

# The Impact of Standardized Basel II on Georgia Banks

Prepared for Georgia Bankers Association



# Executive Summary

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

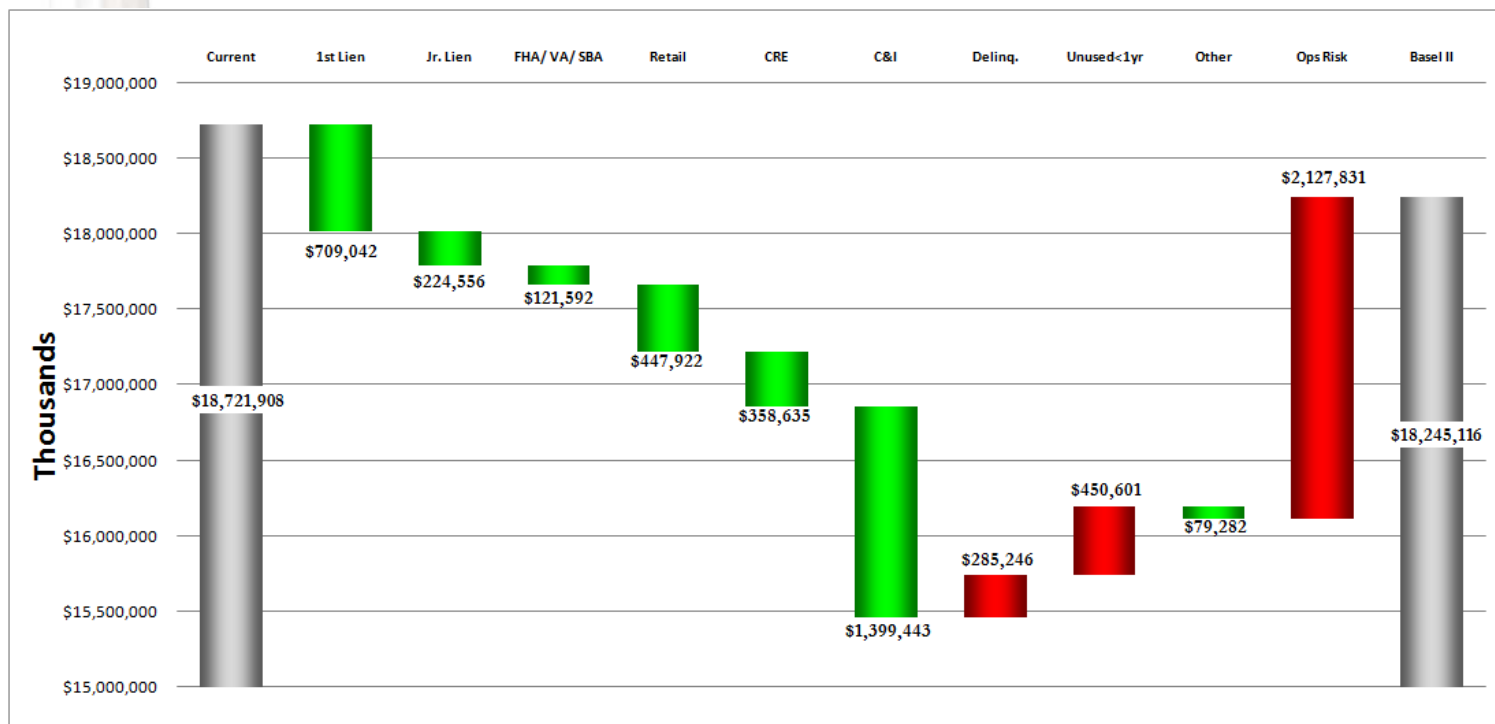


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 72.1% of 295 Georgia banks and thrifts
  - Aggregate potential capital savings for all 295 banks of \$477 million
  - The median Georgia bank would save \$0.9 million or 3.2% of their existing Tier 1 capital 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

# Georgia Banks can save up to \$477 million in required capital under Standardized Basel II and improve risk management

## Capital savings estimate and asset category contribution

Regulatory Capital Requirement

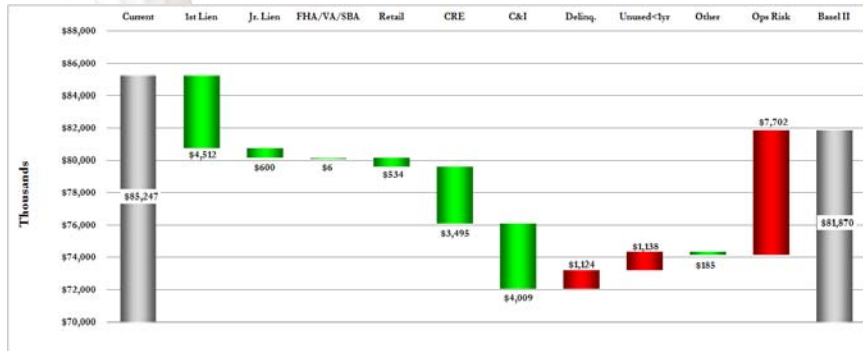


Source: 2008Q3 Call Reports; SPC estimates

# For Savannah Bancorp, Inc., a representative Georgia bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$3.4 million or 3.7%

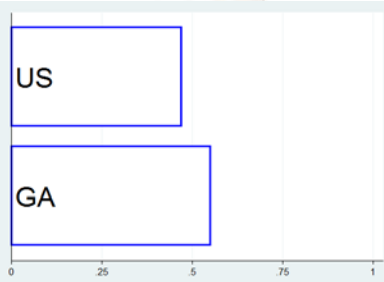
Regulatory Capital Requirement



## Savannah Bancorp, Inc. Savannah, GA Highlights

- *Stockpile.* Under Basel II, total RBC increases from 11.6% to 12.0%, an amount equal to \$3.4 million or 3.7% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 11.6% total RBC ratio:
  - Issue a special dividend of \$0.57 per share
  - Repurchase 287,385 shares, increasing EPS \$0.07 or 5.1%
  - Organically grow assets by \$35 million

Capital Savings Percentile



Capital Metrics and Management

|   |         |          |
|---|---------|----------|
| Total Assets (millions)                   | \$981   |          |
| Gross Income Margin                       | 3.8%    |          |
| Tangible Common Equity                    | 7.9%    |          |
| Leverage Ratio                            | 8.9%    |          |
| Capital Estimates                         | Current | Basel II |
| Tier 1 RBC                                | 10.3%   | 10.7%    |
| Total RBC                                 | 11.6%   | 12.0%    |
| Potential Use of Basel II Capital Savings |         |          |
| Special Dividend (\$/share)               | \$0.57  |          |
| Share Repurchase (7/29/2008 price)        | 287,385 |          |
| Number of Shares                          | 287,385 |          |
| Change in EPS                             | \$0.07  |          |
| Organic Asset Growth (millions)           | \$35    |          |

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 295 Georgia banks free of charge

# Georgia 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 |
| Bank of Hazlehurst                       | Hazlehurst   | \$ 81,215            | \$ 1,683                | 23.9%          |
| Commercial Banking Company               | Valdosta     | \$ 151,053           | \$ 1,644                | 23.2%          |
| High Trust Bank                          | Stockbridge  | \$ 164,878           | \$ 4,859                | 21.9%          |
| Georgia Primary Bank                     | Atlanta      | \$ 163,303           | \$ 3,841                | 20.9%          |
| Monroe County Bank                       | Forsyth      | \$ 84,954            | \$ 1,246                | 20.5%          |
| LaGrange Banking Company                 | LaGrange     | \$ 44,596            | \$ 1,988                | 18.2%          |
| Barwick Banking Company                  | Barwick      | \$ 12,532            | \$ 178                  | 17.6%          |
| Oglethorpe Bank                          | Brunswick    | \$ 243,631           | \$ 2,941                | 16.7%          |
| Flint Community Bank                     | Albany       | \$ 76,306            | \$ 1,188                | 16.7%          |
| First Landmark Bank                      | Marietta     | \$ 45,656            | \$ 2,731                | 16.4%          |
| Community Business Bank                  | Cumming      | \$ 39,580            | \$ 2,033                | 15.5%          |
| State Bank of Georgia                    | Fayetteville | \$ 58,062            | \$ 1,569                | 15.4%          |
| Savannah River Banking Company           | Augusta      | \$ 72,603            | \$ 2,433                | 14.9%          |
| Georgia Commerce Bank                    | Atlanta      | \$ 281,051           | \$ 3,938                | 14.9%          |
| Community Bank of Georgia                | Baxley       | \$ 47,473            | \$ 817                  | 14.6%          |
| First Century Bank, National Association | Gainesville  | \$ 48,915            | \$ 512                  | 14.4%          |
| Wheeler County State Bank                | Alamo        | \$ 104,143           | \$ 1,373                | 14.3%          |
| Guardian Bank                            | Valdosta     | \$ 154,733           | \$ 1,774                | 13.8%          |
| Atlantic Capital Bank                    | Atlanta      | \$ 384,127           | \$ 13,051               | 13.5%          |
| Community Bank of Rockmart               | Rockmart     | \$ 71,465            | \$ 790                  | 13.5%          |
| <b>Averages</b>                          |              | <b>\$ 116,513.80</b> | <b>\$ 2,529.44</b>      | <b>17.0%</b>   |

Source: 2008Q3 Call Reports; SPC estimates

# Georgia 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 |
| Thornton Holding Company, Inc.          | Douglasville | \$ 380,287           | \$ (2,139)              | -5.3%          |
| First National Bank of Barnesville      | Barnesville  | \$ 139,185           | \$ (831)                | -5.5%          |
| Synovus Financial Corp.                 | Columbus     | \$ 34,339,141        | \$ (229,560)            | -5.5%          |
| Silverton Financial Services, Inc.      | Atlanta      | \$ 2,997,377         | \$ (18,143)             | -6.2%          |
| Oconee State Bank                       | Watkinsville | \$ 308,789           | \$ (2,197)              | -6.3%          |
| Heritage Bank                           | Jonesboro    | \$ 457,492           | \$ (2,937)              | -6.8%          |
| FirstCity Bank                          | Stockbridge  | \$ 331,554           | \$ (1,527)              | -6.9%          |
| Mid State Banks, Inc.                   | Hawkinsville | \$ 383,940           | \$ (2,566)              | -7.0%          |
| Habersham Bancorp                       | Cornelia     | \$ 500,115           | \$ (3,904)              | -7.2%          |
| Rochelle State Bank                     | Rochelle     | \$ 19,002            | \$ (270)                | -7.3%          |
| First National Bank of Griffin          | Griffin      | \$ 316,401           | \$ (2,856)              | -7.4%          |
| First Cherokee State Bank               | Woodstock    | \$ 301,270           | \$ (2,286)              | -7.5%          |
| Citizens Trust Bank                     | Atlanta      | \$ 335,107           | \$ (2,992)              | -7.7%          |
| Chestatee State Bank                    | Dawsonville  | \$ 286,137           | \$ (2,409)              | -7.9%          |
| Henry County Bancshares, Inc.           | Stockbridge  | \$ 682,605           | \$ (6,999)              | -8.2%          |
| FirstBank Financial Services            | McDonough    | \$ 354,393           | \$ (2,493)              | -8.9%          |
| First Security National Bank            | Norcross     | \$ 136,192           | \$ (1,557)              | -9.1%          |
| Southwest Georgia Financial Corporation | Moultrie     | \$ 266,108           | \$ (2,799)              | -9.8%          |
| First Georgia Community Corp.           | Jackson      | \$ 256,625           | \$ (2,610)              | -12.5%         |
| Gordon Bank                             | Gordon       | \$ 35,606            | \$ (659)                | -15.6%         |
| <b>Averages</b>                         |              | <b>\$ 2,141,366</b>  | <b>\$ (14,587)</b>      | <b>-7.9%</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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