

# **The Impact of Standardized Basel II on Louisiana Banks**

**Prepared for Louisiana 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 77.7% of 157 Louisiana banks and thrifts
  - Aggregate potential capital savings for all 157 banks of \$188 million
  - The median Louisiana bank would save \$0.8 million or 4.0% 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

# Louisiana Banks can save up to \$188 million in required capital under Standardized Basel II and improve risk management

## Capital savings estimate and asset category contribution

Regulatory Capital Requirement

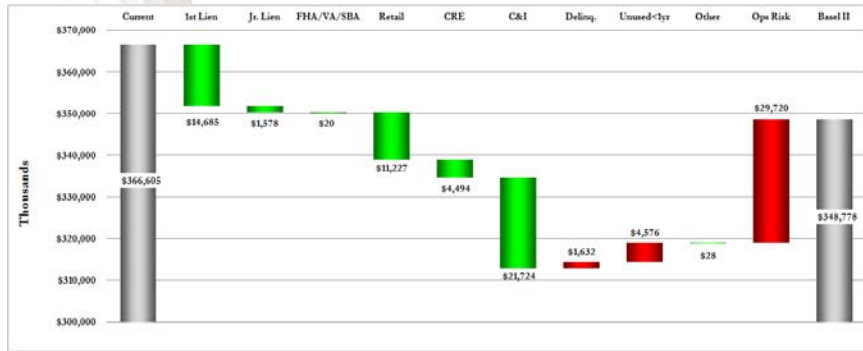


Source: 2008Q3 Call Reports; SPC estimates

# For IBERIABANK Corporation, a representative Louisiana bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$17.8 million or 4.3%

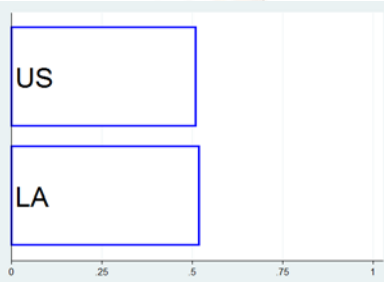
Regulatory Capital Requirement



## IBERIABANK Corporation Lafayette, LA Highlights

- *Stockpile.* Under Basel II, total RBC increases from 11.1% to 11.5%, an amount equal to \$17.8 million or 4.3% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 11.1% total RBC ratio:
  - Issue a special dividend of \$1.40 per share
  - Repurchase 338,601 shares, increasing EPS \$0.09 or 2.8%
  - Organically grow assets by \$210 million

Capital Savings Percentile



Capital Metrics and Management

|   |         |          |
|---|---------|----------|
| Total Assets (millions)                   | \$5,352 |          |
| Gross Income Margin                       | 3.7%    |          |
| Tangible Common Equity                    | 5.1%    |          |
| Leverage Ratio                            | 7.3%    |          |
| Capital Estimates                         | Current | Basel II |
| Tier 1 RBC                                | 9.4%    | 9.8%     |
| Total RBC                                 | 11.1%   | 11.5%    |
| Potential Use of Basel II Capital Savings |         |          |
| Special Dividend (\$/share)               | \$1.40  |          |
| Share Repurchase (7/29/2008 price)        | 338,601 |          |
| Change in EPS                             | \$0.09  |          |
| Organic Asset Growth (millions)           | \$211   |          |

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 157 Louisiana banks free of charge

# Louisiana 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 Erath                          | Erath         | \$ 76,507            | \$ 2,086                | 20.7%          |
| Vermilion Bank & Trust Company         | Kaplan        | \$ 87,936            | \$ 1,344                | 19.2%          |
| Simmesport State Bank                  | Simmesport    | \$ 51,131            | \$ 1,173                | 18.7%          |
| Gibsland Bank & Trust Company          | Gibsland      | \$ 140,958           | \$ 2,119                | 18.6%          |
| Homeland Federal Savings Bank          | Columbia      | \$ 124,897           | \$ 1,789                | 17.8%          |
| First NBC Bank                         | New Orleans   | \$ 630,322           | \$ 7,888                | 15.7%          |
| Coastal Commerce Bank                  | Houma         | \$ 292,510           | \$ 3,837                | 15.6%          |
| Guaranty Bank & Trust Company of Delhi | Delhi         | \$ 110,324           | \$ 1,477                | 15.4%          |
| Investar Bank                          | Baton Rouge   | \$ 125,047           | \$ 1,735                | 15.4%          |
| State-Investors Bank                   | Metairie      | \$ 207,842           | \$ 2,653                | 15.1%          |
| Hibernia Homestead Bank                | New Orleans   | \$ 50,174            | \$ 1,788                | 14.5%          |
| MBL Bank (MHC)                         | Minden        | \$ 181,648           | \$ 2,454                | 14.3%          |
| Bank of Maringouin                     | Maringouin    | \$ 45,427            | \$ 678                  | 14.0%          |
| Citizens Progressive Bank              | Columbia      | \$ 54,939            | \$ 659                  | 14.0%          |
| Basile State Bank                      | Basile        | \$ 46,168            | \$ 525                  | 13.4%          |
| Sicily Island State Bank               | Sicily Island | \$ 31,107            | \$ 452                  | 13.4%          |
| Globe Homestead Savings Bank           | Metairie      | \$ 27,991            | \$ 650                  | 13.3%          |
| Bank, The                              | Jennings      | \$ 115,783           | \$ 1,354                | 12.6%          |
| South Lafourche Bank & Trust Company   | Larose        | \$ 123,252           | \$ 1,246                | 12.4%          |
| State Bank & Trust Company             | Golden Meadow | \$ 100,596           | \$ 849                  | 12.3%          |
| <b>Averages</b>                        |               | <b>\$ 131,227.95</b> | <b>\$ 1,837.77</b>      | <b>15.3%</b>   |

Source: 2008Q3 Call Reports; SPC estimates

# Louisiana 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 of Abbeville & Trust Company             | Abbeville     | \$ 138,383           | \$ (689)                | -2.6%          |
| Bank of Commerce & Trust Company              | Crowley       | \$ 259,740           | \$ (1,114)              | -3.0%          |
| Iberville Bank                                | Plaquemine    | \$ 238,683           | \$ (740)                | -3.4%          |
| One American Corporation                      | Vacherie      | \$ 691,759           | \$ (2,897)              | -3.5%          |
| First National Bank USA                       | Boutte        | \$ 233,098           | \$ (1,111)              | -4.2%          |
| Bank of Gueydan                               | Gueydan       | \$ 81,234            | \$ (751)                | -4.3%          |
| Farmers-Merchants Bank & Trust Company        | Breaux Bridge | \$ 227,571           | \$ (1,121)              | -4.3%          |
| Washington State Bank                         | Washington    | \$ 108,931           | \$ (628)                | -4.5%          |
| Jackson Parish Bank                           | Jonesboro     | \$ 49,364            | \$ (307)                | -4.7%          |
| Winnsboro State Bank & Trust Company          | Winnsboro     | \$ 100,555           | \$ (526)                | -4.7%          |
| United Bank & Trust Company                   | New Orleans   | \$ 25,378            | \$ (90)                 | -4.8%          |
| Bank of Oak Ridge                             | Oak Ridge     | \$ 43,060            | \$ (249)                | -5.3%          |
| Saint Landry Bancshares, Inc.                 | Opelousas     | \$ 225,366           | \$ (2,301)              | -6.8%          |
| Home Federal Savings and Loan Association     | Shreveport    | \$ 141,127           | \$ (2,122)              | -6.9%          |
| Merchants & Farmers Bank                      | Melville      | \$ 8,914             | \$ (95)                 | -7.4%          |
| Kaplan State Bank                             | Kaplan        | \$ 83,815            | \$ (645)                | -7.6%          |
| Bank of Louisiana                             | New Orleans   | \$ 100,450           | \$ (1,224)              | -8.8%          |
| Abbeville Building & Loan (A State-Chartered) | Abbeville     | \$ 31,002            | \$ (1,215)              | -12.1%         |
| Exchange Bank and Trust Company, National     | Natchitoches  | \$ 92,988            | \$ (1,433)              | -12.4%         |
| Blossman Bancshares, Inc.                     | Lacombe       | \$ 472,328           | \$ (10,432)             | -14.5%         |
| <b>Averages</b>                               |               | <b>\$ 167,687</b>    | <b>\$ (1,485)</b>       | <b>-6.3%</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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**Bill Nayda**

[bnayda@secondpillar.com](mailto:bnayda@secondpillar.com)

(804) 432-1629

**Geoffrey Rubin**

[grubin@secondpillar.com](mailto:grubin@secondpillar.com)

(703) 403-9488

[www.secondpillar.com](http://www.secondpillar.com)