

The Impact of Standardized Basel II on Wyoming Banks

Prepared for Wyoming Bankers Association



Executive Summary

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

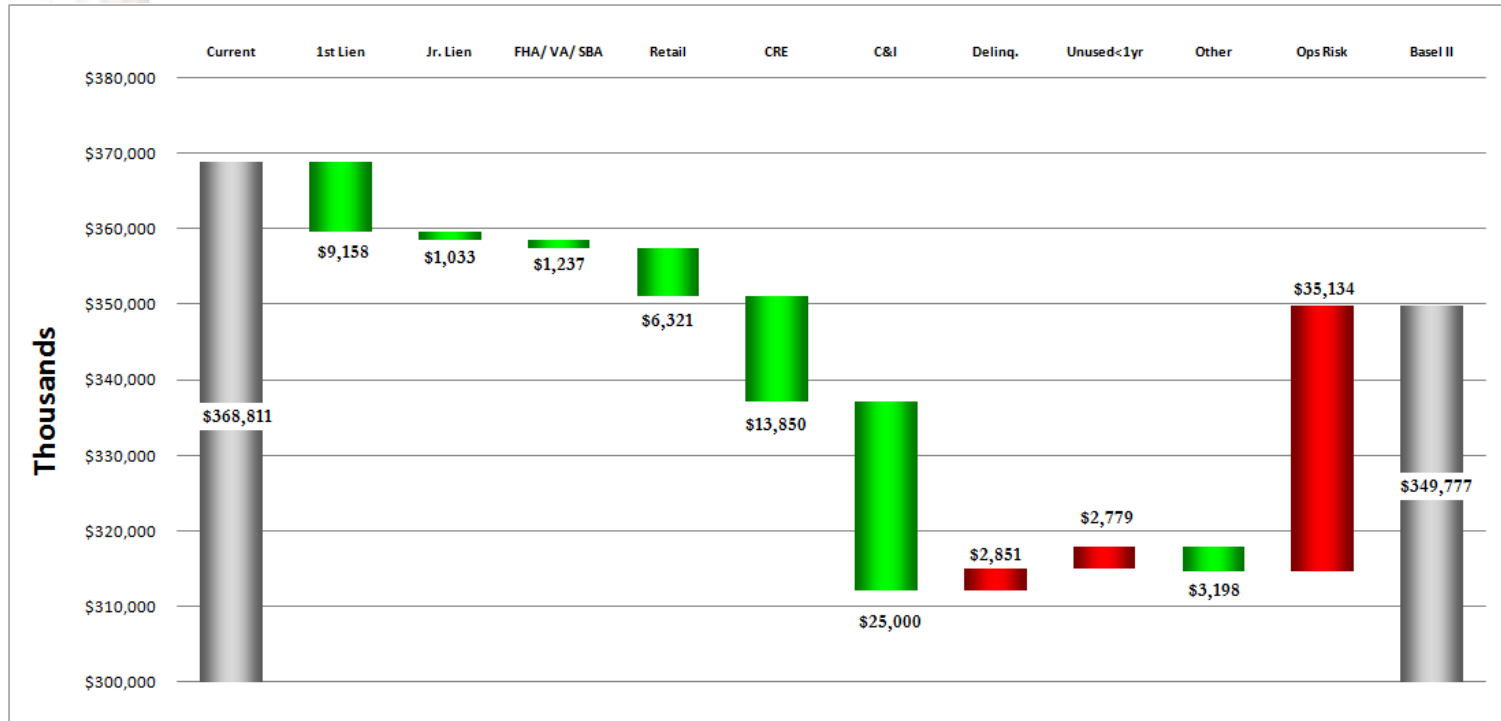


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 80.0% of 35 Wyoming banks and thrifts
 - Aggregate potential capital savings for all 35 banks of \$19 million
 - The median Wyoming bank would save \$0.6 million or 5.5% of their existing Tier 1 capital 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

Wyoming Banks can save up to \$19 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 Buffalo Federal Savings Bank, a representative Wyoming bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$1.2 million or 12.4%

Regulatory Capital Requirement



Buffalo Federal Savings Bank Buffalo, WY Highlights

- *Stockpile.* Under Basel II, total RBC increases from 10.1% to 11.3%, an amount equal to \$1.2 million or 12.4% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 10.1% total RBC ratio:
 - Issue a special dividend of \$1.84 per share
 - Repurchase 64,819 shares, increasing EPS \$0.13 or 10.8%
 - Organically grow assets by \$15 million

Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$132	
Gross Income Margin	3.5%	
Tangible Common Equity	7.4%	
Leverage Ratio	7.4%	
Capital Estimates	Current	Basel II
Tier 1 RBC	9.3%	10.4%
Total RBC	10.1%	11.3%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$1.84	
Share Repurchase (7/29/2008 price)		
Number of Shares	64,819	
Change in EPS	\$0.13	
Organic Asset Growth (millions)	\$15	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 35 Wyoming banks free of charge



Wyoming 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
Uinta Bank	Mountain View	\$ 37,908	\$ 761	20.1%
Wyoming State Bank	Laramie	\$ 119,640	\$ 1,544	17.7%
Bank of Star Valley	Afton	\$ 109,292	\$ 1,353	15.6%
Jonah Bank of Wyoming	Casper	\$ 135,533	\$ 1,499	12.6%
Buffalo Federal Savings Bank	Buffalo	\$ 132,041	\$ 1,176	12.4%
Oregon Trail Bank	Guernsey	\$ 27,180	\$ 262	10.7%
Farmers State Bank	Pine Bluffs	\$ 18,326	\$ 294	10.5%
Commerce Bank of Wyoming, N.A.	Rock Springs	\$ 63,427	\$ 651	9.7%
Wyoming National Bank	Riverton	\$ 88,803	\$ 677	9.4%
Cowboy State Bank	Ranchester	\$ 41,047	\$ 330	8.1%
Averages		\$ 77,320	\$ 855	12.7%

Source: 2008Q3 Call Reports; SPC estimates

Wyoming 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
First National Bank of Wyoming	Laramie	\$ 200,704	\$ 178	0.9%
Bank of Wyoming	Thermopolis	\$ 116,745	\$ 34	0.3%
First National Bank and Trust Company	Powell	\$ 275,894	\$ 14	0.0%
Summit National Bank	Hulett	\$ 35,303	\$ (9)	-0.3%
Rock Springs National Bank	Rock Springs	\$ 301,668	\$ (200)	-0.8%
Midland Financial Corporation	Casper	\$ 471,621	\$ (588)	-1.3%
Lusk State Bank	Lusk	\$ 37,860	\$ (70)	-2.2%
First National Bank of Gillette	Gillette	\$ 355,030	\$ (1,157)	-3.1%
Carbon County Holding Company	Rawlins	\$ 165,618	\$ (1,589)	-6.4%
Wyoming Bank & Trust	Cheyenne	\$ 91,426	\$ (1,167)	-11.1%
Averages		\$ 205,187	\$ (456)	-2.4%

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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