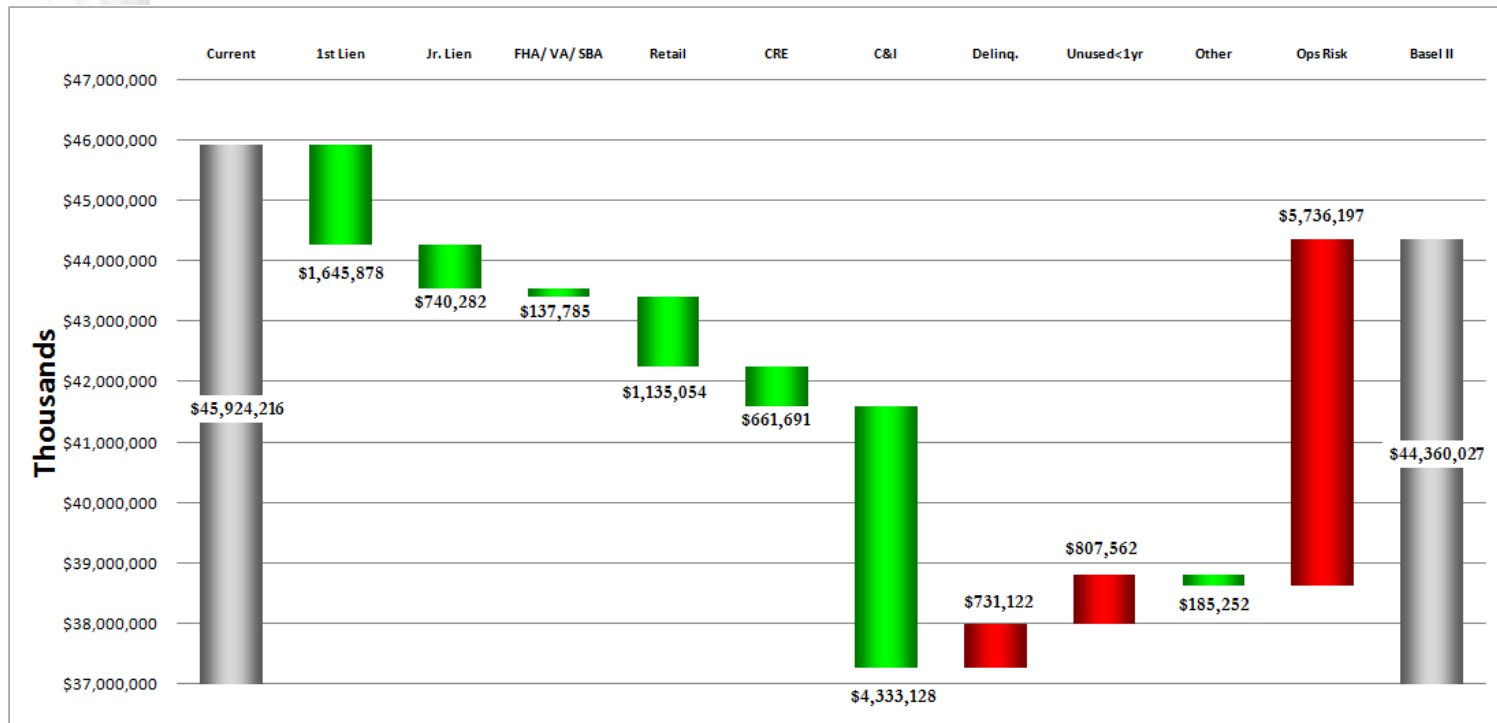


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 91.0% of 245 Ohio banks and thrifts
 - Aggregate potential capital savings for all 245 banks of \$1,564 million
 - The median Ohio bank would save \$1.0 million or 6.0% of their existing Tier 1 capital requirement
- 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

Ohio Banks can save up to \$1,564 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 Cortland Bancorp, a representative Ohio bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$3.2 million or 6.1%

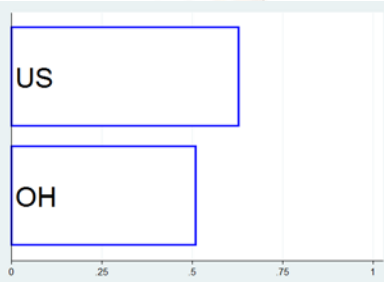
Regulatory Capital Requirement



Cortland Bancorp Cortland, OH Highlights

- *Stockpile.* Under Basel II, total RBC increases from 18.8% to 19.9%, an amount equal to \$3.2 million or 6.1% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 18.8% total RBC ratio:
 - Issue a special dividend of \$0.73 per share
 - Repurchase 340,599 shares, increasing EPS \$0.08 or 8.2%
 - Organically grow assets by \$28 million

Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$489	
Gross Income Margin	3.7%	
Tangible Common Equity	9.1%	
Leverage Ratio	10.8%	
Capital Estimates	Current	Basel II
Tier 1 RBC	18.2%	19.3%
Total RBC	18.8%	19.9%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.73	
Share Repurchase (7/29/2008 price)		
Number of Shares	340,599	
Change in EPS	\$0.08	
Organic Asset Growth (millions)	\$28	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 245 Ohio banks free of charge

Ohio 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
CenterBank	Milford	\$ 89,164	\$ 1,394	24.6%
First Bexley Bank	Bexley	\$ 73,781	\$ 2,334	23.5%
First Place Bank	Warren	\$ 3,325,974	\$ 48,341	22.2%
Citizens National Bank of Southwestern OH	Dayton	\$ 96,117	\$ 1,519	21.3%
Buckeye Community Bank	Lorain	\$ 160,538	\$ 2,781	21.3%
Waterford Bank, N.A.	Toledo	\$ 136,868	\$ 3,777	20.1%
Portage Community Bank	Ravenna	\$ 205,712	\$ 3,006	20.0%
Milton Banking Company	Wellston	\$ 103,521	\$ 1,479	19.6%
Baltic State Bank	Baltic	\$ 36,005	\$ 654	17.9%
Settlers Bank	Marietta	\$ 91,388	\$ 1,531	17.1%
Third Federal Savings and Loan Association	Cleveland	\$ 10,740,663	\$ 188,861	16.8%
Nationwide Bank	Columbus	\$ 1,900,744	\$ 21,420	16.4%
First Federal Savings and Loan Association	Lorain	\$ 400,515	\$ 4,090	16.3%
Cooper State Bank	Dublin	\$ 55,088	\$ 1,374	16.3%
Insight Bank	Columbus	\$ 62,502	\$ 1,586	16.3%
Monitor Bank	Big Prairie	\$ 33,530	\$ 688	16.2%
Emerald Bank	Dublin	\$ 56,858	\$ 1,087	16.2%
Westfield Bank, FSB	Westfield Center	\$ 377,839	\$ 5,118	16.0%
First City Bank	Columbus	\$ 55,666	\$ 781	15.2%
Home Loan Savings Bank	Coshocton	\$ 167,197	\$ 2,460	15.1%
Averages		\$ 908,483.50	\$ 14,714.14	18.4%

Source: 2008Q3 Call Reports; SPC estimates

Ohio 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
Ohio Legacy Bank, National Association	Wooster	\$ 179,958	\$ 8	0.1%
1st National Bank	Lebanon	\$ 109,377	\$ 8	0.0%
National Bank of Montpelier	Montpelier	\$ 106,338	\$ (21)	-0.1%
Peoples Bancorp Inc.	Marietta	\$ 1,920,876	\$ (386)	-0.2%
United Midwest Savings Bank	De Graff	\$ 269,865	\$ (146)	-0.5%
Home Federal Savings and Loan Association	Niles	\$ 102,008	\$ (116)	-0.7%
Rurban Financial Corp.	Defiance	\$ 585,022	\$ (1,402)	-2.0%
Covington Savings & Loan Association	Covington	\$ 63,710	\$ (306)	-2.2%
Hamler State Bank	Hamler	\$ 59,252	\$ (246)	-2.5%
Woodsfield Savings Bank	Woodsfield	\$ 33,168	\$ (94)	-2.7%
AmTrust Bank	Cleveland	\$ 16,538,134	\$ (28,521)	-2.8%
Citizens National Bank of Woodsfield	Woodsfield	\$ 53,667	\$ (240)	-3.2%
Belmont Savings Bank	Bellaire	\$ 284,538	\$ (1,181)	-3.3%
Farmers Savings Bank	Spencer	\$ 220,226	\$ (1,799)	-3.4%
Peoples Community Bank	West Chester	\$ 720,910	\$ (1,634)	-3.7%
Adams County Building and Loan Company	West Union	\$ 22,952	\$ (200)	-4.5%
Spring Valley Bank	Wyoming	\$ 63,619	\$ (1,113)	-4.7%
Pataskala Banking Company	Pataskala	\$ 28,585	\$ (159)	-4.7%
FDS Bank	Mason	\$ 103,269	\$ (1,966)	-6.2%
Union Banking Company	West Mansfield	\$ 72,446	\$ (394)	-6.4%
Averages		\$ 1,076,896	\$ (1,995)	-2.7%

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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