

The Impact of Standardized Basel II on Florida Banks

Prepared for Florida Bankers Association



Executive Summary

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

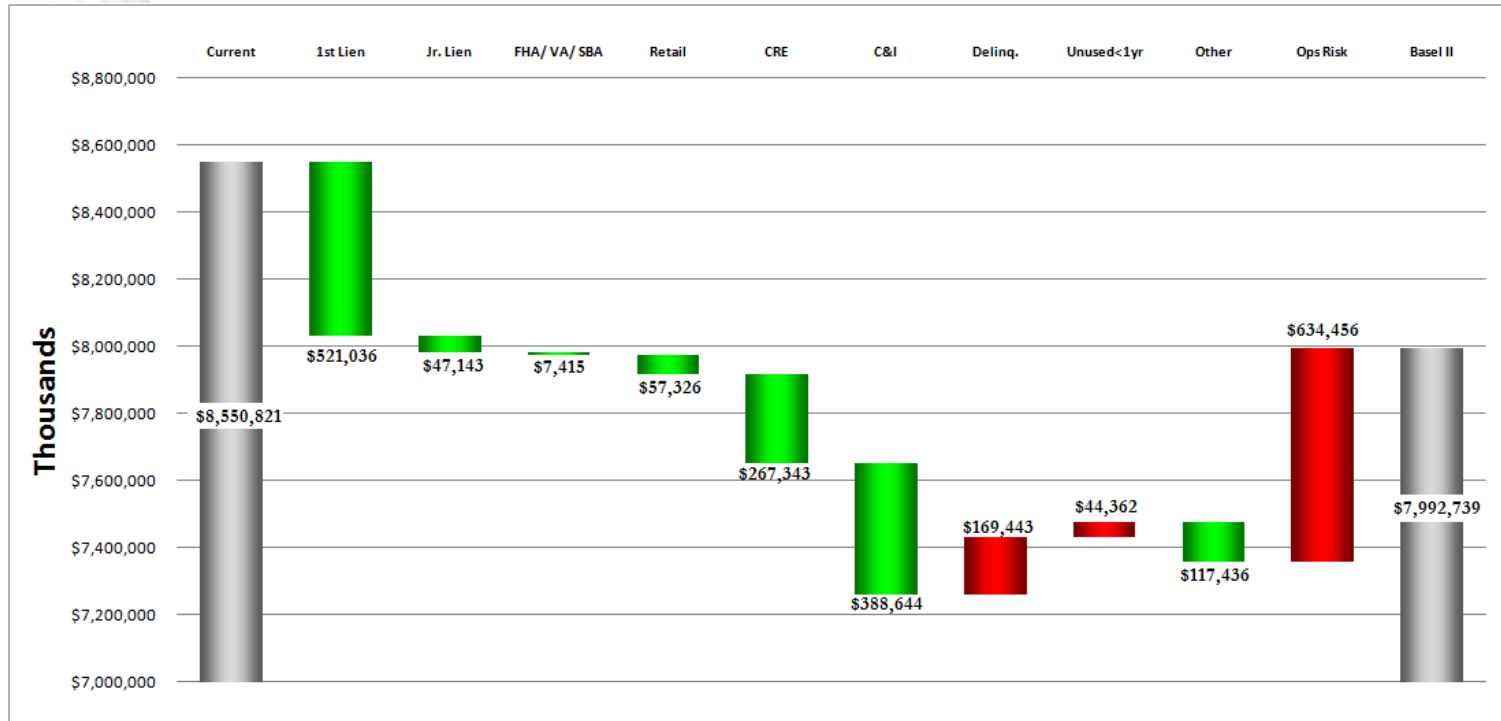


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 75.2% of 269 Florida banks and thrifts
 - Aggregate potential capital savings for all 269 banks of \$558 million
 - The median Florida bank would save \$1.3 million or 4.4% of their existing Tier 1 capital 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

Florida Banks can save up to \$558 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 Oceanside Bank, a representative Florida bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$0.9 million or 4.2%

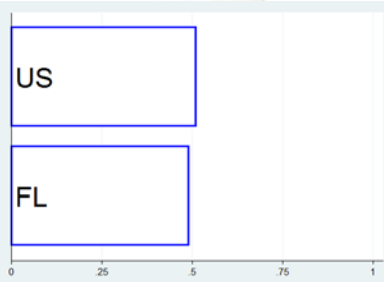
Regulatory Capital Requirement



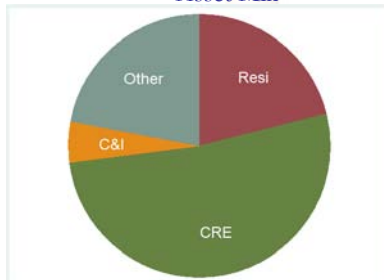
Oceanside Bank Jacksonville Beach, FL Highlights

- *Stockpile.* Under Basel II, total RBC increases from 10.3% to 10.7%, an amount equal to \$0.9 million or 4.2% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 10.3% total RBC ratio:
 - Issue a special dividend of \$0.75 per share
 - Repurchase 111,675 shares, increasing EPS \$0.11 or 9.8%
 - Organically grow assets by \$10 million

Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$263	
Gross Income Margin	3.5%	
Tangible Common Equity	7.9%	
Leverage Ratio	8.0%	
Capital Estimates	Current	Basel II
Tier 1 RBC	9.0%	9.4%
Total RBC	10.3%	10.7%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.75	
Share Repurchase (7/29/2008 price)		
Number of Shares	111,675	
Change in EPS	\$0.11	
Organic Asset Growth (millions)	\$11	

Upon request, Second Pillar Consulting can provide similar information for all 269 Florida banks free of charge

Florida 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
1st Manatee Bank	Parrish	\$ 33,772	\$ 1,584	24.1%
Prime Meridian Bank	Tallahassee	\$ 37,791	\$ 2,299	23.5%
Summit Bank, National Association	Panama City	\$ 41,339	\$ 3,582	22.7%
Heritage Bank of Florida	Lutz	\$ 231,653	\$ 4,696	21.9%
Urban Trust Bank	Orlando	\$ 171,085	\$ 3,284	21.6%
Gulfstream Bancshares, Inc.	Stuart	\$ 587,167	\$ 9,217	19.6%
Seaside National Bank & Trust	Orlando	\$ 243,410	\$ 7,016	19.5%
Panther Community Bank, National Association	Lehigh Acres	\$ 36,015	\$ 2,174	19.0%
Providence Bank	Winter Haven	\$ 41,802	\$ 860	19.0%
East Coast Community Bank	Ormond Beach	\$ 92,800	\$ 1,459	18.3%
ProBank	Tallahassee	\$ 44,775	\$ 1,280	17.7%
First Colony Bank of Florida	Maitland	\$ 54,118	\$ 2,059	17.3%
Manatee River Community Bank	Palmetto	\$ 153,824	\$ 1,462	16.7%
Marine Bank & Trust Company	Vero Beach	\$ 129,166	\$ 1,595	16.6%
Gateway Bank of Southwest Florida	Sarasota	\$ 33,307	\$ 2,378	16.4%
Florida Traditions Bank	Dade City	\$ 73,975	\$ 2,725	16.0%
Lydian Private Bank	Palm Beach	\$ 2,005,363	\$ 20,729	15.6%
Union Credit Bank	Miami	\$ 133,323	\$ 2,644	15.6%
Bank of Naples	Naples	\$ 157,071	\$ 2,159	15.4%
Marquis Bank	North Miami Beach	\$ 32,550	\$ 2,245	14.9%
Averages		\$ 216,715.30	\$ 3,772.34	18.6%

Source: 2008Q3 Call Reports; SPC estimates

Florida 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 Northwest Florida	Panama City	\$ 120,490	\$ (1,047)	-5.7%
SouthBank, A Federal Savings Bank	Palm Beach Gardens	\$ 24,058	\$ (142)	-5.7%
Integrity Bank	Jupiter	\$ 142,337	\$ (840)	-5.8%
Premier American Bank	Miami	\$ 386,655	\$ (3,001)	-6.0%
Bay Bank & Trust Co.	Panama City	\$ 241,567	\$ (2,116)	-6.0%
Gulf State Community Bank	Carrabelle	\$ 122,811	\$ (939)	-6.1%
Sterling Bank	Lantana	\$ 387,340	\$ (2,778)	-6.6%
First National Bank of Florida	Milton	\$ 431,564	\$ (3,905)	-7.5%
Warrington Bank	Pensacola	\$ 66,632	\$ (1,124)	-7.7%
First East Side Savings Bank	Tamarac	\$ 83,626	\$ (1,577)	-8.7%
Community State Bank	Starke	\$ 52,807	\$ (971)	-9.1%
Ocala National Bank	Ocala	\$ 235,871	\$ (1,107)	-9.2%
Pacific National Bank	Miami	\$ 517,890	\$ (4,625)	-9.5%
Florida Community Banks, Inc.	Immokalee	\$ 963,800	\$ (12,512)	-9.9%
Southern National Banks, Inc.	Fort Walton Beach	\$ 354,315	\$ (6,904)	-11.5%
Independent Bankers' Bank of Florida	Lake Mary	\$ 422,905	\$ (7,315)	-13.0%
First Navy Bank	Pensacola	\$ 56,007	\$ (2,025)	-13.3%
Terrabank, NA	Miami	\$ 231,884	\$ (4,707)	-13.8%
Ocean Bankshares, Inc.	Miami	\$ 4,459,063	\$ (92,106)	-14.3%
Bank of the South	Pensacola	\$ 61,693	\$ (2,834)	-16.9%
Averages		\$ 468,166	\$ (7,629)	-9.3%

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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