

OFFICE OF THRIFT SUPERVISION

Approval of Application for Permission to Organize a Federal Savings Bank

Order No.: 2005-50

Date: November 28, 2005

OTS No. 18007

The Savannah Bancorp, Inc., Savannah, Georgia (Applicant) has applied for approval of the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1464(e) and 12 C.F.R. § 552.2-1, for permission to organize Harbourside Community Bank, Hilton Head Island, South Carolina (Savings Bank) (Application).

OTS has considered the Application under the standards set forth in 12 U.S.C. § 1464(e) and 12 C.F.R. §§ 543.3 and 552.2-1. OTS also has considered the Application under the Community Reinvestment Act (CRA), 12 U.S.C. §§ 2901 *et seq.*, and the OTS regulations thereunder, 12 C.F.R. Part 563e. In addition, OTS has considered the submissions made by the Applicant and Savings Bank, and the results of examinations conducted by other banking agencies.

In the proposed transaction, the Applicant will form the Savings Bank as a wholly owned subsidiary. The Applicant will capitalize the Savings Bank with approximately \$10.0 million in return for the stock of the Savings Bank. The Applicant received approval from the Federal Deposit Insurance Corporation for insurance of the Savings Bank's deposits under the Savings Association Insurance Fund on October 7, 2005.

OTS may grant a federal savings association charter only: (1) to persons of good character and responsibility; (2) if, in OTS' judgment, a necessity exists for such association in the community to be served; (3) if there is a reasonable probability for the association's usefulness and success; and (4) if the association can be established without undue injury to properly conducted existing local thrift and home financing institutions. In addition, OTS must consider whether the association will promote credit for housing consistent with the safe and sound operation of a federal savings association. OTS also takes into account an applicant's description of how it will meet CRA objectives when considering the application. Furthermore, OTS considers the amount of initial capital and the residence and composition of the savings association's board of directors.

With respect to character and responsibility, the Chairman of the Applicant, the Chief Executive Officer (CEO) of the Applicant, and the President of the Applicant, will all become directors of the Savings Bank, as will the current President of the Applicant's loan production office, who will also become the CEO of the Savings Bank. The Application indicates that the remaining five members of the Savings Bank's proposed board of directors possess sufficient experience in the operations of financial institutions and other business endeavors. In addition, routine background checks were made, and disclosed no material adverse information. In sum, a review of the relevant information warrants a conclusion that the character and responsibility of the organizers of the Savings Bank are consistent with approval of the Application.

With respect to the necessity for the Savings Bank, the Savings Bank will engage in deposit and lending activities. The Savings Bank will focus its deposit business in Hilton Head and Bluffton, in Beaufort County, South Carolina, and its lending activities in the greater Beaufort County area. The population of Beaufort County increased 100 percent between 1990 and 2004, and is expected to increase by an additional 10 percent by 2010. Insured deposits in Bluffton and Hilton Head Island increased from \$1.329 billion to \$1.904 billion between June 2000 and June 2005. Insured deposits in all of Beaufort County increased from \$1.832 billion in June 2000 to \$2.783 billion in June 2005. Thus, we conclude that there is a necessity in the community for the Savings Bank.

With respect to undue injury to local thrift and home financing institutions, while the Savings Bank may take some business from existing institutions, there are 18 other financial institutions with offices on Hilton Head Island. Moreover, the Savings Bank proposes to have deposits of only \$132.2 million in its third year of operations, which will amount to only 4.75 percent of the June 30, 2005 deposits in Beaufort County. In addition, no one opposed the Application in response to the public notice. Therefore, we conclude that the Savings Bank will not cause undue injury to local thrift and home financing institutions in the geographic area where its customers will be located.

With respect to the probability of the Savings Bank's usefulness and success, the Savings Bank will be well capitalized. The Savings Bank's business plan projects that it will remain well capitalized throughout the three-year duration of the plan and will operate profitably in its first year of operations. The Savings Bank will have relatively low overhead, and will not be making a significant expenditure on real property. The Savings Bank's directors and management are experienced bankers and business owners with strong ties to the local community. In addition, the Savings Bank will be continuing the business of the Applicant currently being successfully conducted in a loan production office. Conditions five, six, seven and nine, below, are intended to ensure that the Savings Bank maintains safe and sound operations by requiring compliance with the business plan submitted with the Application and by ensuring changes in management are appropriate. Also, because the Savings Bank will be a subsidiary of a holding company that has several other operating subsidiaries and because the Savings Bank will share several officers and directors with and do business with the Applicant and/or the

Applicant's subsidiaries, OTS is imposing condition number eight below, to ensure that the Savings Bank will be operated properly and by qualified personnel. We conclude that there is a reasonable probability of the Savings Bank's usefulness and success, provided that the Savings Bank (and the Applicant, to the extent applicable) complies with the conditions set forth below.

With respect to promotion of credit for housing consistent with the safe and sound operation of a federal savings association, the Savings Bank will extend credit for housing within its market area. The loan production office whose business will be transferred to the Savings Bank will continue operations. In addition, the Savings Bank is projected to meet its Qualified Thrift Lender requirements. As discussed above, the Savings Bank's management is competent and should be able to conduct lending appropriately. Accordingly, we conclude that this approval criterion has been satisfied.

With respect to the CRA and OTS' CRA regulations, OTS received no public comments objecting to the Application. The Savings Bank's CRA assessment area will be Beaufort County, South Carolina, which is consistent with OTS' CRA regulations. There are low- and moderate-income individuals spread throughout the area. We find that the Savings Bank has satisfactorily demonstrated how it will meet its CRA objectives.

The Savings Bank intends to adopt a charter and bylaws that are consistent with OTS regulations. The Savings Bank's initial capitalization will exceed the minimum regulatory requirement. In addition, because the Savings Bank's board of directors will be made up of persons with varied backgrounds, a majority of its members live and/or work in South Carolina, and the Applicant has substantial independent economic substance, we conclude that the proposed composition of the Savings Bank's board of directors complies with 12 C.F.R. § 543.3(d).

Based on the foregoing analysis, OTS concludes that the Application meets the applicable approval criteria, and is hereby approved, provided that the following conditions are complied with in a manner satisfactory to the Southeast Regional Director, or his designee (Regional Director):

1. The Savings Bank and the Applicant must receive all required regulatory approvals and submit copies of all such approvals to the Regional Director prior to consummation of the proposed transaction;
2. The proposed transaction must be consummated within 120 calendar days from the date of this Order;
3. On the business day prior to the consummation of the proposed transaction, the chief financial officers of the Applicant and the Savings Bank must certify in writing to the Regional Director that no material adverse changes have occurred with respect to the financial condition or operation of the Applicant and the Savings Bank as disclosed

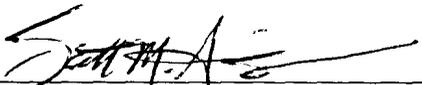
in the Application. If additional information having a material adverse bearing on any feature of the Application is brought to the attention of the Applicant, the Savings Bank or OTS since the date of the financial statements submitted with the Application, the transaction must not be consummated unless the information is presented to the Regional Director, and the Regional Director provides written non-objection to consummation of the transaction;

4. The Applicant and the Savings Bank must advise the Regional Director in writing within 5 calendar days after the effective date of the proposed transaction: (a) of the effective date of the transaction; (b) that the transaction was consummated in accordance with all applicable laws and regulations, the Application, and this Order;
5. The Savings Bank must submit independent audit reports to the Regional Director for its first three years of operations. These reports must be in compliance with the audit rules set forth at 12 C.F.R. § 562.4;
6. The Savings Bank must operate within the parameters of its three-year business plan. The Savings Bank must submit any proposed major deviations or material changes from the plan (including those initiated by the Applicant) for the prior, written non-objection of the Regional Director. The request for change must be submitted no later than 60 calendar days prior to the desired implementation date with a copy sent to the FDIC Regional Office;
7. For three years following commencement of operations, the Savings Bank must submit to the Regional Director within 45 calendar days after the end of each calendar quarter, a business plan variance report detailing the Savings Bank's compliance with the business plan and an explanation of any deviations;
8. At least 40 percent of the Savings Bank's board of directors must be individuals who are not officers or employees of the Applicant or its affiliates and who have not otherwise been determined by the Regional Director to lack sufficient independence; and at least one member of the Savings Bank's board of directors must be an individual who is not an officer, director or employee of the Applicant or its affiliates and who is not an officer or employee of the Savings Bank, and has not otherwise been determined by the Regional Director to lack sufficient independence. At least 50 percent of any audit committee established by the Savings Bank must be directors who are not officers or employees of the Savings Bank, the Applicant or its affiliates and have not otherwise been determined by the Regional Director to lack sufficient independence; and
9. For three years following the date of consummation, the Savings Bank must receive the prior written non-objection of the Regional Director for any proposed new

directors or senior executive officers or any significant change in responsibilities of any senior executive officer.

Any time period set forth herein may be extended for up to 120 calendar days, for good cause, by the Regional Director.

By order of the Director of the Office of Thrift Supervision, or his designee, effective November 23, 2005.



Scott M. Albinson
Managing Director
Office of Examinations, Supervision
and Consumer Protection
