

The Impact of Standardized Basel II on Kansas Banks

Prepared for Kansas Bankers Association



Executive Summary

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

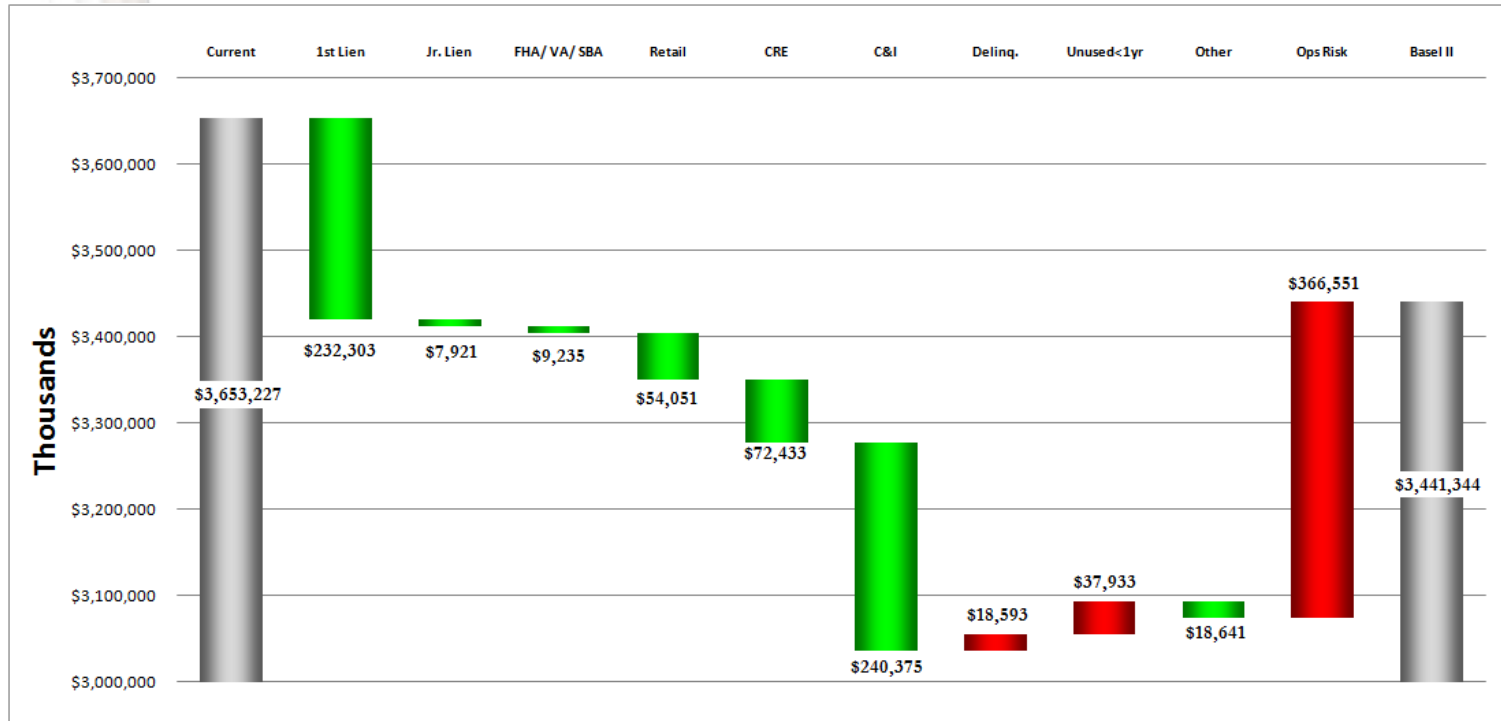


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 62.9% of 331 Kansas banks and thrifts
 - Aggregate potential capital savings for all 331 banks of \$212 million
 - The median Kansas bank would save \$0.3 million or 1.4% of their existing Tier 1 capital 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

Kansas Banks can save up to \$212 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 Landmark Bancorp, Inc., a representative Kansas bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$0.8 million or 1.5%

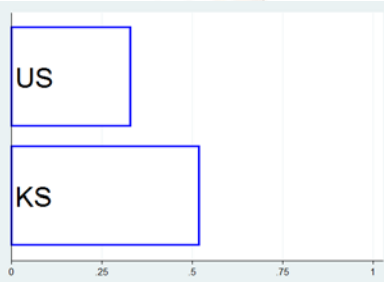
Regulatory Capital Requirement



Landmark Bancorp, Inc. Manhattan, KS Highlights

- Stockpile.** Under Basel II, total RBC increases from 13.5% to 13.7%, an amount equal to \$0.8 million or 1.5% of the existing capital base.
- Deploy.** Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 13.5% total RBC ratio:
 - Issue a special dividend of \$0.34 per share
 - Repurchase 42,371 shares, increasing EPS \$0.04 or 1.8%
 - Organically grow assets by \$9 million

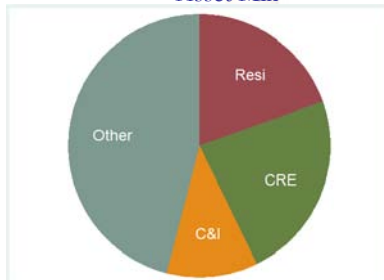
Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$606	
Gross Income Margin	3.9%	
Tangible Common Equity	5.9%	
Leverage Ratio	8.6%	
Capital Estimates	Current	Basel II
Tier 1 RBC	12.6%	12.7%
Total RBC	13.5%	13.7%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.34	
Share Repurchase (7/29/2008 price)		
Number of Shares	42,371	
Change in EPS	\$0.04	
Organic Asset Growth (millions)	\$9	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 331 Kansas banks free of charge

Kansas 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
RelianzBank	Wichita	\$ 33,752	\$ 830	23.6%
Bank of Prairie Village	Prairie Village	\$ 65,470	\$ 1,451	20.2%
Freedom Bank	Overland Park	\$ 66,829	\$ 1,210	19.0%
Merit Bank	Goff	\$ 19,384	\$ 383	18.8%
Kendall State Bank	Valley Falls	\$ 37,638	\$ 579	18.6%
VisionBank	Topeka	\$ 66,140	\$ 958	18.5%
Bank of Commerce and Trust Company	Wellington	\$ 46,797	\$ 505	17.2%
Baldwin State Bank	Baldwin City	\$ 59,210	\$ 989	16.7%
Community Bank of Wichita, Inc.	Wichita	\$ 49,212	\$ 680	16.4%
Community Bank of the Midwest	Great Bend	\$ 88,852	\$ 1,101	16.0%
Bank of the Prairie	Olathe	\$ 120,238	\$ 1,467	15.8%
Southwest National Bank	Wichita	\$ 337,079	\$ 4,156	15.5%
University National Bank	Pittsburg	\$ 122,883	\$ 1,242	14.8%
Capitol Federal Savings Bank (MHC)	Topeka	\$ 8,073,102	\$ 90,613	14.1%
Alliance Bank	Topeka	\$ 71,356	\$ 973	13.7%
Bank of Hays	Hays	\$ 125,260	\$ 1,169	13.6%
Heritage Bank	Topeka	\$ 64,576	\$ 624	13.5%
First State Bank of Burlingame	Burlingame	\$ 52,188	\$ 384	13.0%
Home Bank & Trust Company	Eureka	\$ 69,467	\$ 619	12.4%
Bank of Holyrood	Holyrood	\$ 39,612	\$ 473	11.8%
Averages		\$ 480,452.25	\$ 5,520.33	16.2%

Source: 2008Q3 Call Reports; SPC estimates

Kansas 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
Bank, The	Oberlin	\$ 157,972	\$ (1,107)	-6.8%
Haviland State Bank	Haviland	\$ 27,717	\$ (276)	-6.9%
Bankwest of Kansas	Goodland	\$ 87,186	\$ (891)	-7.0%
Citizens State Bank	Hugoton	\$ 111,788	\$ (1,094)	-7.5%
Kearny County Bank	Lakin	\$ 105,853	\$ (1,900)	-7.5%
State Bank of Lebo	Lebo	\$ 23,707	\$ (130)	-7.5%
Citizens National Bank	Greenleaf	\$ 144,970	\$ (1,062)	-7.6%
Jamestown State Bank	Jamestown	\$ 17,745	\$ (266)	-7.9%
Johnson State Bank	Johnson	\$ 58,698	\$ (849)	-8.0%
State Bank of Oskaloosa	Oskaloosa	\$ 29,537	\$ (221)	-8.2%
First National Bank of Hope	Hope	\$ 39,145	\$ (498)	-8.4%
Ameri-National Corporation	Overland Park	\$ 982,914	\$ (9,372)	-8.4%
Banker's Bank of Kansas, National Association	Wichita	\$ 126,071	\$ (1,443)	-8.7%
Peoples State Bank	Cherryvale	\$ 14,832	\$ (412)	-9.0%
Farmers Bank & Trust	Atwood	\$ 57,307	\$ (513)	-9.1%
First National Bank of Howard	Howard	\$ 7,457	\$ (174)	-9.5%
Greensburg State Bank	Greensburg	\$ 62,620	\$ (794)	-9.9%
Montezuma State Bank	Montezuma	\$ 70,131	\$ (781)	-11.4%
National Advisors Trust Company, FSB	Overland Park	\$ 4,640	\$ (492)	-11.7%
Winter Trust of 12/3/74	Lawrence	\$ 594,539	\$ (9,366)	-13.0%
Averages		\$ 136,241	\$ (1,582)	-8.7%

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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