

The Impact of Standardized Basel II on Pennsylvania Banks

Prepared for Pennsylvania Bankers Association



Executive Summary

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

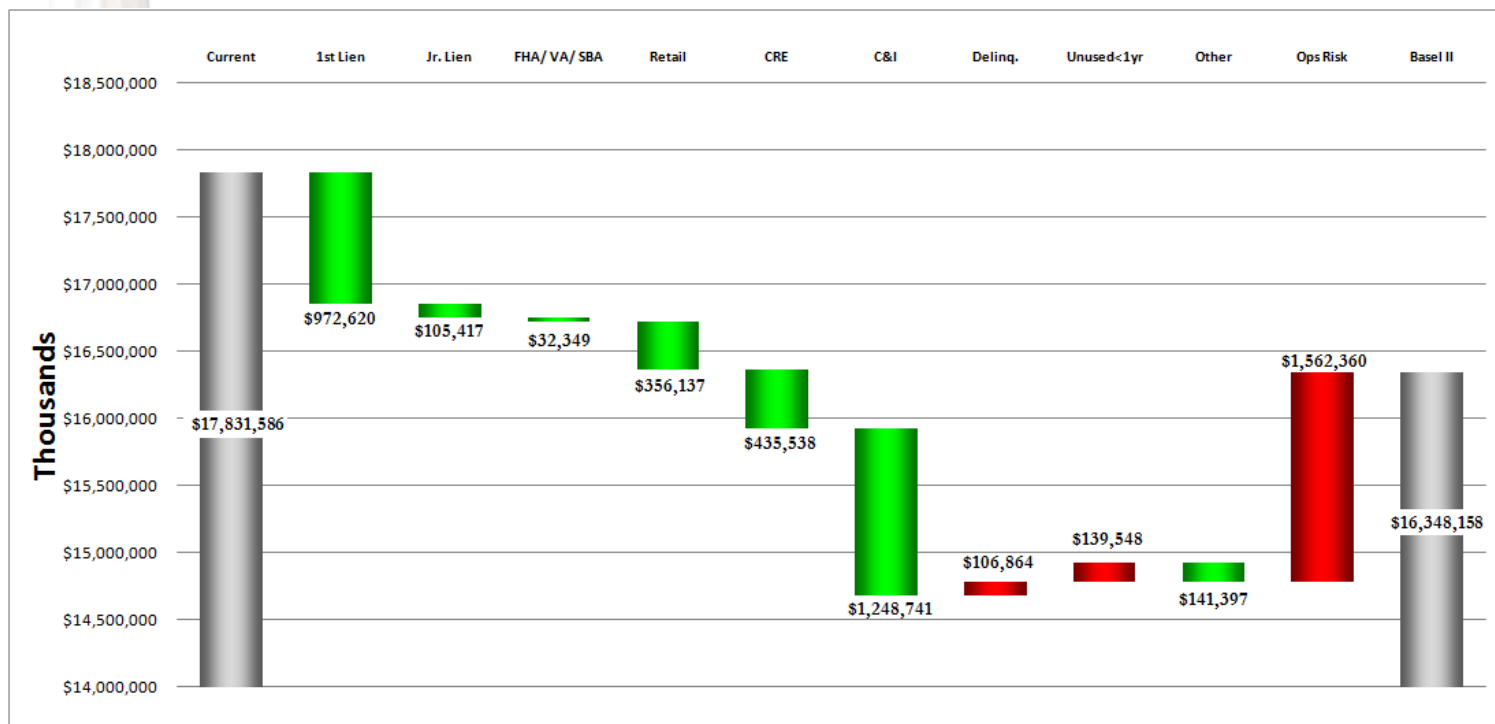


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 88.6% of 229 Pennsylvania banks and thrifts
 - Aggregate potential capital savings for all 229 banks of \$1,483 million
 - The median Pennsylvania bank would save \$1.7 million or 6.5% of their existing 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

Pennsylvania Banks can save up to \$1,483 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 Jonestown Bank and Trust, a representative Pennsylvania bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$2.0 million or 7.7%

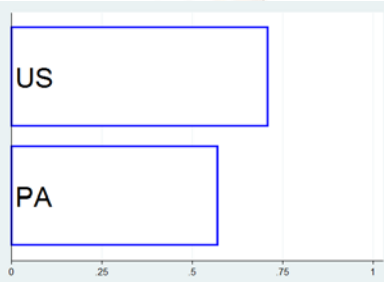
Regulatory Capital Requirement



Jonestown Bank and Trust Jonestown, PA Highlights

- Stockpile.** Under Basel II, total RBC increases from 11.4% to 12.3%, an amount equal to \$2.0 million or 7.7% of the existing capital base.
- Deploy.** Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 11.4% total RBC ratio:
 - Issue a special dividend of \$1.35 per share
 - Repurchase 95,811 shares, increasing EPS \$0.12 or 6.8%
 - Organically grow assets by \$21 million

Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$294	
Gross Income Margin	3.7%	
Tangible Common Equity	8.7%	
Leverage Ratio	8.8%	
Capital Estimates	Current	Basel II
Tier 1 RBC	10.3%	11.0%
Total RBC	11.4%	12.3%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$1.35	
Share Repurchase (7/29/2008 price)		
Number of Shares	95,811	
Change in EPS	\$0.12	
Organic Asset Growth (millions)	\$21	

Upon request, Second Pillar Consulting can provide similar information for all 229 Pennsylvania banks free of charge

Pennsylvania 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
Valley Green Bank	Philadelphia	\$ 94,856	\$ 1,894	24.8%
Hometown Bank of Pennsylvania	Bedford	\$ 47,256	\$ 1,430	21.4%
MileStone Bank	Doylestown	\$ 49,792	\$ 2,085	21.3%
Enterprise Bank	Allison Park	\$ 170,732	\$ 2,414	20.5%
Vantage Point Bank	Fort Washington	\$ 71,354	\$ 1,190	20.3%
Monument Bank	Doylestown	\$ 49,713	\$ 1,490	19.4%
Hyperion Bank	Philadelphia	\$ 59,713	\$ 1,298	19.3%
Clarion County Community Bank	Clarion	\$ 76,121	\$ 1,350	19.1%
MoreBank	Philadelphia	\$ 44,772	\$ 985	18.8%
Bucks County Bank	Doylestown	\$ 186,512	\$ 3,540	18.7%
Farmers and Merchants Bank of Western P	Kittanning	\$ 344,822	\$ 5,312	18.6%
Gateway Bank of Pennsylvania	McMurray	\$ 98,681	\$ 2,213	18.1%
Asian Bank	Philadelphia	\$ 91,309	\$ 887	18.0%
Armstrong County Building and Loan Assn	Ford City	\$ 73,109	\$ 1,781	18.0%
Community First Bank	Reynoldsville	\$ 78,511	\$ 1,036	18.0%
Team Capital Bank	Bethlehem	\$ 367,781	\$ 6,692	17.7%
Sharon Savings Bank	Darby	\$ 178,396	\$ 2,958	17.2%
Parkvale Savings Bank	Monroeville	\$ 1,825,594	\$ 16,013	16.5%
Dollar Bank, FSB	Pittsburgh	\$ 5,682,193	\$ 77,322	16.4%
York Traditions Bank	York	\$ 188,095	\$ 2,774	16.4%
Averages		\$ 488,965.60	\$ 6,733.23	18.9%

Source: 2008Q3 Call Reports; SPC estimates

Pennsylvania 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
Farmers Building and Savings Bank	Rochester	\$ 56,342	\$ (53)	-0.5%
VIST Financial Corp.	Wyomissing	\$ 1,181,608	\$ (543)	-0.6%
Progressive-Home Federal Savings and Loan Association	Pittsburgh	\$ 47,928	\$ (56)	-1.1%
Second Federal Savings and Loan Association	Philadelphia	\$ 13,769	\$ (84)	-1.4%
PNC Financial Services Group, Inc.	Pittsburgh	\$ 145,600,000	\$ (263,171)	-1.8%
Royal Bancshares of Pennsylvania, Inc.	Narberth	\$ 1,172,486	\$ (3,716)	-2.2%
United Bank of Philadelphia	Philadelphia	\$ 71,104	\$ (202)	-2.6%
Franklin Security Bank	Plains	\$ 203,800	\$ (456)	-3.0%
Herndon National Bank	Herndon	\$ 28,911	\$ (289)	-3.4%
Apollo Trust Company	Apollo	\$ 110,065	\$ (632)	-3.4%
FNB Bancorp, Inc.	Newtown	\$ 612,665	\$ (3,284)	-3.7%
Atlantic Central Bankers Bank	Camp Hill	\$ 496,674	\$ (2,124)	-3.7%
Dwelling House Savings & Loan Association	Pittsburgh	\$ 16,898	\$ (124)	-3.7%
Community National Bank of Northwest	Albion	\$ 71,456	\$ (808)	-5.0%
Nextier Incorporated	Butler	\$ 512,454	\$ (3,948)	-5.7%
Manor Bank	Manor	\$ 18,868	\$ (151)	-5.9%
Keystone State Savings Bank	Sharpsburg	\$ 25,650	\$ (323)	-7.8%
American Home Bank, National Association	Mountville	\$ 235,391	\$ (1,918)	-10.2%
SEI Private Trust Company	Oaks	\$ 89,126	\$ (10,790)	-11.9%
Haverford Trust Company	Radnor	\$ 103,667	\$ (3,056)	-16.2%
Averages		\$ 7,533,443	\$ (14,786)	-4.7%

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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