

# The Impact of Standardized Basel II on Utah Banks

Prepared for Utah Bankers Association



# Executive Summary

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

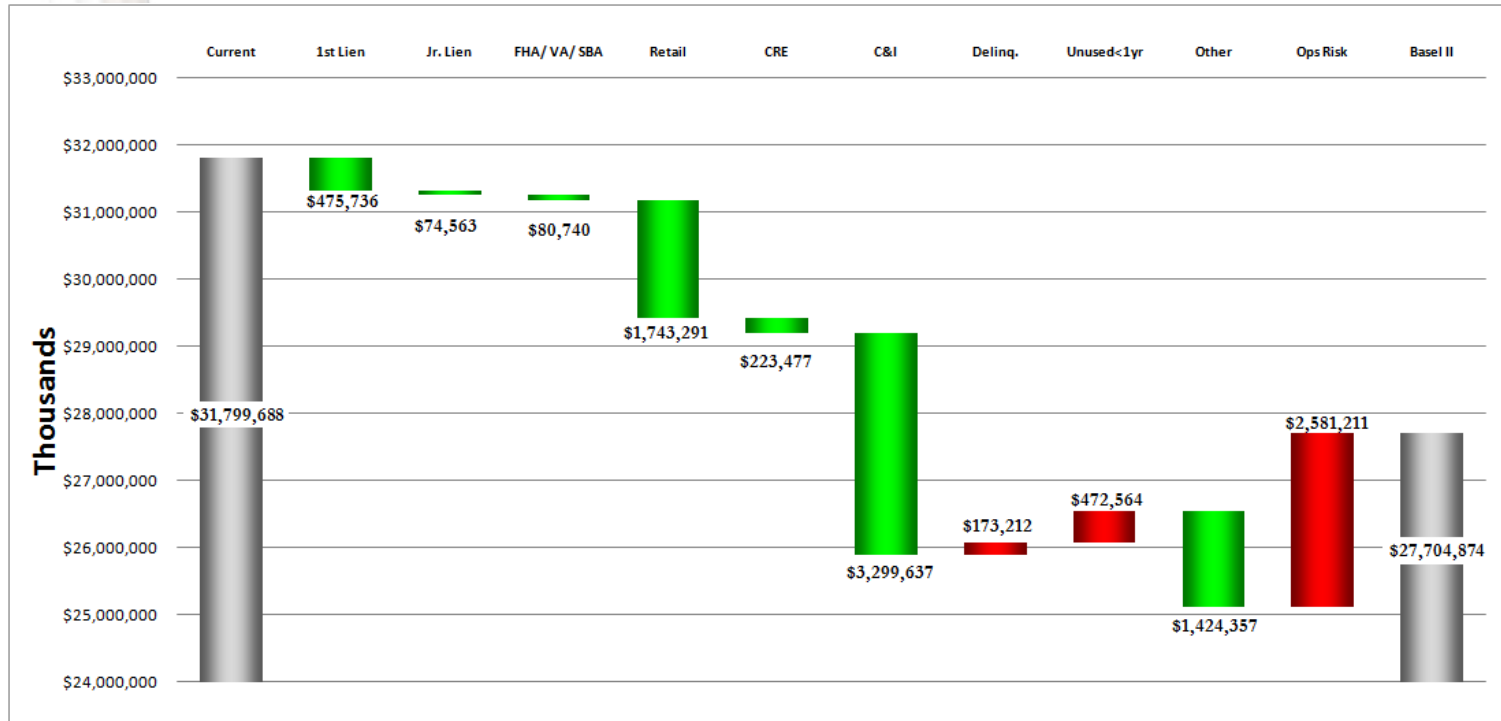


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 50.0% of 64 Utah banks and thrifts
  - Aggregate potential capital savings for all 64 banks of \$4,095 million
  - The median Utah bank would save \$7.7 million or -0.2% of their existing Tier 1 capital 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

# Utah Banks can save up to \$4,095 million in required capital under Standardized Basel II and improve risk management

## Capital savings estimate and asset category contribution

Regulatory Capital Requirement

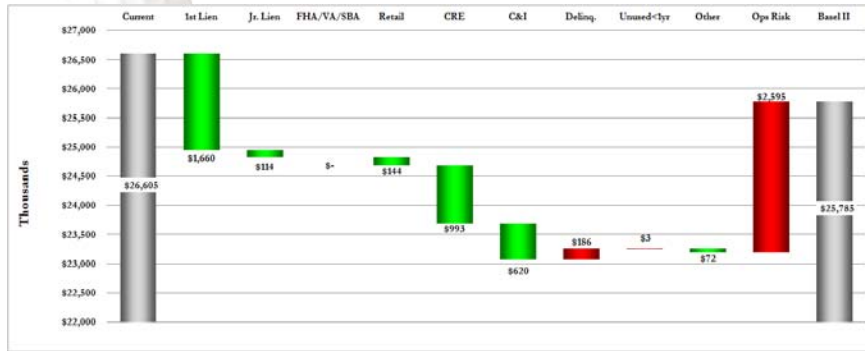


Source: 2008Q3 Call Reports; SPC estimates

# For Frontier Bank, FSB, a representative Utah bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$0.8 million or 2.9%

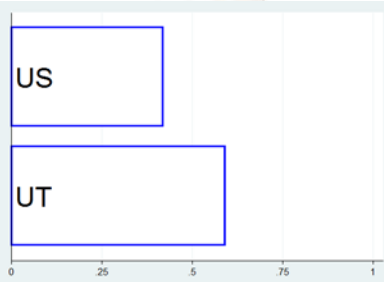
Regulatory Capital Requirement



## Frontier Bank, FSB Park City, UT Highlights

- *Stockpile.* Under Basel II, total RBC increases from 11.8% to 12.1%, an amount equal to \$0.8 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 11.8% total RBC ratio:
  - Issue a special dividend (per share information unavailable for private entity)
  - Repurchase shares (number of shares and impact on EPS unavailable for private entity)
  - Organically grow assets by \$9 million

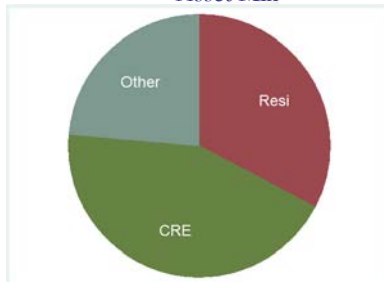
Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$323	
Gross Income Margin	4.0%	
Tangible Common Equity	8.1%	
Leverage Ratio	8.2%	
Capital Estimates	Current	Basel II
Tier 1 RBC	10.9%	11.3%
Total RBC	11.8%	12.1%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$N/A	
Share Repurchase (7/29/2008 price)	N/A	
Number of Shares	N/A	
Change in EPS	\$N/A	
Organic Asset Growth (millions)	\$9	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 64 Utah banks free of charge

# Utah 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
American Express Bank, FSB	Salt Lake City	\$ 23,598,437	\$ 371,919	24.4%
BMW Bank of North America	Salt Lake City	\$ 3,122,768	\$ 58,153	21.5%
EnerBank USA	Salt Lake City	\$ 183,279	\$ 3,238	19.6%
OptumHealth Bank, Inc.	Salt Lake City	\$ 824,858	\$ 11,061	17.6%
WebBank	Salt Lake City	\$ 46,461	\$ 1,180	16.9%
Proficio Bank	Salt Lake City	\$ 169,652	\$ 4,328	16.9%
Sallie Mae Bank	Murray	\$ 1,640,474	\$ 35,992	16.4%
GMAC Bank	Midvale	\$ 32,697,215	\$ 513,134	15.0%
Continental Bank	Salt Lake City	\$ 87,489	\$ 1,433	14.6%
Bonneville Bank	Provo	\$ 38,630	\$ 751	13.5%
Morgan Stanley Bank, National Association	Salt Lake City	\$ 37,638,000	\$ 601,573	13.1%
Wright Express Financial Services Corpora	Salt Lake City	\$ 1,329,255	\$ 20,877	12.6%
GE Money Bank	Salt Lake City	\$ 15,723,321	\$ 256,609	8.3%
Transportation Alliance Bank, Inc.	Ogden	\$ 637,241	\$ 4,145	6.8%
Lehman Brothers Commercial Bank	Salt Lake City	\$ 6,404,976	\$ 61,290	6.4%
Merrill Lynch Bank USA	Salt Lake City	\$ 61,643,285	\$ 390,776	5.9%
Utah Independent Bank	Salina	\$ 54,646	\$ 451	5.8%
Cache Valley Bank	Logan	\$ 200,058	\$ 1,044	4.7%
Marlin Business Bank	Salt Lake City	\$ 64,966	\$ 458	3.5%
Lewiston State Bank	Lewiston	\$ 226,777	\$ 807	3.4%
<b>Averages</b>		<b>\$ 9,316,589.40</b>	<b>\$ 116,960.94</b>	<b>12.3%</b>

Source: 2008Q3 Call Reports; SPC estimates

# Utah 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
Holladay Bank & Trust	Salt Lake City	\$ 69,085	\$ (404)	-4.0%
Republic Bank	Bountiful	\$ 503,371	\$ (3,119)	-4.9%
First Utah Bank	Salt Lake City	\$ 363,664	\$ (2,107)	-5.2%
First National Bank	Layton	\$ 279,027	\$ (1,922)	-5.5%
America West Bank	Layton	\$ 313,823	\$ (1,675)	-6.2%
Liberty Bank	Salt Lake City	\$ 18,776	\$ (251)	-7.1%
LCA Bank Corporation	Park City	\$ 32,572	\$ (511)	-7.6%
Brighton Bank	Salt Lake City	\$ 156,158	\$ (1,715)	-7.8%
Prime Alliance Bank	Woods Cross	\$ 135,183	\$ (2,507)	-8.2%
Utah Community Bank	Sandy	\$ 66,025	\$ (1,128)	-8.7%
Barnes Bancorporation	Kaysville	\$ 845,907	\$ (14,700)	-9.8%
Heritage Bank	Saint George	\$ 188,478	\$ (6,873)	-10.3%
Central Bancorporation	Provo	\$ 625,441	\$ (12,787)	-10.5%
World Financial Capital Bank	Salt Lake City	\$ 194,533	\$ (10,523)	-12.6%
MagnetBank	Salt Lake City	\$ 300,674	\$ (3,011)	-13.2%
Centennial Bank	Ogden	\$ 208,027	\$ (3,598)	-13.3%
Pitney Bowes Bank, Inc.	Salt Lake City	\$ 713,210	\$ (12,362)	-15.4%
Merrick Bank	South Jordan	\$ 1,166,233	\$ (42,705)	-16.1%
American Express Centurion Bank	Salt Lake City	\$ 22,327,768	\$ (713,865)	-18.4%
Advanta Bank Corp	Draper	\$ 2,654,464	\$ (128,202)	-22.3%
<b>Averages</b>		<b>\$ 1,558,121</b>	<b>\$ (48,198)</b>	<b>-10.4%</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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