

The Impact of Standardized Basel II on Oregon Banks

Prepared for Oregon Bankers Association



Executive Summary

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

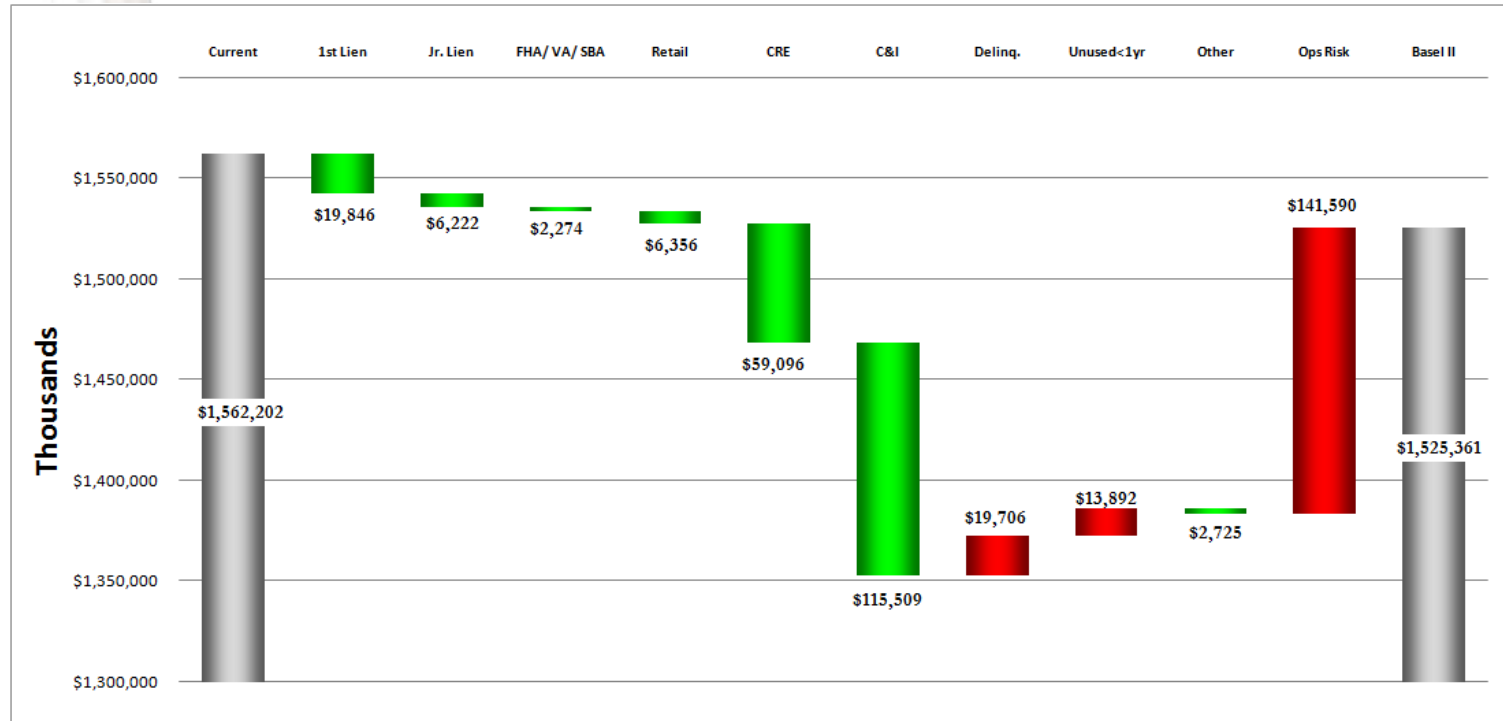


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 64.9% of 37 Oregon banks and thrifts
 - Aggregate potential capital savings for all 37 banks of \$37 million
 - The median Oregon bank would save \$1.1 million or 1.3% of their existing Tier 1 capital requirement
- 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

Oregon Banks can save up to \$37 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 Willamette Valley Bank, a representative Oregon bank, Basel II regulatory capital savings can be stockpiled or deployed

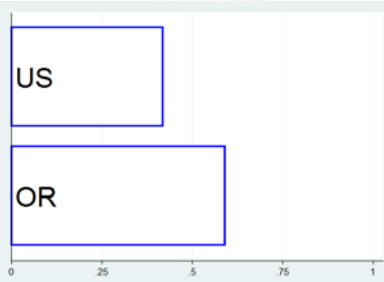
Capital Savings: \$0.4 million or 2.9%

Regulatory Capital Requirement

Willamette Valley Bank Salem, OR Highlights

- *Stockpile.* Under Basel II, total RBC increases from 12.1% to 12.4%, an amount equal to \$0.4 million or 2.9% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 12.1% total RBC ratio:
 - Issue a special dividend of \$0.40 per share
 - Repurchase 37,609 shares, increasing EPS \$0.03 or 4.0%
 - Organically grow assets by \$3 million

Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$112	
Gross Income Margin	4.8%	
Tangible Common Equity	10.7%	
Leverage Ratio	10.9%	
Capital Estimates	Current	Basel II
Tier 1 RBC	11.2%	11.5%
Total RBC	12.1%	12.4%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.40	
Share Repurchase (7/29/2008 price)		
Number of Shares	37,609	
Change in EPS	\$0.03	
Organic Asset Growth (millions)	\$3	

Upon request, Second Pillar Consulting can provide similar information for all 37 Oregon banks free of charge

Oregon 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
Compass Community Bank	Seaside	\$ 15,385	\$ 1,556	21.0%
Summit Bank	Eugene	\$ 107,509	\$ 1,612	16.6%
Centerpointe Community Bank	Hood River	\$ 34,398	\$ 1,106	16.6%
Century Bank	Eugene	\$ 78,913	\$ 1,576	16.5%
Northwest Bank	Lake Oswego	\$ 125,870	\$ 2,582	15.5%
Willamette Community Bank	Albany	\$ 57,625	\$ 936	15.5%
Bank of Oswego	Lake Oswego	\$ 64,678	\$ 1,203	12.5%
Pacific West Bank	West Linn	\$ 60,502	\$ 763	10.1%
Capital Pacific Bank	Portland	\$ 136,224	\$ 1,082	7.1%
Home Valley Bank	Grants Pass	\$ 227,133	\$ 1,174	6.0%
Averages		\$ 90,824	\$ 1,359	13.7%

Source: 2008Q3 Call Reports; SPC estimates

Oregon 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
Citizens Bank	Corvallis	\$ 378,982	\$ (1,041)	-1.9%
West Coast Bancorp	Lake Oswego	\$ 2,573,046	\$ (5,465)	-2.0%
Bank of Eastern Oregon	Heppner	\$ 222,605	\$ (786)	-3.5%
Oregon Pacific Banking Company dba Ore	Florence	\$ 157,342	\$ (689)	-3.6%
MBank	Gresham	\$ 302,880	\$ (1,191)	-3.6%
Pinnacle Bank of Oregon	Beaverton	\$ 73,782	\$ (288)	-3.9%
Columbia Bancorp	The Dalles	\$ 1,150,027	\$ (3,640)	-4.0%
Siuslaw Bank	Florence	\$ 281,960	\$ (1,949)	-5.0%
Clackamas County Bank	Sandy	\$ 146,923	\$ (1,424)	-5.1%
Silver Falls Bank	Silverton	\$ 147,002	\$ (1,209)	-10.2%
Averages		\$ 543,455	\$ (1,768)	-4.3%

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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