

The Impact of Standardized Basel II on Mississippi Banks

Prepared for Mississippi 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 81.1% of 90 Mississippi banks and thrifts
 - Aggregate potential capital savings for all 90 banks of \$146 million
 - The median Mississippi bank would save \$1.0 million or 4.1% 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

Mississippi Banks can save up to \$146 million in required capital under Standardized Basel II and improve risk management

Capital savings estimate and asset category contribution

Regulatory Capital Requirement

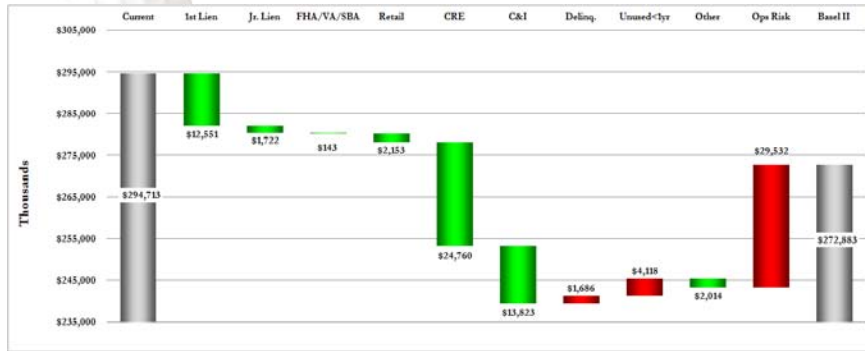


Source: 2008Q3 Call Reports; SPC estimates

For Renasant Corporation, a representative Mississippi bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$21.8 million or 7.3%

Regulatory Capital Requirement



Renasant Corporation Tupelo, MS Highlights

- *Stockpile.* Under Basel II, total RBC increases from 11.8% to 12.7%, an amount equal to \$21.8 million or 7.3% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 11.8% total RBC ratio:
 - Issue a special dividend of \$1.05 per share
 - Repurchase 1,128,168 shares, increasing EPS \$0.10 or 6.3%
 - Organically grow assets by \$239 million

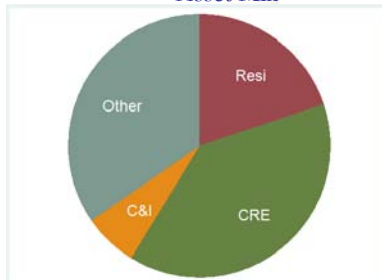
Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$3,725	
Gross Income Margin	4.0%	
Tangible Common Equity	6.0%	
Leverage Ratio	8.3%	
Capital Estimates	Current	Basel II
Tier 1 RBC	10.8%	11.6%
Total RBC	11.8%	12.7%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$1.05	
Share Repurchase (7/29/2008 price)		
Number of Shares	1,128,168	
Change in EPS	\$0.10	
Organic Asset Growth (millions)	\$239	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 90 Mississippi banks free of charge



Mississippi 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
First Commercial Bank	Jackson	\$ 243,284	\$ 4,244	20.9%
Metropolitan Bank	Ridgeland	\$ 184,035	\$ 6,455	19.9%
Cleveland Community Bank, S.S.B.	Cleveland	\$ 19,985	\$ 385	19.4%
Bank of Kilmichael	Kilmichael	\$ 69,436	\$ 955	17.9%
DeSoto County Bank	Horn Lake	\$ 45,951	\$ 1,147	16.8%
Oxford University Bank	Oxford	\$ 82,422	\$ 974	15.6%
Peoples Bank	Ripley	\$ 323,413	\$ 4,113	14.8%
Bank of Brookhaven	Brookhaven	\$ 105,734	\$ 1,430	13.6%
Bank of Wiggins	Wiggins	\$ 180,177	\$ 2,263	12.5%
Holmes County Bank & Trust Company	Lexington	\$ 114,296	\$ 1,316	11.9%
First Federal Savings and Loan Association	Pascagoula	\$ 282,862	\$ 2,070	11.5%
Magnolia State Bank	Bay Springs	\$ 193,040	\$ 1,628	10.1%
Bank of Okolona	Okolona	\$ 79,604	\$ 840	10.0%
Commerce National Bank	Corinth	\$ 81,291	\$ 885	9.8%
Copiah Bank, National Association	Hazlehurst	\$ 128,519	\$ 1,022	9.7%
First State Bank	Waynesboro	\$ 396,971	\$ 4,164	9.7%
Spirit Bank	Belmont	\$ 23,217	\$ 228	9.4%
Amory Federal Savings and Loan Association	Amory	\$ 66,408	\$ 663	9.3%
Bank of Jones County	Laurel	\$ 183,065	\$ 1,581	9.2%
Covenant Bank	Clarksdale	\$ 239,058	\$ 1,749	9.0%
Averages		\$ 152,138.40	\$ 1,905.55	13.0%

Source: 2008Q3 Call Reports; SPC estimates

Mississippi 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
Peoples Bank	Mendenhall	\$ 169,877	\$ 65	0.4%
Bank of Forest	Forest	\$ 143,393	\$ 30	0.1%
BancorpSouth, Inc.	Tupelo	\$ 13,303,986	\$ 767	0.0%
First M&F Corporation	Kosciusko	\$ 1,641,265	\$ (161)	-0.1%
Bank of Holly Springs	Holly Springs	\$ 167,803	\$ (68)	-0.3%
Merchants & Planters Bank	Raymond	\$ 82,768	\$ (32)	-0.3%
First National Bank of Pontotoc	Pontotoc	\$ 206,814	\$ (303)	-0.9%
Britton & Koontz Capital Corporation	Natchez	\$ 387,515	\$ (501)	-1.1%
BancPlus Corporation	Belzoni	\$ 2,146,895	\$ (5,335)	-2.4%
Bank of Bolivar County	Shelby	\$ 18,995	\$ (48)	-2.5%
Citizens Bank	Byhalia	\$ 58,119	\$ (206)	-2.9%
Merchants & Marine Bank	Pascagoula	\$ 457,778	\$ (1,613)	-2.9%
Richton Bank & Trust Company	Richton	\$ 81,231	\$ (293)	-3.3%
Bank of Anguilla	Anguilla	\$ 98,093	\$ (463)	-3.3%
Jefferson Bank	Fayette	\$ 43,989	\$ (179)	-3.3%
Sycamore Bank	Senatobia	\$ 184,408	\$ (670)	-3.9%
Great Southern National Bank	Meridian	\$ 236,675	\$ (1,175)	-4.6%
Peoples Financial Corporation	Biloxi	\$ 874,700	\$ (6,460)	-5.6%
First Security Bank	Batesville	\$ 474,251	\$ (3,877)	-6.3%
First National Bank	Rosedale	\$ 75,703	\$ (872)	-7.9%
Averages		\$ 1,042,713	\$ (1,070)	-2.6%

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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