

# **The Impact of Standardized Basel II on South Carolina Banks**

**Prepared for South Carolina Bankers Association**



# Executive Summary

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

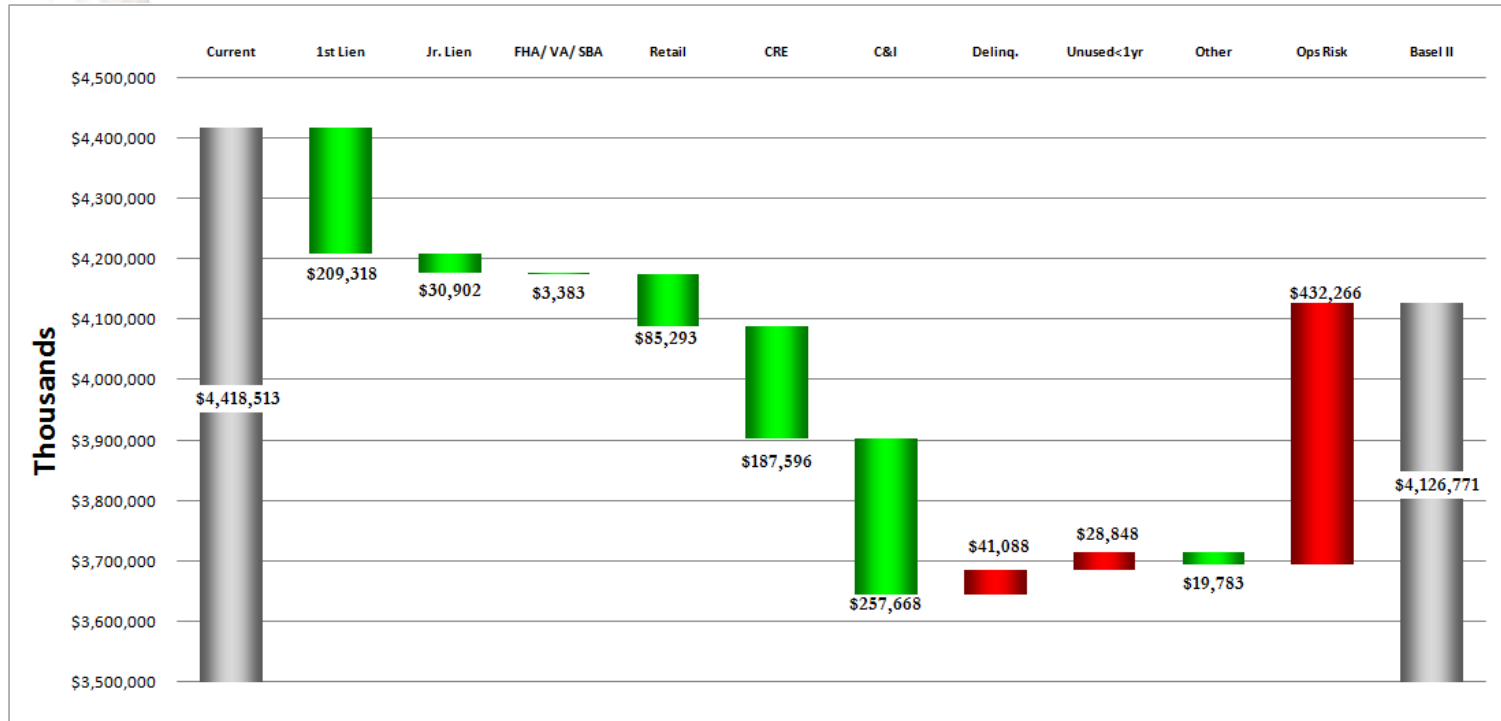


- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 92.6% of 81 South Carolina banks and thrifts
  - Aggregate potential capital savings for all 81 banks of \$292 million
  - The median South Carolina bank would save \$1.8 million or 6.1% of their existing 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

# South Carolina Banks can save up to \$292 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 Tidelands Bank, a representative South Carolina bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$3.1 million or 5.9%

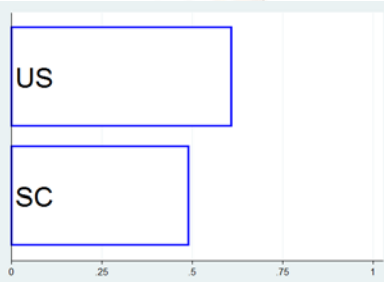
Regulatory Capital Requirement



## Tidelands Bank Mount Pleasant, SC Highlights

- *Stockpile.* Under Basel II, total RBC increases from 11.6% to 12.3%, an amount equal to \$3.1 million or 5.9% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 11.6% total RBC ratio:
  - Issue a special dividend of \$0.73 per share
  - Repurchase 1,246,957 shares, increasing EPS \$0.04 or 41.2%
  - Organically grow assets by \$37 million

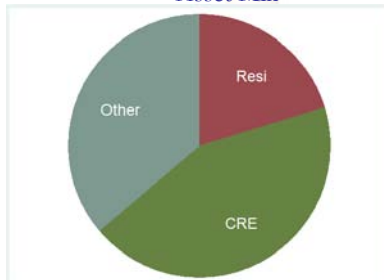
Capital Savings Percentile



Capital Metrics and Management

Total Assets (millions)	\$666	
Gross Income Margin	2.2%	
Tangible Common Equity	8.0%	
Leverage Ratio	7.9%	
Capital Estimates	Current	Basel II
Tier 1 RBC	10.6%	11.2%
Total RBC	11.6%	12.3%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$0.73	
Share Repurchase (7/29/2008 price)		
Number of Shares	1,246,957	
Change in EPS	\$0.04	
Organic Asset Growth (millions)	\$37	

Asset Mix



Upon request, Second Pillar Consulting can provide similar information for all 81 South Carolina banks free of charge

# South Carolina 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
VistaBank	Aiken	\$ 49,725	\$ 2,638	23.9%
Congaree State Bank	West Columbia	\$ 128,195	\$ 1,855	20.3%
Carolina Alliance Bank	Spartanburg	\$ 146,458	\$ 3,878	19.5%
BankGreenville	Greenville	\$ 79,594	\$ 1,541	17.8%
Harbor National Bank	Charleston	\$ 185,263	\$ 4,097	16.5%
BankMeridian, N.A.	Columbia	\$ 267,486	\$ 4,490	15.5%
Pickens Savings & Loan Association, FA	Pickens	\$ 103,416	\$ 1,044	15.3%
First Capital Bank	Bennettsville	\$ 65,735	\$ 877	14.7%
Independence National Bank	Greenville	\$ 136,429	\$ 2,105	14.4%
Arthur Financial Corporation	Union	\$ 642,889	\$ 7,957	13.9%
Home Federal Savings and Loan Association	Bamberg	\$ 30,905	\$ 391	12.6%
Southern First Bancshares, Inc.	Greenville	\$ 696,940	\$ 6,480	12.2%
Heritage Community Bank	Hartsville	\$ 112,047	\$ 1,129	12.2%
South Atlantic Bank	Myrtle Beach	\$ 77,449	\$ 2,067	12.2%
Oconee Federal Savings and Loan Association	Seneca	\$ 304,227	\$ 6,028	12.2%
Woodlands Bank	Bluffton	\$ 355,522	\$ 2,856	12.0%
Plantation Federal Bank	Pawleys Island	\$ 709,353	\$ 6,034	11.8%
Blue Ridge Bank	Walhalla	\$ 64,525	\$ 837	11.5%
Palmetto Bancshares, Inc.	Laurens	\$ 1,354,677	\$ 12,536	11.1%
First Federal Savings and Loan Association	Charleston	\$ 2,925,044	\$ 21,742	11.0%
<b>Averages</b>		<b>\$ 421,793.95</b>	<b>\$ 4,529.20</b>	<b>14.5%</b>

Source: 2008Q3 Call Reports; SPC estimates

# South Carolina 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
Allendale County Bank	Fairfax	\$ 54,148	\$ 138	3.6%
Palmetto State Bank	Hampton	\$ 398,586	\$ 1,799	3.5%
Atlantic Bank & Trust	Charleston	\$ 159,113	\$ 1,132	3.5%
SouthCoast Community Bank	Mount Pleasant	\$ 527,168	\$ 1,850	3.4%
Provident Community Bank, National Assn	Rock Hill	\$ 406,154	\$ 1,240	3.2%
Peoples Bank	Iva	\$ 228,422	\$ 651	3.0%
Cornerstone National Bank	Easley	\$ 153,775	\$ 564	2.9%
Carolina Financial Corporation	Charleston	\$ 1,094,984	\$ 2,634	2.6%
Beach First National Bancshares, Inc.	Myrtle Beach	\$ 672,898	\$ 1,732	2.5%
Bank of York	York	\$ 177,645	\$ 462	1.9%
Countybank	Greenwood	\$ 253,787	\$ 332	1.4%
Carolina Bank & Trust Company	Lamar	\$ 345,092	\$ 476	1.2%
Farmers & Merchants Bank of South Carol	Holly Hill	\$ 214,503	\$ 282	0.7%
Community Capital Corporation	Greenwood	\$ 790,158	\$ 127	0.1%
Williamsburg First National Bank	Kingstree	\$ 138,796	\$ (48)	-0.3%
First National Bank of South Carolina	Holly Hill	\$ 155,143	\$ (110)	-0.4%
Mutual Savings Bank	Hartsville	\$ 47,230	\$ (70)	-0.5%
Woodruff Federal Savings & Loan Associat	Woodruff	\$ 84,670	\$ (332)	-1.1%
Sandhills Bank	North Myrtle Beach	\$ 68,373	\$ (88)	-1.3%
Spratt Savings and Loan Association	Chester	\$ 90,255	\$ (482)	-1.9%
<b>Averages</b>		<b>\$ 303,045</b>	<b>\$ 614</b>	<b>1.4%</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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