

# The Impact of Standardized Basel II on Missouri Banks

Prepared for Missouri Bankers Association



# Executive Summary

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

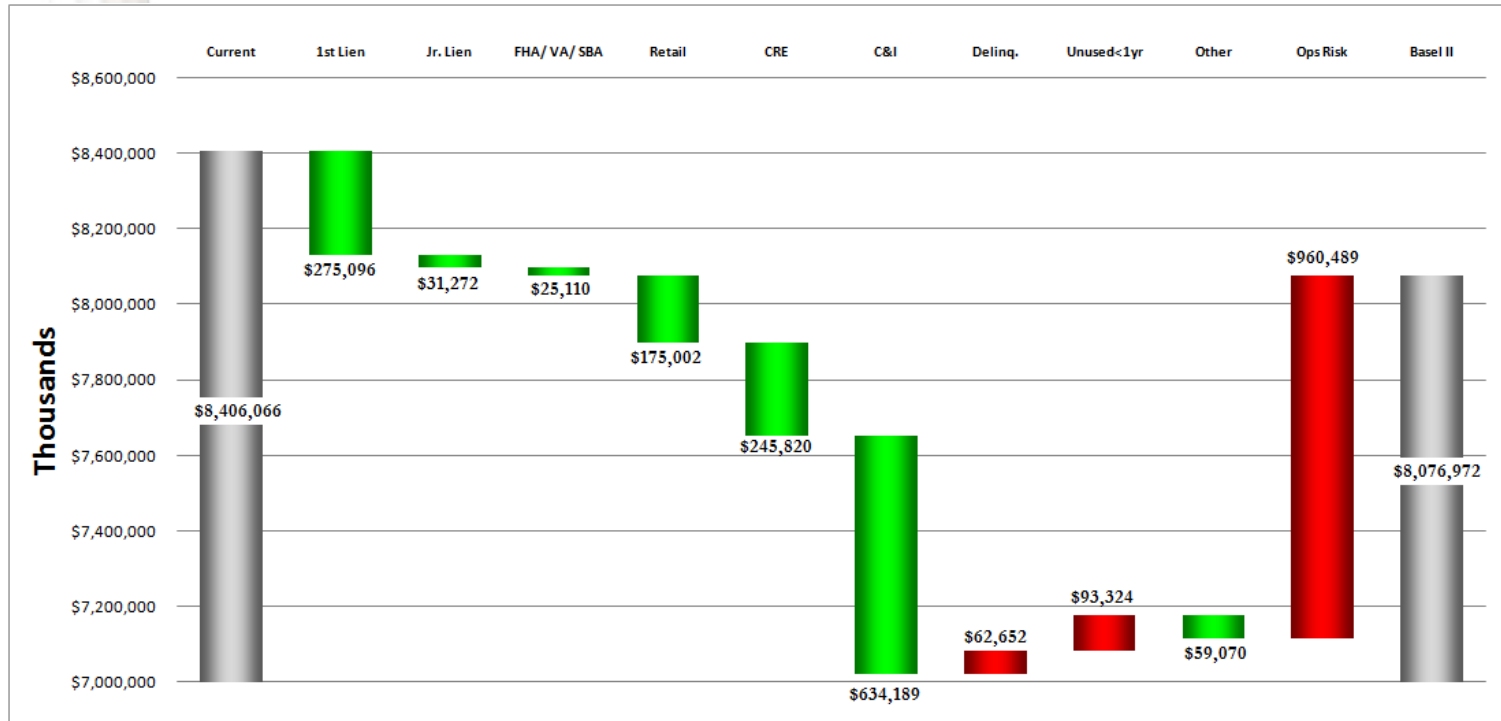


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 77.7% of 326 Missouri banks and thrifts
  - Aggregate potential capital savings for all 326 banks of \$329 million
  - The median Missouri bank would save \$0.6 million or 3.7% of their existing Tier 1 capital 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

# Missouri Banks can save up to \$329 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 Hawthorn Bancshares, Inc., a representative Missouri bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$4.1 million or 3.4%

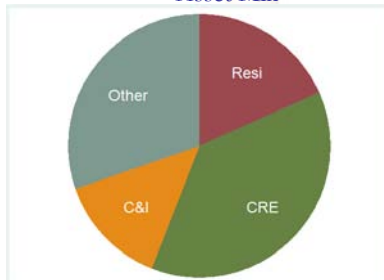
Regulatory Capital Requirement



Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$1,285	
Gross Income Margin	3.6%	
Tangible Common Equity	5.6%	
Leverage Ratio	8.7%	
Capital Estimates	Current	Basel II
Tier 1 RBC	10.5%	10.8%
Total RBC	12.5%	12.9%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.99	
Share Repurchase (7/29/2008 price)		
Number of Shares	227,467	
Change in EPS	\$0.11	
Organic Asset Growth (millions)	\$41	

## Hawthorn Bancshares, Inc. Lee's Summit, MO Highlights

- *Stockpile.* Under Basel II, total RBC increases from 12.5% to 12.9%, an amount equal to \$4.1 million or 3.4% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 12.5% total RBC ratio:
  - Issue a special dividend of \$0.99 per share
  - Repurchase 227,467 shares, increasing EPS \$0.11 or 5.7%
  - Organically grow assets by \$41 million

Upon request, Second Pillar Consulting can provide similar information for all 326 Missouri banks free of charge

# Missouri 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
Community Bank of Pleasant Hill	Pleasant Hill	\$ 30,042	\$ 1,020	24.2%
Bank of Leeton	Leeton	\$ 25,645	\$ 378	22.7%
F&M Bank and Trust Company	Hannibal	\$ 182,623	\$ 2,531	22.1%
Parkside Financial Bank & Trust	Clayton	\$ 73,856	\$ 3,071	21.1%
Shelter Financial Bank	Columbia	\$ 152,662	\$ 2,367	19.7%
Boulevard Bank	Neosho	\$ 116,818	\$ 1,516	19.6%
MRV Banks	Sainte Genevieve	\$ 34,039	\$ 1,065	17.7%
Table Rock Community Bank	Kimberling City	\$ 23,935	\$ 463	17.2%
FortuneBank	Arnold	\$ 130,463	\$ 1,615	17.2%
Bremen Bank & Trust Company	Saint Louis	\$ 257,253	\$ 3,418	16.4%
First Midwest Bank of the Ozarks	Piedmont	\$ 102,809	\$ 1,167	16.1%
Bank of Otterville	Otterville	\$ 36,759	\$ 551	16.1%
Lone Summit Bank	Lake Lotawana	\$ 26,106	\$ 411	15.6%
Commercial Bank	Maryland Heights	\$ 177,805	\$ 2,213	14.9%
Bank of Birch Tree	Birch Tree	\$ 24,590	\$ 492	14.6%
Sterling Bank	Poplar Bluff	\$ 161,834	\$ 2,181	14.4%
American Trust Bank	Kirkville	\$ 20,864	\$ 332	14.1%
First Midwest Bank of Poplar Bluff	Poplar Bluff	\$ 230,490	\$ 2,293	13.3%
OakStar Bank, National Association	Springfield	\$ 99,436	\$ 1,277	12.6%
Superior Bank	Hazelwood	\$ 54,777	\$ 742	12.6%
<b>Averages</b>		<b>\$ 98,140.30</b>	<b>\$ 1,455.04</b>	<b>17.1%</b>

Source: 2008Q3 Call Reports; SPC estimates

# Missouri 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
St. Johns Bank and Trust Company	Saint John	\$ 342,007	\$ (1,488)	-4.0%
First National Bank	Camdenton	\$ 262,212	\$ (2,059)	-4.1%
Bank of New Madrid	New Madrid	\$ 79,255	\$ (357)	-4.2%
Dickinson Financial Corporation II	Kansas City	\$ 5,602,028	\$ (28,617)	-4.2%
Home Exchange Bank	Jamesport	\$ 84,325	\$ (441)	-4.5%
Bank of Ash Grove	Ash Grove	\$ 72,579	\$ (726)	-4.6%
Community Bank & Trust	Neosho	\$ 266,758	\$ (1,045)	-4.6%
Farmers State Bank Stanberry	Stanberry	\$ 50,138	\$ (415)	-4.6%
Northland National Bank	Gladstone	\$ 81,305	\$ (430)	-4.9%
First National Bank of Nevada	Nevada	\$ 64,635	\$ (490)	-4.9%
Bank of Brookfield-Purdin, National Assoc	Brookfield	\$ 70,927	\$ (464)	-5.0%
Mississippi County Savings and Loan Assoc	Charleston	\$ 8,549	\$ (149)	-5.4%
First National Bank of Carrollton	Carrollton	\$ 39,002	\$ (270)	-5.9%
Horizon State Bank	Cameron	\$ 19,735	\$ (129)	-6.3%
Cass Information Systems, Inc.	Bridgeton	\$ 956,979	\$ (7,804)	-6.6%
Exchange Bank of Fairfax	Fairfax	\$ 15,086	\$ (219)	-7.2%
Midwest Independent Bank	Jefferson City	\$ 343,841	\$ (3,395)	-7.5%
TIAA-CREF Trust Company, FSB	Saint Louis	\$ 18,482	\$ (1,904)	-9.9%
Gateway Bank of St. Louis	Saint Louis	\$ 35,476	\$ (354)	-11.4%
Sun Security Bank	Ellington	\$ 371,044	\$ (6,026)	-13.0%
<b>Averages</b>		<b>\$ 439,218</b>	<b>\$ (2,839)</b>	<b>-6.1%</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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