South Carolina Bankers Association

JULY 13-14, 2026

# Capital and Strategy

BART SMITH, MANAGING DIRECTOR AND PARTNER
PERFORMANCE TRUST CAPITAL PARTNERS, LLC

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## Important Information:

*All charts / graphs are shown for illustrative purposes only. Past performance does not guarantee any results or that any trend will continue.*

*Certain assumptions have been made in connection with analysis presented and changes in market conditions or assumptions may have had a material impact on results. There is no guarantee that any strategy will be successful.*

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## Bank Capital and Strategy

1. Capital and a Bank's Balance Sheet?
2. Components of Capital
3. Capital Ratios – Leverage and Risk Based
4. How does Capital relate to Bank Strategy?
5. Bank Simulation



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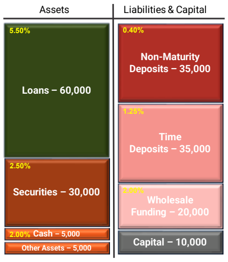
## What is a Bank?




**Base Case**

| Income Statement | | | | |
|---|---|---|---|---|
| Interest Inc | | | | |
| Interest Exp | | | | |
| **NIM** | | | | |
| Non-Int Inc | | | | |
| **Pre-Exp Inc** | | | | |
| Non-Int Exp | | | | |
| **Pre-Tax Net Inc** | | | | |
| Tax | 21% | | | |
| **Net Inc** | | | | |
| **ROA** | | | | |
| **ROE** | | | | |
| Capital to Assets | | | | |

For illustrative purposes only

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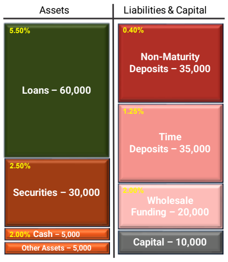
## What is a Bank?




**Base Case**

| Income Statement | | | | |
|---|---|---|---|---|
| Interest Inc | 4,150 | | | |
| Interest Exp | 978 | | | |
| **NIM** | **3,173** | | **3.17%** | |
| Non-Int Inc | 600 | | | |
| **Pre-Exp Inc** | **3,773** | | | |
| Non-Int Exp | 2,500 | | **2.50%** | |
| **Pre-Tax Net Inc** | **1,273** | | | |
| Tax | 21% | | | |
| **Net Inc** | **1,005** | | | |
| **ROA** | | | **1.01%** | |
| **ROE** | | | **10.05%** | |
| Capital to Assets | | | 10.00% | |

For illustrative purposes only

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## What is a Bank and How does it Fail?


**Scenario 1 – Credit Event**

| Income Statement | | | | |
|---|---|---|---|---|
| Interest Inc | 4,150 | 3,490 | | |
| Interest Exp | 978 | 978 | | |
| **NIM** | **3,173** | **2,513** | **3.17%** | **2.51%** |
| Non-Int Inc | 600 | 600 | | |
| **Pre-Exp Inc** | **3,773** | **3,113** | | |
| Non-Int Exp | 2,500 | 2,750 | **2.50%** | **2.75%** |
| **Pre-Tax Net Inc** | **1,273** | **363** | | |
| Tax | 21% | 21% | | |
| **Net Inc** | **1,005** | **286** | | |
| **ROA** | | | **1.01%** | **0.29%** |
| **ROE** | | | **10.05%** | **2.86%** |
| Capital to Assets | | | 10.00% | 10.00% |

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## What is a Bank and How does it Fail?


**Scenario 1 – Credit Event**

| Income Statement | | | | |
|---|---|---|---|---|
| Interest Inc | 4,150 | 3,490 | | |
| Interest Exp | 978 | 978 | | |
| **NIM** | **3,173** | **2,513** | **3.17%** | **2.51%** |
| Non-Int Inc | 600 | 600 | | |
| **Pre-Exp Inc** | **3,773** | **3,113** | | |
| Non-Int Exp | 2,500 | 11,000 | **2.50%** | **11.73%** |
| **Pre-Tax Net Inc** | **1,273** | **-7,888** | | |
| Tax | 21% | 21% | | |
| **Net Inc** | **1,005** | **-6,231** | | |
| **ROA** | | | **1.01%** | **-6.64%** |
| **ROE** | | | **10.05%** | **-163.98%** |
| **Capital to Assets** | | | **10.00%** | **4.05%** |

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## Capital and CAMELS Ratings


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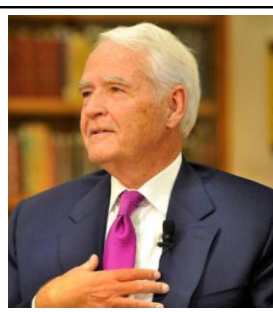
## Capital and CAMELS Ratings

"And - near and dear to my heart - we rely on capital. It is the lifeblood of a banking institution and is the ultimate protection from the unexpected. Good capital can cover a multitude of sins."

– Donald Powell, former FDIC Chairman



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**Bank Capital and Strategy**

1. Capital and a Bank's Balance Sheet?
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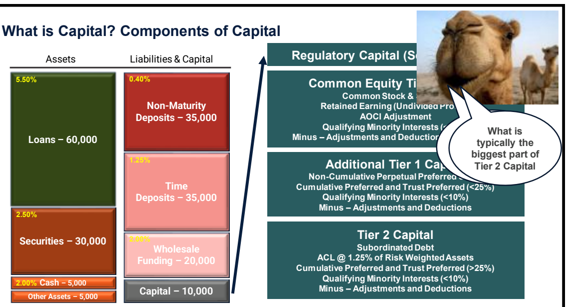
**What is Capital? Components of Capital**




For illustrative purposes only

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**Bank Capital and Strategy**

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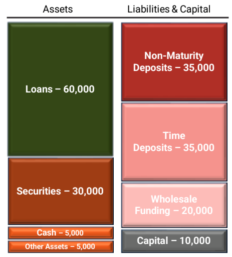
## What is Capital? Risk Based Capital




Leverage Capital Ratio = $10,000 / $100,000 = 10.0%

RB Capital Ratio = $10,000 / $100,000 = 10.0%

For illustrative purposes only



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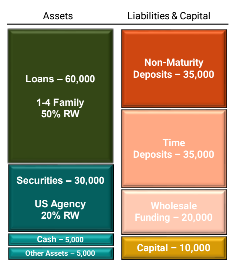
## What is Capital? Risk Based Capital




Leverage Capital Ratio = $10,000 / $100,000 = 10.0%

RB Capital Ratio = $10,000 / $100,000 = 10.0%

For illustrative purposes only



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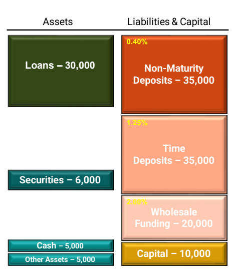
## What is Capital? Risk Based Capital




Leverage Capital Ratio = $10,000 / $100,000 = 10.0%

RB Capital Ratio = $10,000 / $46,000 = 21.7%

For illustrative purposes only



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## What is Capital? Minimum Requirements

| Required Capital Position | Leverage | Common Equity Tier 1 Risk-Based Capital | Tier 1 Risk-Based Capital | |
|---|---|---|---|---|
| Well-Capitalized | ≥ 5.0% | ≥ 6.5% | ≥ 8.0% | |
| Adequately Capitalized | ≥ 4.0% | ≥ 4.5% | ≥ 6.0% | |
| Undercapitalized | < 4.0% | < 4.5% | < 6.0% | |
| Significantly Undercapitalized | < 3.0% | < 3.0% | < 4.0% | ≥ 6.0% |
| Critically Undercapitalized | ≤ 2.0% Tangible Capital | ≤ 2.0% Tangible Capital | ≤ 2.0% Tangible Capital | ≤ 2.0% Tangible Capital |

What is the minimum well-

What is the first result of not being well-capitalized?

Source: FDIC, Performance Trust Analytics

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## What is Capital? CBLR

**Community Bank Leverage Ratio**

**What Happens:** The well-capitalized capital requirement increases from 5% to 8%.

**What You Get:** No more risk-based capital requirements.


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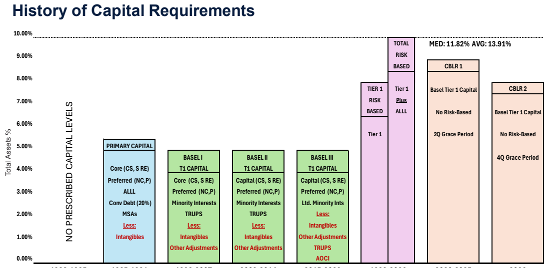
## History of Capital Requirements




Source: The History of Supervisory Expectations for Capital Adequacy

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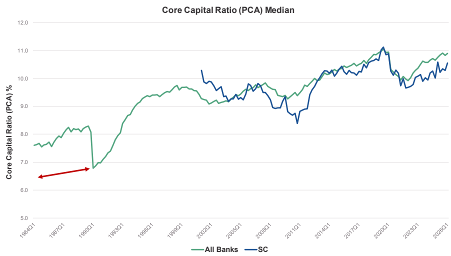
## Capital Trends




Source: FDIC Quarterly Banking Profile, PT Score®

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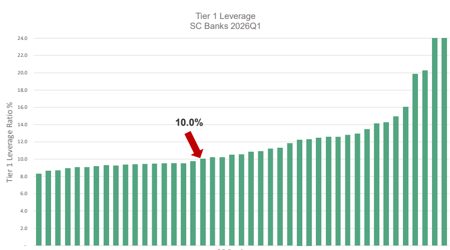
## Assessing Capital Needs




Source: PT Score®

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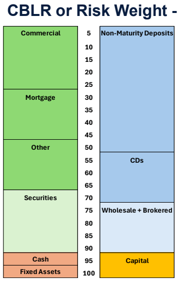
## CBLR or Risk Weight - Typical




| Regulatory Thresholds | |
|---|---|
| T1 Leverage | 5.00% |
| CBLR | 8.00% |

| 10% Leverage | | GAP |
|---|---|---|
| TA | 100,000 | |
| CAP | 10,000 | |
| | 10.00% | 5.00% |
| | | 2.00% |

| 9% Leverage | | |
|---|---|---|
| TA | 111,100 | |
| CAP | 10,000 | |
| | 9.00% | 4.00% |
| | | 1.00% |

| 8% Leverage | | |
|---|---|---|
| TA | 125,000 | |
| CAP | 10,000 | |
| | 8.00% | 3.00% |
| | | 0.00% |

Source: Performance Trust Analytics

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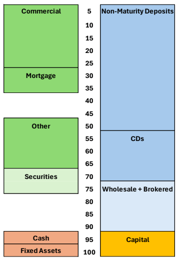
## CBLR or Risk Weight - Typical




| Regulatory Thresholds | |
|---|---|
| Total Risk Based | 10.00% |
| T1 Risk Based | 8.00% |
| T1 Leverage | 5.00% |
| CBLR | 8.00% |

| 10% Leverage | | GAP | T1 Risk Based | | GAP | Total Risk Based | | GAP |
|---|---|---|---|---|---|---|---|---|
| TA | 100,000 | | RWA | 75,000 | | RWA | 75,000 | |
| CAP | 10,000 | | CAP | 10,000 | | CAP | 10,000 | |
| | | | | | | ACL | 1,000 | |
| | 10.00% | 5.00% | | 13.33% | 5.33% | | 14.67% | 4.67% |
| | | 2.00% | | | | | | |

| 9% Leverage | | |
|---|---|---|
| TA | 111,100 | |
| CAP | 10,000 | |
| | 9.00% | 4.00% |
| | | 1.00% |

| 8% Leverage | | |
|---|---|---|
| TA | 125,000 | |
| CAP | 10,000 | |
| | 8.00% | 3.00% |
| | | 0.00% |

Source: Performance Trust Analytics

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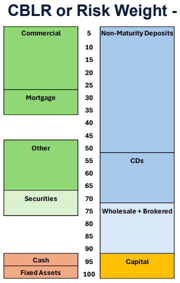
## CBLR or Risk Weight - Typical




| Regulatory Thresholds | |
|---|---|
| Total Risk Based | 10.00% |
| T1 Risk Based | 8.00% |
| T1 Leverage | 5.00% |
| CBLR | 8.00% |

| 10% Leverage | | GAP | T1 Risk Based | | GAP | Total Risk Based | | GAP |
|---|---|---|---|---|---|---|---|---|
| TA | 100,000 | | RWA | 75,000 | | RWA | 75,000 | |
| CAP | 10,000 | | CAP | 10,000 | | CAP | 10,000 | |
| | | | | | | ACL | 1,000 | |
| | 10.00% | 5.00% | | 13.33% | 5.33% | | 14.67% | 4.67% |
| | | 2.00% | | | | | | |

| 9% Leverage | | | T1 Risk Based | | | Total Risk Based | | |
|---|---|---|---|---|---|---|---|---|
| TA | 111,100 | | RWA | 86,100 | | RWA | 86,100 | |
| CAP | 10,000 | | CAP | 10,000 | | CAP | 10,000 | |
| | | | | | | ACL | 1,000 | |
| | 9.00% | 4.00% | | 11.61% | 3.61% | | 12.78% | 2.78% |
| | | 1.00% | | | | | | |

| 8% Leverage | | |
|---|---|---|
| TA | 125,000 | |
| CAP | 10,000 | |
| | 8.00% | 3.00% |
| | | 0.00% |

Source: Performance Trust Analytics

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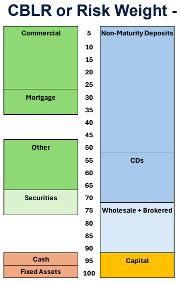
## CBLR or Risk Weight - Typical




| Regulatory Thresholds | |
|---|---|
| Total Risk Based | 10.00% |
| T1 Risk Based | 8.00% |
| T1 Leverage | 5.00% |
| CBLR | 8.00% |

| 10% Leverage | | GAP | T1 Risk Based | | GAP | Total Risk Based | | GAP |
|---|---|---|---|---|---|---|---|---|
| TA | 100,000 | | RWA | 75,000 | | RWA | 75,000 | |
| CAP | 10,000 | | CAP | 10,000 | | CAP | 10,000 | |
| | | | | | | ACL | 1,000 | |
| | 10.00% | 5.00% | | 13.33% | 5.33% | | 14.67% | 4.67% |
| | | 2.00% | | | | | | |

| 9% Leverage | | | T1 Risk Based | | | Total Risk Based | | |
|---|---|---|---|---|---|---|---|---|
| TA | 111,100 | | RWA | 86,100 | | RWA | 86,100 | |
| CAP | 10,000 | | CAP | 10,000 | | CAP | 10,000 | |
| | | | | | | ACL | 1,000 | |
| | 9.00% | 4.00% | | 11.61% | 3.61% | | 12.78% | 2.78% |
| | | 1.00% | | | | | | |

| 8% Leverage | | | T1 Risk Based | | | Total Risk Based | | |
|---|---|---|---|---|---|---|---|---|
| TA | 125,000 | | RWA | 100,000 | | RWA | 100,000 | |
| CAP | 10,000 | | CAP | 10,000 | | CAP | 10,000 | |
| | | | | | | ACL | 1,000 | |
| | 8.00% | 3.00% | | 10.00% | 2.00% | | 11.00% | 1.00% |
| | | 0.00% | | | | | | |

Source: Performance Trust Analytics

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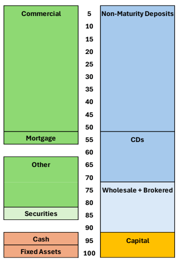
## CBLR or Risk Weight - Higher Risk Balance Sheet




| Regulatory Thresholds | |
|---|---|
| Total Risk Based | 10.00% |
| T1 Risk Based | 8.00% |
| T1 Leverage | 5.00% |
| CBLR | 8.00% |

| 10% Leverage | GAP | T1 Risk Based | GAP | Total Risk Based | GAP |
|---|---|---|---|---|---|
| TA 100,000 | | RWA 87,500 | | RWA 87,500 | |
| CAP 10,000 | | CAP 10,000 | | CAP 10,000 | |
| | | | | ACL 1,000 | |
| 10.00% | 5.00% | 11.43% | 3.43% | 12.57% | 2.57% |
| | 2.00% | | 5.33% | | 4.67% |

Source: Performance Trust Analytics

Performance Trust | 25

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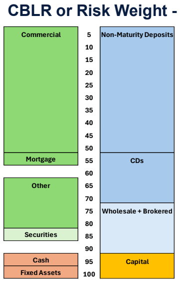
## CBLR or Risk Weight - Higher Risk Balance Sheet




| Regulatory Thresholds | |
|---|---|
| Total Risk Based | 10.00% |
| T1 Risk Based | 8.00% |
| T1 Leverage | 5.00% |
| CBLR | 8.00% |

| 10% Leverage | GAP | T1 Risk Based | GAP | Total Risk Based | GAP |
|---|---|---|---|---|---|
| TA 100,000 | | RWA 87,500 | | RWA 87,500 | |
| CAP 10,000 | | CAP 10,000 | | CAP 10,000 | |
| | | | | ACL 1,000 | |
| 10.00% | 5.00% | 11.43% | 3.43% | 12.57% | 2.57% |
| | 2.00% | | 5.33% | | 4.67% |

| 9% Leverage | | T1 Risk Based | | Total Risk Based | |
|---|---|---|---|---|---|
| TA 111,100 | | RWA 98,600 | | RWA 98,600 | |
| CAP 10,000 | | CAP 10,000 | | CAP 10,000 | |
| | | | | ACL 1,000 | |
| 9.00% | 4.00% | 10.14% | 2.14% | 11.16% | 1.16% |
| | 1.00% | | 3.61% | | 2.78% |

Source: Performance Trust Analytics

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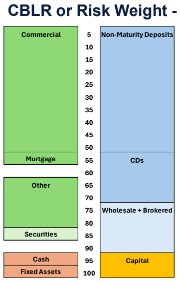
## CBLR or Risk Weight - Higher Risk Balance Sheet




| Regulatory Thresholds | |
|---|---|
| Total Risk Based | 10.00% |
| T1 Risk Based | 8.00% |
| T1 Leverage | 5.00% |
| CBLR | 8.00% |

| 10% Leverage | GAP | T1 Risk Based | GAP | Total Risk Based | GAP |
|---|---|---|---|---|---|
| TA 100,000 | | RWA 87,500 | | RWA 87,500 | |
| CAP 10,000 | | CAP 10,000 | | CAP 10,000 | |
| | | | | ACL 1,000 | |
| 10.00% | 5.00% | 11.43% | 3.43% | 12.57% | 2.57% |
| | 2.00% | | 5.33% | | 4.67% |

| 9% Leverage | | T1 Risk Based | | Total Risk Based | |
|---|---|---|---|---|---|
| TA 111,100 | | RWA 98,600 | | RWA 98,600 | |
| CAP 10,000 | | CAP 10,000 | | CAP 10,000 | |
| | | | | ACL 1,000 | |
| 9.00% | 4.00% | 10.14% | 2.14% | 11.16% | 1.16% |
| | 1.00% | | 3.61% | | 2.78% |

**AVG CBLR: 13.91**

**MED CBLR: 11.82**

| 8% Leverage | | T1 Risk Based | | Total Risk Based | |
|---|---|---|---|---|---|
| TA 125,000 | | RWA 112,500 | | RWA 112,500 | |
| CAP 10,000 | | CAP 10,000 | | CAP 10,000 | |
| | | | | ACL 1,000 | |
| 8.00% | 3.00% | 8.89% | 0.89% | 9.78% | -0.22% |
| | 0.00% | | 2.00% | | 1.00% |

Source: Performance Trust Analytics

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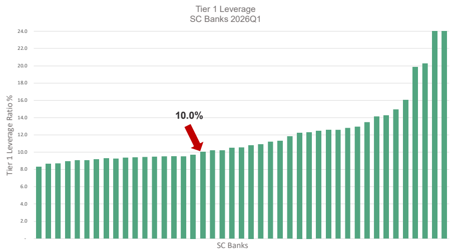
## Assessing Capital Needs




Source: PT Score®

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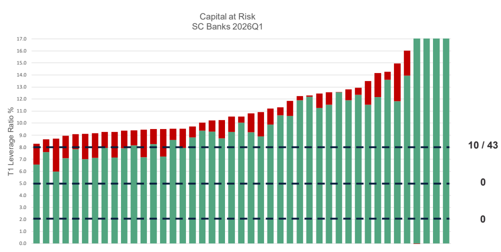
## Assessing Capital Needs




Source: PT Score®

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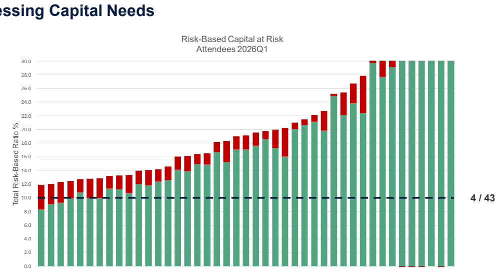
## Assessing Capital Needs




Source: PT Score®

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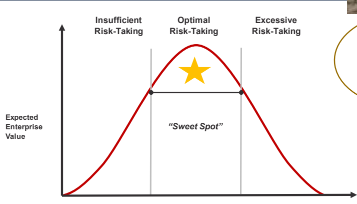
## Capital & Strategy

*Taking the Right Kind of Risk*

**COSO Model**




Failure to think strategically could lead to what?

Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO)



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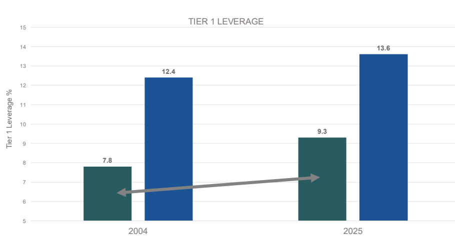
## WHAT IS THE RIGHT AMOUNT OF CAPITAL?




Source: PT Score



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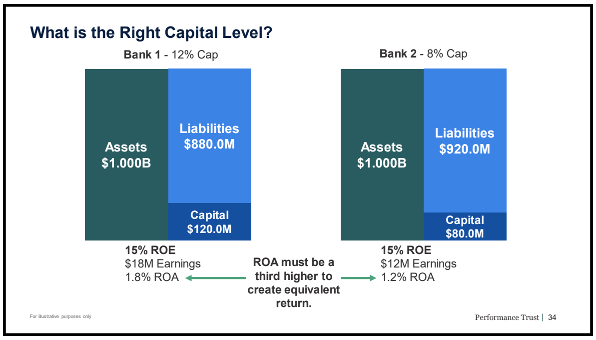
What is the Right Capital Level?
Bank 1 - 12% Cap
Assets $1.000B
Liabilities $880.0M
Capital $120.0M
Bank 2 - 8% Cap
Assets $1.000B
Liabilities $920.0M
Capital $80.0M
15% ROE
$18M Earnings
1.8% ROA
ROA must be a third higher to create equivalent return.
15% ROE
$12M Earnings
1.2% ROA
For illustrative purposes only
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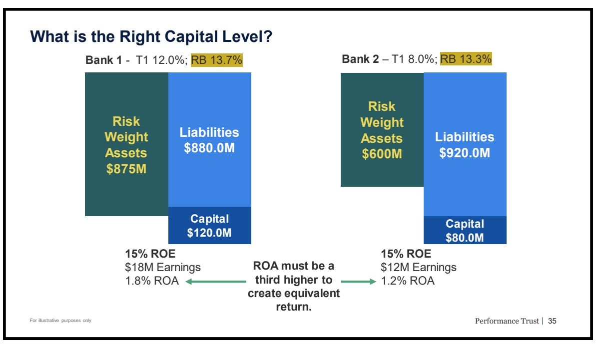
What is the Right Capital Level?
Bank 1 - T1 12.0%; RB 13.7%
Risk Weight Assets $875M
Liabilities $880.0M
Capital $120.0M
Bank 2 – T1 8.0%; RB 13.3%
Risk Weight Assets $600M
Liabilities $920.0M
Capital $80.0M
15% ROE
$18M Earnings
1.8% ROA
ROA must be a third higher to create equivalent return.
15% ROE
$12M Earnings
1.2% ROA
For illustrative purposes only
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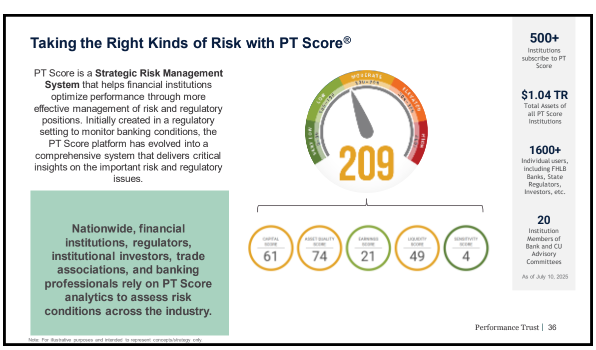
Taking the Right Kinds of Risk with PT Score®
PT Score is a Strategic Risk Management System that helps financial institutions optimize performance through more effective management of risk and regulatory positions. Initially created in a regulatory setting to monitor banking conditions, the PT Score platform has evolved into a comprehensive system that delivers critical insights on the important risk and regulatory issues.
Nationwide, financial institutions, regulators, institutional investors, trade associations, and banking professionals rely on PT Score analytics to assess risk conditions across the industry.
209
61
74
21
49
4
500+
Institutions subscribe to PT Score
$1.04 TR
Total Assets of all PT Score Institutions
1600+
Individual users, including FHLB Banks, State Regulators, Investors, etc.
20
Institution Members of Bank and CU Advisory Committees
As of July 10, 2025
Note: For illustrative purposes and intended to represent concepts/strategy only.
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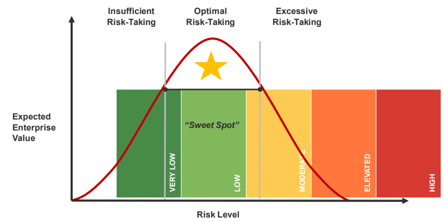
## Taking the Right Kinds of Risk with PT Score®

**COSO Model**




Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO)

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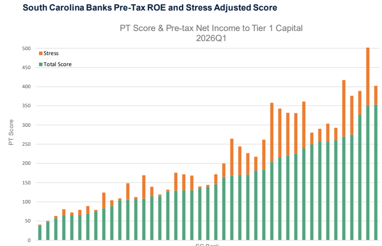
## Capital & Strategy

**South Carolina Banks Pre-Tax ROE and Stress Adjusted Score**




Source: PT Score® For illustrative purposes only

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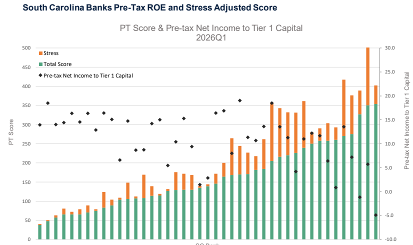
## Capital & Strategy

**South Carolina Banks Pre-Tax ROE and Stress Adjusted Score**




Source: PT Score® For illustrative purposes only

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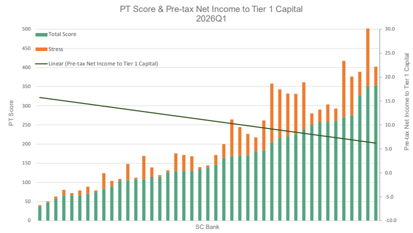
## Capital & Strategy

**South Carolina Banks Pre-Tax ROE and Stress Adjusted Score**




Source: PT Score® For illustrative purposes only

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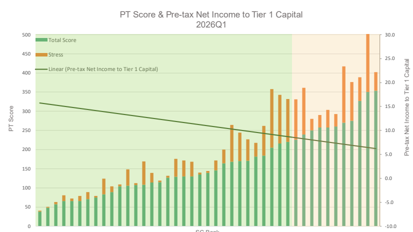
## Capital & Strategy

**South Carolina Banks Pre-Tax ROE and Stress Adjusted Score**




Source: PT Score® For illustrative purposes only

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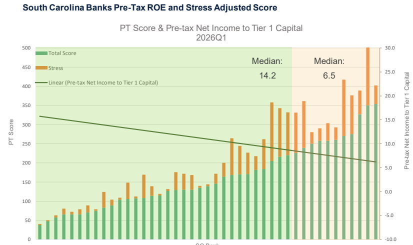
## Capital & Strategy

**South Carolina Banks Pre-Tax ROE and Stress Adjusted Score**




Source: PT Score® For illustrative purposes only

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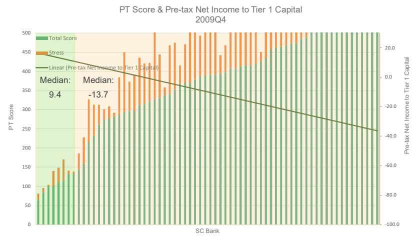
## Capital & Strategy

**South Carolina Banks Pre-Tax ROE and Stress Adjusted Score**




Source: PT Score® For illustrative purposes only

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## Key Takeaways

- CBLR not for everyone, need to analyze carefully
- Understanding stressed capital is the key to optimal capital allocations
- Knowing and evaluating structural risk unlocks opportunity and helps support regulatory good standing

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