

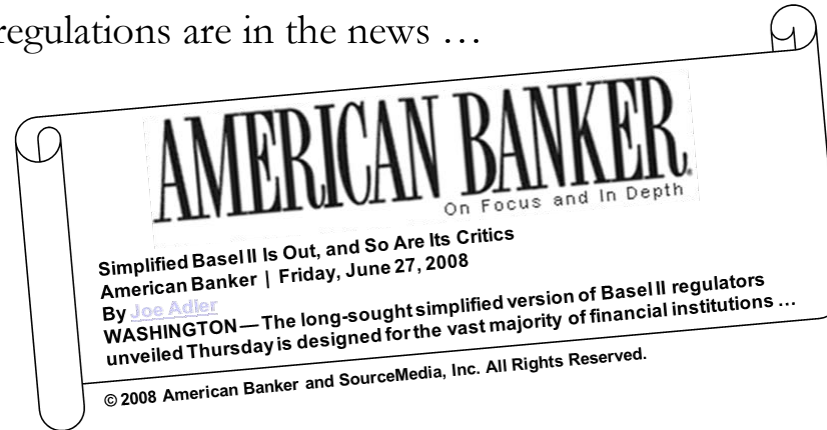
The Impact of Standardized Basel II on Oklahoma Banks

Prepared for Oklahoma Bankers Association



Executive Summary

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

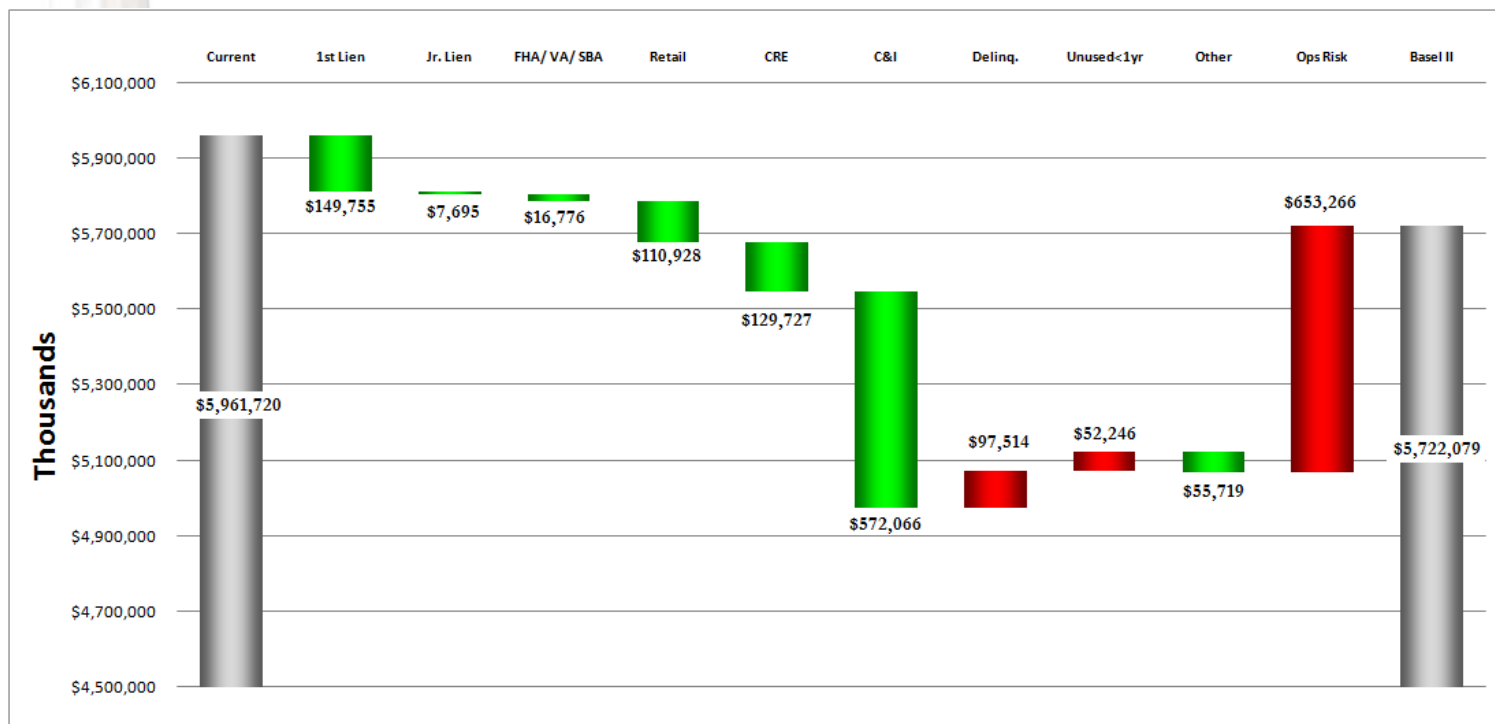


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 69.3% of 245 Oklahoma banks and thrifts
 - Aggregate potential capital savings for all 245 banks of \$240 million
 - The median Oklahoma bank would save \$0.4 million or 2.2% of their existing Tier 1 capital 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

Oklahoma Banks can save up to \$240 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

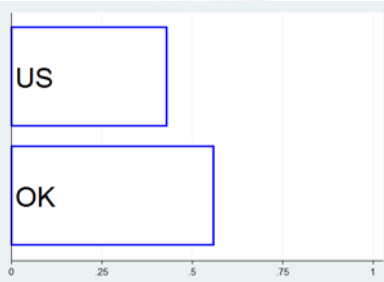
For BancFirst Corporation, a representative Oklahoma bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$12.0 million or 3.0%

Regulatory Capital Requirement



Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$3,826	
Gross Income Margin	5.6%	
Tangible Common Equity	9.4%	
Leverage Ratio	9.9%	
Capital Estimates	Current	Basel II
Tier 1 RBC	12.4%	12.8%
Total RBC	13.6%	14.0%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.79	
Share Repurchase (7/29/2008 price)		
Number of Shares	276,135	
Change in EPS	\$0.06	
Organic Asset Growth (millions)	\$111	

BancFirst Corporation Oklahoma City, OK Highlights

- *Stockpile.* Under Basel II, total RBC increases from 13.6% to 14.0%, an amount equal to \$12.0 million or 3.0% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 13.6% total RBC ratio:
 - Issue a special dividend of \$0.79 per share
 - Repurchase 276,135 shares, increasing EPS \$0.06 or 1.8%
 - Organically grow assets by \$111 million

Upon request, Second Pillar Consulting can provide similar information for all 245 Oklahoma banks free of charge

Oklahoma 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 the Lakes, National Association	Owasso	\$ 205,830	\$ 3,681	24.5%
Citizens Bank of Oklahoma	Pawhuska	\$ 121,094	\$ 2,488	24.2%
Prime Bank	Edmond	\$ 20,882	\$ 1,128	23.9%
First State Bank	Picher	\$ 11,370	\$ 161	20.2%
Triad Bank, National Association	Tulsa	\$ 117,254	\$ 2,202	18.8%
Summit Bank	Tulsa	\$ 264,571	\$ 3,109	18.5%
Bank of Cordell	Cordell	\$ 36,168	\$ 471	17.5%
Century Bank	Pryor	\$ 29,408	\$ 872	17.0%
Union Bank of Chandler	Chandler	\$ 127,000	\$ 1,724	16.4%
Security Bank	Tulsa	\$ 353,220	\$ 5,132	16.3%
Oklahoma Heritage Bank	Roff	\$ 45,812	\$ 577	16.3%
Valliance Bank	Oklahoma City	\$ 187,954	\$ 2,135	16.1%
Bank 7	Oklahoma City	\$ 99,613	\$ 1,061	15.2%
First State Bank	Canute	\$ 21,605	\$ 779	14.8%
First State Bank	Valliant	\$ 59,298	\$ 830	14.5%
Fairview Savings and Loan Association	Fairview	\$ 30,907	\$ 533	14.4%
Peoples Bank	Tulsa	\$ 94,757	\$ 949	13.5%
Bank of Beaver City	Beaver	\$ 116,825	\$ 1,080	13.3%
Bank of Union	El Reno	\$ 227,153	\$ 2,636	13.2%
NBC Oklahoma	Oklahoma City	\$ 408,877	\$ 4,031	12.7%
Averages		\$ 128,979.90	\$ 1,778.91	17.1%

Source: 2008Q3 Call Reports; SPC estimates

Oklahoma 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
First State Bank	Elmore City	\$ 9,263	\$ (40)	-5.2%
Lakeside State Bank	Oologah	\$ 50,679	\$ (340)	-5.8%
American Bank	Wagoner	\$ 28,857	\$ (362)	-5.8%
Security First National Bank of Hugo	Hugo	\$ 100,553	\$ (535)	-5.8%
City National Bank and Trust Company of	Lawton	\$ 266,744	\$ (2,561)	-6.7%
Central National Bank of Poteau	Poteau	\$ 177,636	\$ (1,261)	-7.0%
Oklahoma State Bank	Buffalo	\$ 42,009	\$ (251)	-7.2%
Washita State Bank	Burns Flat	\$ 242,511	\$ (1,521)	-7.2%
First State Bank	Anadarko	\$ 66,943	\$ (1,160)	-7.4%
Oklahoma Bank & Trust Company	Clinton	\$ 124,941	\$ (1,542)	-7.5%
First State Bank in Temple	Temple	\$ 20,964	\$ (373)	-7.8%
Spiro State Bank	Spiro	\$ 48,423	\$ (570)	-7.9%
AllNations Bank	Calumet	\$ 20,871	\$ (326)	-8.1%
First Farmers National Bank of Waurika	Waurika	\$ 39,976	\$ (762)	-8.2%
First National Bank of Lindsay	Lindsay	\$ 23,839	\$ (190)	-8.4%
Farmers Exchange Bank	Cherokee	\$ 106,019	\$ (909)	-8.9%
Alva State Bank & Trust Company	Alva	\$ 181,905	\$ (3,223)	-9.4%
First National Bank of Hooker	Hooker	\$ 55,425	\$ (777)	-9.9%
Hopeton State Bank	Hopeton	\$ 22,771	\$ (560)	-11.2%
First National Bank in Okeene	Okeene	\$ 59,625	\$ (2,563)	-12.5%
Averages		\$ 84,498	\$ (991)	-7.9%

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

Contact Information

Bill Nayda

bnayda@secondpillar.com

(804) 432-1629

Geoffrey Rubin

grubin@secondpillar.com

(703) 403-9488

www.secondpillar.com