

NRIM-Northrim BanCorp, Inc.

Organic Growth Moderates given Contraction in AK Economy; Credit, Capital & Profitability Remain Healthy

- **Maintain “Market Perform” rating; Trim 2017 EPS due to lower NIM outlook**
- **Contraction in Alaska market expected to temper organic growth**
- **Capital, Credit & Profitability remain healthy**

We are maintaining our “Market Perform” rating and Price Target at \$28 which reflects ~12.5x our 2017 EPS plus excess capital, ~110% of one year forward Tangible Book Value or a ~3% Core Deposit Premium. Following a review of the quarter, we are increasing our core 2016 EPS to \$2.35 from \$2.30 primarily to reflect the 3Q16 beat. We are lowering our 2017 EPS to \$2.00 from \$2.15 due primarily to a lower NIM outlook partially offset by lower tax rate and credit costs.

We continue to project positive EPS and TBV growth in the coming quarters; however, we see few catalysts for the shares to significantly outperform the Bank sector indices in the near term given continued uncertainty on energy prices and its impact on the local economy. This supports our Market Perform rating. That said, we expect the valuation gap with peer to narrow over time as uncertainty dissipates and NRIM continues to demonstrate solid performance. Our EPS forecast corresponds to an ROAA of ~1% in 2016 and 0.95% in 2017.

Looking forward, we continue to be cautious on loan growth given the persistence of low oil prices which has created some uncertainty in the Alaska economy and lead to job cuts and reduced spending by large oil companies. According to the Alaska Department of Labor the average employment in the state has decreased 0.2% in the first 9 months of 2016; however, the estimated employment over the last year is down a greater 1% or 3,400 jobs. Loan balances have increased ~2% YTD though are expected to moderate some in 4Q16 due to projected C&D payoffs of ~\$10-15 Mil. Our outlook for 2017 is little changed and continues to call for growth in the 2-3% range as activity remains slow.

Please see important disclosures regarding FIG Partners’ equity rating system, distribution of ratings, and other report disclosures on the last page of this report.

NRIM: \$24.80

“Market-Perform” // Price Target: \$28.00

Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	\$170.7
Avg. Volume	10,709
Annual Dividend	\$0.78
Dividend Yield	3.15%
Tangible Book/Share	\$24.55
Price/Tangible Book	101%
Price/2016 EPS	10.5x
Price/2017 EPS	12.4x
Total Assets (\$M)	\$1,540
TCE/TA	11.12%
ROAA (2014)	1.01%
ROAE (2014)	8.31%

EPS Estimates

	2014	2015	2016	2017
Q1	\$0.45	\$0.50	\$0.49	-
Q2	\$0.58	\$0.69	\$0.66	-
Q3	\$0.52	\$0.77	\$0.67	-
Q4	\$0.57	\$0.58	\$0.54	-
FY	\$2.12	\$2.54	\$2.35	\$2.00

Industry Type	Bank
Headquarters	Anchorage, AK
Offices	14
Date Established	2002
CEO	Joseph M. Beedle
CFO	Latosha M. Frye

*EPS Estimates Are Core

Source (all data): FIG Partners Research, SNL Financial LC



We are lowering our NIM forecast given our outlook for a continued negative mix shift in earning assets as loan growth remains challenged leading to increased levels of lower yielding Investment securities. Absent an increase in rates, NIM is expected to drop to ~4.05% by late 2017 from 4.17% today. An increase in rates or steepening of the yield curve would have positive implications on NIM while a flattening would have a negative impact. Our reduced NIM outlook coupled with a modest loan growth forecast results in slight decline in Net Interest Income in 2017.

There is little change to our fee income and expense forecast. Our outlook breaks out the performance of the community bank from the mortgage unit. For the community bank, we expect modest growth in both fees (3-4%) and expenses (2%). Management remains focused on expense disciplines given the revenue environment though continues to make investments in the bank which leads to a slight upward bias in operating expenses. We are projecting community bank fee income of \$13.8 and \$14.3 Mil., respectively, in 2016 and 2017 with operating expenses of \$48.4 and 49.4 Mil. over the same period. 4Q16 fees and expenses are forecast to be \$3.4 and \$12 Mil., respectively.

With regard to the mortgage unit, NRIM announced an accounting change in 3Q16 pertaining to how it handles “earn out expense” owed to the sellers, which resulted in a one-time non-cash charge of \$2.6 Mil. Importantly, this change in accounting method does not change the cash paid to employees at the mortgage unit rather just the way it is accounted for in the financial statements. Looking forward, our outlook for mortgage calls for gain on sale revenues of ~\$29 Mil. and ~\$25 Mil. in 2016 and 2017, respectively, with expenses of \$27.2 Mil. and \$20.6 Mil. Inclusive of spread income from loans held for sale, mortgage EPS are projected to approximate \$0.45 (ex one time accounting charges) and \$0.43, respectively, in 2016 and 2017.

On the credit front, there were no surprises in 3Q16 as a small uptick in NPAs was driven by credits that were classified last quarter. We continue to believe the impact from lower oil prices will likely play out over the next several years rather than the next couple of quarters given the larger size projects undertaken in Alaska and the major oil companies long term commitment to the area. At 3Q16 NRIM had \$52 Mil. (5.2% loans) of direct exposure to the oil and gas industry; \$4.2 Mil. of which was downgraded to substandard last quarter; with another \$44 Mil. of unfunded commitments to companies with direct exposure none of which are Classified. Looking forward, direct energy related exposure is expected to moderate as activity slows. Our forecast calls for ~20-25 bps in NCOs in 2017. Our Pre-Tax, Pre-Provision earnings forecast over the next 12 months is sufficient to absorb over a 45% loss rate on the company’s direct energy exposure, which we believe is unlikely.



NRIM (Anchorage, AK--\$172 Mil. Mkt. Cap, \$1.5 Bil. Assets, \$25.06, 3.2% Yld)

	2Q-2016	Δ	3Q-2016
EPS	\$0.63	-	\$0.44
Operating/Core EPS*	\$0.63	-	\$0.67
FIG Estimate		-	\$0.63
Street Estimate	-	-	\$0.63
Net Interest Income	14.1	1.0%	14.2
Loan Loss Provision	0.20	226.0%	0.65
Core Non-Interest Income (ex. sec.)	11.9	0.7%	11.9
Core Non-Interest Expense	18.9	(1.4%)	18.6
Net Charge-Offs	-0.002	22,000.0%	-0.442
NCOs % of Avg Loans (bps)	0	(18)bps	-18
NCOs % of Provision (bps)	-1	(67)bps	-68
Tangible Book Per Share	\$23.30	5.6%	\$24.61
Net Interest Margin	4.27%	(10)bps	4.17%
Gross Loans (\$Mil.)	967.0	3.1%	997.1
TCE Ratio (TCE/TA)	10.72%	40bps	11.12%
NPAs to Loans/REO	2.57%	29bps	2.86%

*Core EPS exclude various one-time items including gains on sale of securities.
Source: FIG Partners Research, Company Disclosure

Linked Quarter Trends

Operating EPS of \$0.67 were 4 cent better than expected as lower expenses and higher fee income more than offset lower net interest income and higher provisioning.

The Community Bank segment contributed \$0.52 to core 3Q16 EPS with the mortgage unit accounting for the remaining \$0.15. This compares to \$0.42 & \$0.16, respectively in 2Q16.

Profitability remained healthy with 3Q16 core ROAA & ROTCE of 1.25% and 11.2%, respectively.

Loans increased 12% annualized though YTD growth is ~3% as demand has slowed moderately with the Alaska Economy.

NIM contracted 10 bps LQ to 4.17% due primarily to a drop in loan yields.

Improved performance at the community bank segment was driven by lower expenses and slightly higher fee income.

Mortgage income (ex one time earn out expense) declined modestly due to slightly lower revenues and higher expenses.

Credit quality deteriorated modestly due to an uptick in TDRs.

TCE increased 40 bps to 11.1% while TBV jumped 5.6% due to decline in goodwill stemming from the accounting adjustment.

Background and Risks

NRIM, a one-bank holding company and the parent of Anchorage, Alaska-based Northrim Bank, operates with \$1.5 Billion in Assets and 14 branches. Founded in 1990 after a period of dramatic consolidation in the Alaska banking industry, NRIM has grown into the second largest bank based in Alaska, accessible to nearly 90% of the state's population.

We see primary risks to include: (1) Slow or negative deposit growth and lack of increase in core deposit base; (2) Mergers and/or acquisitions which are not integrated properly such that key personnel are not retained and earnings are not expanded from the original base; (3) Adverse earnings impact from poor credit quality; (4) Recent trends have been excellent but may change.



FIG Research Rating: "Market Perform"			
Price Target: \$28.00			
Implied Gain/Loss versus Current Price: 12.9%			
2017 EPS	\$2.00	12.4x	\$24.70
Cash Dividends	\$0.82	1.0x	\$0.82
Excess TCE	2.47	1.0x	\$2.47
			\$28.00
Tang. Book 09/17	\$25.97	1.08x	\$28.00

Source: FIG Partners Research & Forward Estimates

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NRIM Quarterly EPS Comparison

EPS Segment Breakdown	1Q15			2Q15			3Q15			4Q15			2015Y		
	Core Bank	Mortgage Operation	Aggregate Earnings	Core Bank	Mortgage Operation	Aggregate Earnings	Core Bank	Mortgage Operation	Aggregate Earnings	Core Bank	Mortgage Operation	Aggregate Earnings	Core Bank	Mortgage Operation	Aggregate Earnings
Net Interest Income	13,516	116	13,632	13,984	211	14,195	14,425	257	14,682	14,008	392	14,400	55,933	976	56,909
Loan Loss Provision	326	0	326	376	0	376	676	0	676	376	0	376	1,754	0	1,754
Fee Income	3,229	7,306	10,535	3,704	7,859	11,563	4,269	8,138	12,407	3,794	6,310	10,104	14,996	29,613	44,609
Earn Out Expense		1,502	1,502	(587)	587	0	(780)	780	0	(1,225)	1,225	0	(2,592)	4,094	1,502
Operating Expense	11,822	5,137	16,959	12,017	5,736	17,753	12,633	5,570	18,203	13,190	5,039	18,229	49,662	21,482	71,144
Pre Tax Income	4,597	783	5,380	5,882	1,747	7,629	6,165	2,045	8,210	5,461	438	5,899	22,105	5,013	27,118
Taxes	1,425	322	1,747	1,986	718	2,704	1,838	840	2,678	1,493	180	1,673	6,742	2,060	8,802
Net Income	3,172	461	3,633	3,896	1,029	4,925	4,327	1,205	5,532	3,968	258	4,226	15,363	2,953	18,316
Noncontrolling Interest	72	0	72	162	0	162	197	0	197	120	0	120	551	0	551
Net Income	3,100	461	3,561	3,734	1,029	4,763	4,130	1,205	5,335	3,848	258	4,106	14,812	2,953	17,765
Shares Outstanding	6.931	6.931	6.931	6.942	6.942	6.965	6.942	6.942	6.942	6.948	6.948	6.948	6.973	6.973	6.973
Earnings Per Share	0.45	0.07	0.51	0.54	0.15	0.68	0.60	0.17	0.77	0.55	0.04	0.59	2.12	0.42	2.55

Source: FIG Partners Research, SNL Financial

EPS Segment Breakdown	1Q16			2Q16			3Q16		
	Core Bank	Mortgage Operation	Aggregate Earnings	Core Bank	Mortgage Operation	Aggregate Earnings	Core Bank	Mortgage Operation	Aggregate Earnings
Net Interest Income	13,933	241	14,174	13,829	250	14,079	13,901	312	14,213
Loan Loss Provision	703	0	703	200	0	200	652	0	652
Fee Income	3,409	5,696	9,105	3,354	8,510	11,864	3,594	8,341	11,935
Earn Out Expense	(130)	130	0	(687)	687	0	(3,250)	3,250	0
Operating Expense	12,436	4,935	17,371	13,191	6,178	19,369	14,899	6,287	21,186
Pre Tax Income	4,333	872	5,205	4,479	1,895	6,374	5,194	(884)	4,310
Taxes	1,341	358	1,699	1,091	777	1,868	1,389	(362)	1,027
Net Income	2,992	514	3,506	3,388	1,118	4,506	3,805	(522)	3,283
Noncontrolling Interest	130	0	130	156	0	156	188	0	188
Net Income	2,862	514	3,376	3,232	1,118	4,350	3,617	(522)	3,095
Shares Outstanding	6.965	6.965	6.965	6.973	6.973	6.973	6.973	6.973	6.973
Earnings Per Share	0.41	0.07	0.48	0.47	0.16	0.62	0.52	-0.07	0.44

Community Bank Unit contributed \$0.52 to 3Q16 EPS while Mortgage Operation added -\$0.07 (or \$0.15 ex one-time accounting charge). This compares to \$0.47 and \$0.16, respectively last quarter.

Our 2016 & 2017 forecast calls for the mortgage unit to contribute ~\$5.4 and \$5.1 Mil., respectively of Pre Tax Earnings which pencils to ~\$0.46 and \$0.43 per share.

NRIM Snapshot							% Change	
	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	Y/Y	LQ
Earnings Per Share (EPS)	\$0.69	\$0.77	\$0.59	\$0.48	\$0.63	\$0.44	-42.4%	-28.8%
Tangible Book Value	\$21.47	\$22.09	\$22.31	\$22.78	\$23.30	\$24.61	11.4%	5.6%
Shares Outstanding EOP	6.85	6.86	6.88	6.88	6.88	6.88	0.3%	0.1%
Net Interest Income	\$14.20	\$14.68	\$14.40	\$14.17	\$14.08	\$14.21	-3.2%	1.0%
Loan Loss Provision	\$0.38	\$0.68	\$0.38	\$0.70	\$0.20	\$0.65	-3.6%	226.0%
Total Fee Income	\$11.56	\$12.41	\$10.10	\$9.11	\$11.86	\$11.94	-3.8%	0.6%
Gain/Loss on Securities	\$0.02	\$0.00	\$0.14	(\$0.02)	\$0.01	\$0.00	-100.0%	-100.0%
Non-Interest Expense	\$17.75	\$18.20	\$18.23	\$17.37	\$19.37	\$21.19	16.4%	9.4%
Pre-Tax Income	\$7.63	\$8.21	\$5.90	\$5.21	\$6.37	\$4.31	-47.5%	-32.4%
Taxes	\$2.69	\$2.68	\$1.67	\$1.70	\$1.87	\$1.03	-61.7%	-45.0%
Tax Rate	35%	33%	28%	33%	29%	24%	-26.9%	-18.7%
Net Income	\$4.94	\$5.53	\$4.23	\$3.51	\$4.51	\$3.28	-40.7%	-27.1%
Total Core Revenue	\$25.74	\$27.09	\$24.37	\$23.30	\$25.93	\$26.15	-3.5%	0.8%
Total Core Fee Income	\$11.55	\$12.40	\$9.97	\$9.13	\$11.85	\$11.94	-3.8%	0.7%
Core Expenses	\$17.87	\$18.05	\$18.37	\$17.40	\$18.88	\$18.62	3.1%	-1.4%
ROAA	1.37%	1.52%	1.09%	0.94%	1.21%	0.86%	-43.4%	-28.9%
ROAE	11.82%	13.14%	9.73%	7.86%	9.70%	7.18%	-45.3%	-26.0%
Net Interest Margin	4.44%	4.38%	4.10%	4.29%	4.27%	4.17%	-4.8%	-2.3%
Core Efficiency Ratio	68.6%	65.9%	74.6%	73.9%	72.1%	70.5%	7.0%	-2.2%
Core Exp. / Avg. Assets	4.95%	4.96%	4.72%	4.67%	5.07%	4.88%	-1.6%	-3.7%
Gross Loans	\$975	\$974	\$981	\$971	\$967	\$997	2.4%	3.1%
Intangibles	\$23.9	\$23.8	\$23.8	\$23.7	\$23.7	\$16.4	-31.3%	-31.0%
Total Deposits	\$1,239	\$1,265	\$1,241	\$1,247	\$1,256	\$1,278	1.1%	1.8%
Total Common Equity	\$171	\$175	\$177	\$180	\$184	\$186	5.9%	1.0%
Avg Assets	\$1,445	\$1,456	\$1,555	\$1,489	\$1,489	\$1,525	4.8%	2.4%
Avg Loans	\$967	\$982	\$980	\$980	\$969	\$979	-0.3%	1.0%
Avg Earning Assets	\$1,302	\$1,347	\$1,411	\$1,348	\$1,345	\$1,375	2.1%	2.3%
Avg Deposits	\$1,193	\$1,195	\$1,291	\$1,237	\$1,235	\$1,264	5.7%	2.3%
Loan / Deposit	78.7%	77.0%	79.0%	77.8%	77.0%	78.0%	1.3%	1.2%
TCE Ratio	9.97%	10.00%	10.40%	10.61%	10.72%	11.12%	11.2%	3.7%
Net Charge-offs	(\$96)	\$247	\$72	\$673	(\$2)	(\$442)	-278.9%	22000.0%
NPL's + 90 Days Past	\$10,776	\$6,938	\$15,490	\$14,890	\$22,455	\$25,821	272.2%	15.0%
OREO	\$2,807	\$3,511	\$3,053	\$2,702	\$2,558	\$2,824	-19.6%	10.4%
Total NPA'S	\$13,583	\$10,449	\$18,543	\$17,545	\$24,966	\$28,645	174.1%	14.7%
NPA / (Loans + OREO)	1.39%	1.07%	1.88%	1.80%	2.57%	2.86%	167.9%	11.3%
NCOs / Avg Loans	-0.04%	0.10%	0.03%	0.27%	0.00%	-0.18%	-279.5%	21780.8%

Source: FIG Partners Research, SNL Financial

Earnings Model

	Annual				2015 Quarterly				2016 Quarterly				2017 Quarterly			
	2014A	2015A	2016E	2017E	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E
<i>Income Data: (\$ in Millions)</i>																
Net Interest Income	\$52.9	\$56.9	\$56.6	\$55.4	\$13.6	\$14.2	\$14.7	\$14.4	\$14.2	\$14.1	\$14.2	\$14.1	\$13.4	\$13.7	\$14.1	\$14.2
Loan Loss Provision	(\$0.6)	\$1.8	\$1.9	\$2.5	\$0.3	\$0.4	\$0.7	\$0.4	\$0.7	\$0.2	\$0.7	\$0.4	\$0.4	\$0.7	\$0.7	\$0.7
Non-Interest Income	\$16.0	\$44.3	\$42.9	\$38.9	\$10.4	\$11.5	\$12.4	\$10.0	\$9.1	\$11.9	\$11.9	\$9.9	\$8.3	\$10.7	\$10.9	\$9.1
Gain/Loss on Loan Sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Gain/Loss on Securities	\$0.5	\$0.3	(\$0.0)	\$0.0	\$0.1	\$0.0	\$0.0	\$0.1	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
One-Time Items	\$2.9	\$0.0	(\$3.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.4)	(\$2.6)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$48.1	\$72.6	\$73.1	\$71.5	\$18.5	\$17.8	\$18.2	\$18.2	\$17.4	\$19.0	\$18.6	\$18.2	\$17.2	\$18.3	\$18.3	\$17.6
Pre-Tax Income	\$24.7	\$27.1	\$21.4	\$20.3	\$5.4	\$7.6	\$8.2	\$5.9	\$5.2	\$6.4	\$4.3	\$5.6	\$4.0	\$5.4	\$5.9	\$4.9
Taxes	\$6.8	\$8.8	\$6.2	\$5.9	\$1.7	\$2.7	\$2.7	\$1.7	\$1.7	\$1.9	\$1.0	\$1.6	\$1.2	\$1.6	\$1.7	\$1.4
Extraordinary Items	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	\$17.9	\$18.3	\$15.2	\$14.4	\$3.6	\$4.9	\$5.5	\$4.2	\$3.5	\$4.5	\$3.3	\$3.9	\$2.8	\$3.9	\$4.2	\$3.5
Noncontrolling segment income	\$0.5	\$0.6	\$0.7	\$0.5	\$0.1	\$0.2	\$0.2	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2	\$0.1	\$0.1	\$0.1	\$0.1
Net Income Avail. To Common	\$17.41	\$17.8	\$14.6	\$13.9	\$3.6	\$4.8	\$5.3	\$4.1	\$3.4	\$4.4	\$3.1	\$3.8	\$2.7	\$3.7	\$4.1	\$3.4
Avg. Shares O/S	6.9	6.9	7.0	7.0	\$6.9	\$6.9	\$6.9	\$6.9	\$7.0	\$7.0	\$7.0	7.0	7.0	7.0	7.0	7.0
Earnings Per Share (EPS)	\$2.54	\$2.56	\$2.09	\$2.00	\$0.52	\$0.69	\$0.77	\$0.59	\$0.48	\$0.63	\$0.44	\$0.54	\$0.39	\$0.54	\$0.59	\$0.48
<i>Per Share Data:</i>																
Reported Book Value	\$23.99	\$25.77	\$27.36	\$28.64	\$24.42	\$24.96	\$25.56	\$25.77	\$26.23	\$26.75	\$26.99	\$27.36	\$27.58	\$27.94	\$28.34	\$28.64
Tangible Book Value	\$20.48	\$22.31	\$24.99	\$26.27	\$20.92	\$21.47	\$22.09	\$22.31	\$22.78	\$23.30	\$24.61	\$24.99	\$25.20	\$25.57	\$25.97	\$26.27
Dividends	\$0.70	\$0.74	\$0.78	\$0.82	\$0.18	\$0.18	\$0.19	\$0.19	\$0.19	\$0.19	\$0.20	\$0.20	\$0.20	\$0.20	\$0.21	\$0.21
Pre-Tax, Pre-Provision EPS	\$3.03	\$4.12	\$3.78	\$3.26	\$0.85	\$1.13	\$1.30	\$0.86	\$0.85	\$0.96	\$0.71	\$0.85	\$0.63	\$0.87	\$0.95	\$0.81
CORE GAAP EPS	\$2.22	\$2.54	\$2.35	\$2.00	\$0.50	\$0.69	\$0.77	\$0.58	\$0.49	\$0.66	\$0.67	\$0.54	\$0.39	\$0.54	\$0.59	\$0.48
<i>KEY Ratios:</i>																
Net Interest Margin	4.42%	4.33%	4.22%	4.08%	4.39%	4.44%	4.38%	4.10%	4.29%	4.27%	4.17%	4.13%	4.11%	4.08%	4.05%	4.05%
Return on Avg Assets	1.34%	1.25%	1.01%	0.93%	1.02%	1.37%	1.52%	1.09%	0.94%	1.21%	0.86%	1.02%	0.75%	1.00%	1.08%	0.88%
Return on Avg Equity	11.49%	10.84%	8.31%	7.49%	8.71%	11.82%	13.14%	9.73%	7.86%	9.70%	7.18%	8.44%	6.03%	8.08%	8.70%	7.15%
Return on Tang. Common Eq.	12.53%	11.70%	8.53%	7.75%	10.06%	13.12%	14.21%	10.77%	8.68%	10.91%	7.36%	8.80%	6.33%	8.54%	9.19%	7.53%
Pre-Tax Pre-Provision ROA	1.55%	1.94%	1.74%	1.46%	1.65%	2.18%	2.48%	1.54%	1.59%	1.80%	1.29%	1.53%	1.16%	1.58%	1.69%	1.42%
Efficiency Ratio	69.45%	71.50%	73.39%	75.72%	75.97%	68.15%	66.47%	74.08%	73.75%	72.63%	70.40%	74.68%	78.71%	74.33%	72.71%	74.98%
Overhead Ratio	3.60%	4.94%	4.83%	4.60%	5.17%	4.91%	5.00%	4.69%	4.67%	5.11%	4.87%	4.70%	4.52%	4.76%	4.69%	4.44%
TCE/TA	9.85%	10.40%	11.17%	11.37%	10.07%	9.97%	10.00%	10.40%	10.61%	10.72%	11.12%	11.17%	11.24%	11.29%	11.35%	11.37%
<i>Period-End Balances: (\$ in Millions)</i>																
Earning Assets	\$1,292	\$1,353	\$1,373	\$1,409	\$1,296	\$1,338	\$1,380	\$1,353	\$1,364	\$1,366	\$1,385	\$1,373	\$1,354	\$1,368	\$1,388	\$1,409
Total Assets	\$1,449	\$1,499	\$1,556	\$1,607	\$1,448	\$1,500	\$1,539	\$1,499	\$1,500	\$1,518	\$1,540	\$1,556	\$1,559	\$1,575	\$1,591	\$1,607
Gross Loans HFI	\$925	\$981	\$985	\$1,014	\$961	\$975	\$974	\$981	\$971	\$967	\$997	\$985	\$975	\$985	\$999	\$1,014
Total Deposits	\$1,180	\$1,241	\$1,278	\$1,304	\$1,191	\$1,239	\$1,265	\$1,241	\$1,247	\$1,256	\$1,278	\$1,278	\$1,278	\$1,291	\$1,304	\$1,304
Intangibles	\$24	\$24	\$16	\$16	\$24	\$24	\$24	\$24	\$24	\$24	\$16	\$16	\$16	\$16	\$16	\$16
Total Common Equity	\$164	\$177	\$188	\$197	\$167	\$171	\$175	\$177	\$180	\$184	\$186	\$188	\$190	\$192	\$195	\$197



FIG Partners LLC Distribution of Ratings

	Buy / Outperform	Hold / Market- Perform	Sell / Underperform
% Rated	36.8%	62.4%	0.8%
IB Client % in Category	32.6%	14.1%	0.0%

Equity Rating System as of July 1, 2003

- Buy/Outperform “O”** FIG expects that total return of the subject stock will outperform the industry benchmark (BIX) over the next 12 months
- Hold/Market-Perform “M-P”** FIG expects that total return of the subject stock will perform inline with the industry benchmark (BIX) over the next 12 months
- Sell/Underperform “U”** FIG expects that total return of the subject stock will under perform the industry benchmark (BIX) over the next 12 months

For purposes of FINRA rule 2711, outperform is classified as a buy, market perform is a hold and underperform is a sell. The industry benchmark that we use is the S&P Bank Index referred to as the BIX.



Additional Risks to Our Earnings Model Assumptions & Ratings:

Unexpected and/or rapid changes in interest rates may have significant negative impact on the company’s balance sheet. Likewise, persistently low interest rates, and/or a flat yield curve may add downward pressure to revenues and the absolute level of NIM-Net Interest Margin.

Declines in asset quality beyond our estimates due to an economic slowdown in the company’s operating footprint may require increased expenses for loan losses which could decrease profitability. Further, this may cause an increase in Net Charge-offs, Nonperforming loans, and Classified Assets.

New rules set forth by regulatory agencies could reduce future profitability by eliminating certain revenue items, adding additional expenses, or requiring this institution to hold more capital. A similar effect is possible if new legislation (local, state, or federal) is passed.

Any regulatory action or litigation against the company could impact future earnings and also affect the public market perception towards this stock.



Compliance

- The research analyst currently holds shares in the subject company.
- At the prior month end, neither FIG Partners LLC nor any of its partners or officers owned more than 1% of the outstanding equity securities of the subject company.
- There are no material conflicts of interest of the analyst or FIG Partners LLC at the time of this report.
- FIG has not been a manager or co-manager of a public offering of any securities of the recommended issuer within the last 12 months.
- FIG has not received investment banking compensation from the subject company in the last 12 months.
- FIG intends to seek investment banking compensation from the subject in the next three months.
- The subject company is a client of FIG.
- Neither the analyst nor anyone at FIG serves as an officer, director, or advisory board member of the subject company.
- FIG will usually make a market in the subject security and was making a market in this security at the time of this report's publication.
- All analysts are compensated based on a number of factors including the overall profits of FIG Partners LLC which includes investment banking revenues, but no analyst receives any compensation which is based on a specific investment banking service or transaction.
- To determine price target, our analysts utilize a variety of valuation techniques including but not limited to: peer analysis, absolute P/E, relative P/E, projected P/E, absolute P/B, relative P/B, projected P/B, deposit premium, and a discounted cash flow model.
- This research report reflects the analyst's actual opinion.
- No research analyst is subject to the supervision or control of any employee of the member's investment banking department.
- No employee of the investment banking department has reviewed or approved this report prior to publication
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