

The Impact of Standardized Basel II on Wisconsin Banks

Prepared for Wisconsin Bankers Association



Executive Summary

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

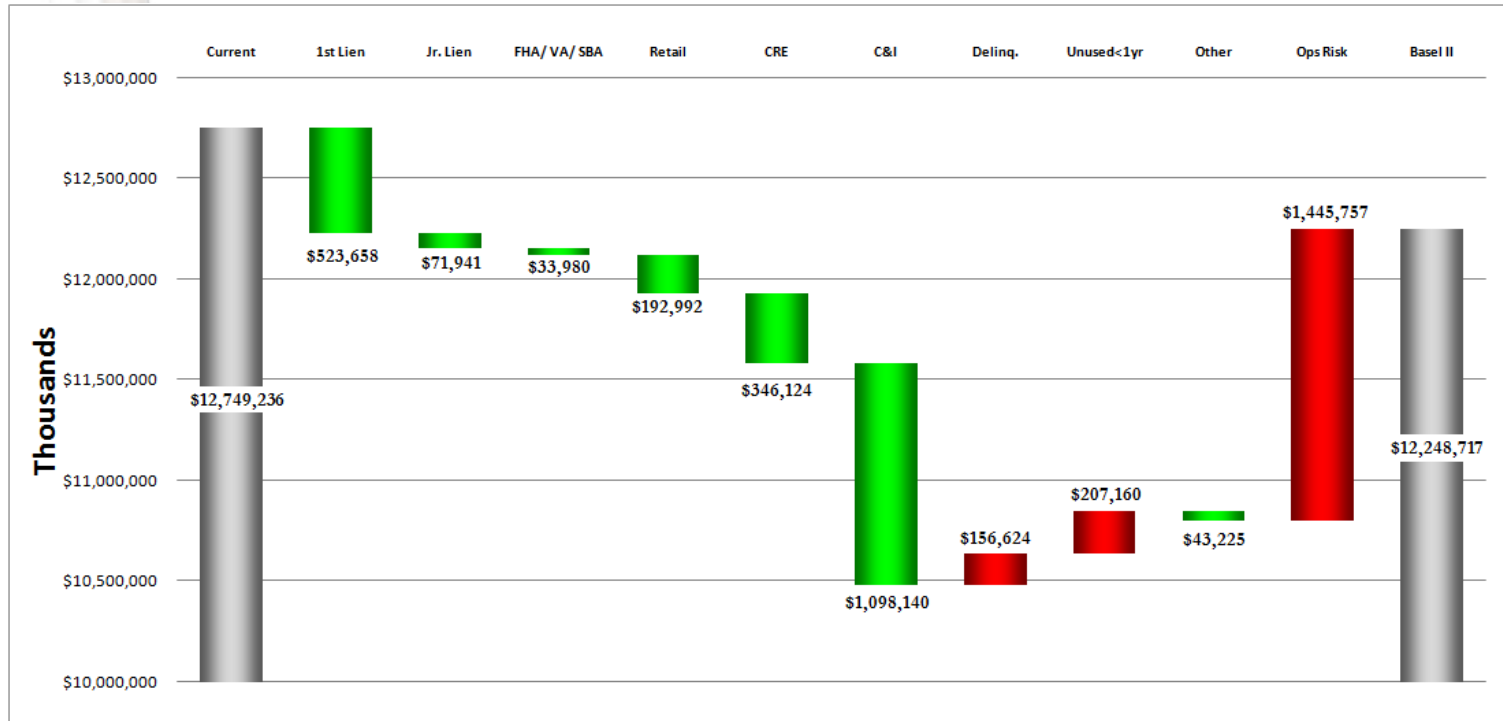


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 90.1% of 272 Wisconsin banks and thrifts
 - Aggregate potential capital savings for all 272 banks of \$501 million
 - The median Wisconsin bank would save \$0.9 million or 5.4% of their existing Tier 1 capital 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

Wisconsin Banks can save up to \$501 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 AnchorBank, fsb, a representative Wisconsin bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$13.8 million or 3.8%

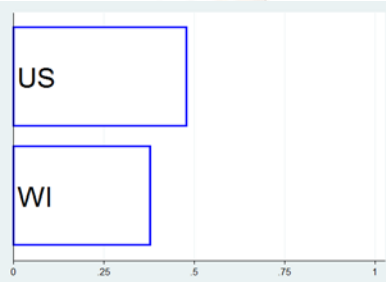
Regulatory Capital Requirement



AnchorBank, fsb Madison, WI Highlights

- *Stockpile.* Under Basel II, total RBC increases from 10.2% to 10.6%, an amount equal to \$13.8 million or 3.8% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 10.2% total RBC ratio:
 - Issue a special dividend of \$0.65 per share
 - Repurchase 4,710,025 shares, increasing EPS \$0.43 or 28.7%
 - Organically grow assets by \$174 million

Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$4,866	
Gross Income Margin	2.8%	
Tangible Common Equity	6.9%	
Leverage Ratio	7.0%	
Capital Estimates	Current	Basel II
Tier 1 RBC	9.0%	9.3%
Total RBC	10.2%	10.6%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.65	
Share Repurchase (7/29/2008 price)	4,710,025	
Number of Shares	\$0.43	
Change in EPS	\$174	
Organic Asset Growth (millions)	\$174	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 272 Wisconsin banks free of charge

Wisconsin 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
Charter Bankshares, Inc.	Eau Claire	\$ 682,593	\$ 12,621	23.9%
Palmyra State Bank	Palmyra	\$ 32,868	\$ 1,180	23.1%
Hometown Bank	Fond Du Lac	\$ 218,430	\$ 4,904	21.9%
Community Bank of Cameron	Cameron	\$ 89,170	\$ 1,288	20.6%
Oak Bank	Fitchburg	\$ 198,368	\$ 3,054	18.7%
Farmers & Merchants Bank & Trust Comp	Marinette	\$ 143,719	\$ 2,347	18.0%
Citizens Community Federal	Eau Claire	\$ 480,039	\$ 6,943	17.5%
Commerce State Bank	West Bend	\$ 260,424	\$ 3,816	17.5%
Citizens State Bank of Clayton	Clayton	\$ 60,872	\$ 739	17.5%
Cumberland Federal Bank, FSB	Cumberland	\$ 81,580	\$ 1,049	17.2%
Waldo State Bank	Waldo	\$ 36,031	\$ 819	17.1%
Laona State Bank	Laona	\$ 138,671	\$ 1,839	16.8%
Business Bank	Appleton	\$ 354,425	\$ 4,775	16.6%
Legacy Bank	Milwaukee	\$ 214,828	\$ 2,742	15.6%
Choice Bank	Oshkosh	\$ 105,212	\$ 2,803	15.5%
Highland State Bank	Highland	\$ 26,267	\$ 299	15.1%
Greenwood's State Bank	Lake Mills	\$ 76,128	\$ 1,304	15.0%
Farmers Savings Bank	Mineral Point	\$ 215,796	\$ 2,331	14.9%
Bank of Deerfield	Deerfield	\$ 80,291	\$ 1,246	14.9%
West Pointe Bank	Oshkosh	\$ 388,505	\$ 4,927	14.9%
Averages		\$ 194,210.85	\$ 3,051.41	17.6%

Source: 2008Q3 Call Reports; SPC estimates

Wisconsin 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
Jackson County Bank	Black River Falls	\$ 228,283	\$ (107)	-0.5%
First Banking Center, Inc.	Burlington	\$ 913,569	\$ (604)	-0.8%
Farmers State Bank Hillsboro	Hillsboro	\$ 79,875	\$ (118)	-0.9%
CIB Marine Bancshares, Inc.	Pewaukee	\$ 935,493	\$ (850)	-1.0%
Farmers & Merchants State Bank	Waterloo	\$ 138,334	\$ (233)	-1.2%
State Bank of Newburg	Newburg	\$ 130,879	\$ (244)	-1.3%
Farmers & Merchants Bank of Kendall	Kendall	\$ 50,684	\$ (64)	-1.3%
Tomahawk Community Bank, SSB	Tomahawk	\$ 81,085	\$ (156)	-1.5%
Citizens State Bank of Loyal	Loyal	\$ 128,044	\$ (255)	-1.8%
Gratiot State Bank	Gratiot	\$ 33,799	\$ (98)	-2.1%
Bank of Monticello	Monticello	\$ 70,197	\$ (176)	-2.1%
Hiawatha National Bank	Hager City	\$ 41,629	\$ (94)	-2.3%
Northwestern Bank	Chippewa Falls	\$ 347,637	\$ (974)	-2.4%
Guaranty Bank (MHC)	Milwaukee	\$ 1,561,851	\$ (4,006)	-2.8%
Oregon Community Bank & Trust	Oregon	\$ 214,290	\$ (820)	-3.0%
State Bank	Gresham	\$ 20,462	\$ (192)	-3.2%
State Bank of Withee	Withee	\$ 63,389	\$ (283)	-3.6%
Bankers' Bank	Madison	\$ 444,059	\$ (2,729)	-5.2%
Northwestern Mutual Wealth Management	Milwaukee	\$ 41,563	\$ (4,438)	-11.2%
Security Bank	New Auburn	\$ 78,407	\$ (2,617)	-24.9%
Averages		\$ 280,176	\$ (953)	-3.7%

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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