

NRIM-Northrim BanCorp, Inc.

Mortgage Shines as Loan Demand Slows: Profitability & Reserves Remain Strong; Trim EPS & Maintain Rating

We are maintaining our “Market Perform” rating and Price Target of \$28 which reflects ~13x our 2017 EPS, 115% of one year forward Tangible Book Value or a 3-4% Core Deposit Premium. Following a review of the quarter, we are trimming our 2016 and 2017 Core EPS to \$2.30 (-\$0.05) and \$2.15 (-\$0.20), respectively. Our EPS reductions stem primary from modest NIM compression and a lower than expected 2Q16 earning asset base and its carry through impact on our model partially offset by a 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. Specifically, our EPS forecast corresponds to an ROAA of 1% or greater in both 2016 and 2017.

Overall, 2Q16 results were generally in-line with strong mortgage revenues and good NIM stability highlighting results. Loan growth slowed in conjunction with the slowing Alaska economy and credit showed some signs of deterioration with NPAs increasing Q/Q including the company’s first downgrades in its energy portfolio in six quarters. Importantly, this increase stemmed from existing problem (classified) credits rather than new inflows.

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 2Q16 NRIM had \$42 Mil. (4% loans) of direct exposure to the oil and gas industry; \$4.2 Mil. of which were downgraded to substandard this quarter; with another \$53 Mil. of unfunded commitments to companies with direct exposure none of which are Classified.** Looking forward,

Please see important disclosures regarding FIG Partners’ equity rating system, distribution of ratings,

NRIM: \$26.69

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

Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	\$183.4
Avg. Volume	22,960
Annual Dividend	\$0.78
Dividend Yield	2.80%
Tangible Book/Share	\$22.78
Price/Tangible Book	122%
Price/2016 EPS	12.9x
Price/2017 EPS	12.1x
Total Assets (\$M)	\$1,518
TCE/TA	10.61%
ROAA (2014)	1.09%
ROAE (2014)	8.88%

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	\$0.63	-
Q4	\$0.57	\$0.58	\$0.53	-
FY	\$2.12	\$2.54	\$2.30	\$2.15

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

*All EPS Estimates Are Core

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



direct energy related exposure is expected to moderate as activity slows. Our forecast calls for ~15 bps in NCOs in 2H16 with a pick-up to 25 bps 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 energy portfolio, which we believe is unlikely.

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 0.1% in the first six months of 2016 as job losses in the oil and gas industry have been offset by gains in other areas. Loan pipelines are healthy entering third quarter with our EPS forecast calling for approximately 2% growth in 2H16 which brings balances back to neutral for the year following the modest YTD decline.

Net Interest Margin moderated slightly in the quarter and a similar trend is expected in the coming quarters given the rate environment and our outlook for loan growth to remain challenged. Specifically, we look for NIM to drop to the 4.20% level by late 2017. Our NIM outlook coupled with tempered growth outlook results in slightly positive growth in Net Interest Income in both 2016 and 2017 (~1% in both years).

With regard to fee income and expenses we have made minor changes to our forecast most of which are related to the mortgage unit. We expect Fee Income for the community banking segment to approximate \$3.6 Mil. per quarter in 2H16 (\$3.4 Mil. run rate 1H16) and \$14.6 Mil. in 2017 which pencils to about 5% YOY growth. Community banking expenses are expected to approximate \$12.5 Mil. per quarter in 2H16 similar to the 1H16 run rate and increase ~2.5% YOY to \$51.3 Mil. for full year 2017.

Our outlook for the mortgage unit calls for gain on sale revenues of \$14 Mil. in 2H16 coupled with expenses of ~\$11.7 Mil. This pencils to full year 2016 revenues and expenses of \$28.2 (~\$29.2 Mil. inclusive of net interest income) and \$23.6 Mil., respectively, or EPS of ~\$0.47. For 2017 we are projecting gain on sale revenues to decline ~\$4 Mil. to \$24.3 Mil. with expenses of \$3.3 Mil. resulting in Pre-Tax profits of ~\$4 Mil. or a higher \$5 Mil. inclusive of net interest income which pencils to 2017 EPS of ~\$0.42 per share.



NRIM (Anchorage, AK--\$184 Mil. Mkt. Cap, \$1.5 Bil. Assets, \$26.69, 2.8% Yld)			
	1Q-2016	Δ	2Q-2016
EPS	\$0.48	-	\$0.63
Operating/Core EPS*	\$0.48	-	\$0.63
FIG Estimate		-	\$0.64
Street Estimate		-	
Net Interest Income	14.2	(0.7%)	14.1
Loan Loss Provision	0.70	(71.6%)	0.20
Core Non-Interest Income (ex. sec.)	9.1	29.8%	11.9
Core Non-Interest Expense	17.4	10.6%	19.2
Net Charge-Offs	0.7	(99.7%)	0.0
NCOs % of Avg Loans (bps)	27	(1)bps	26
NCOs % of Provision (bps)	96	(95)bps	1
Tangible Book Per Share	\$22.78	2.3%	\$23.30
Net Interest Margin	4.29%	(2)bps	4.27%
Gross Loans (\$Mil.)	970.5	(0.4%)	967.0
TCE Ratio (TCE/TA)	10.60%	12bps	10.72%
NPAs to Loans/REO	1.80%	77bps	2.57%

*Core EPS exclude various one-time items including gains on sale of securities.

Source: FIG Partners Research, Company Disclosure

Linked Quarter Trends

The Community Bank segment contributed \$0.47 to 1Q16 EPS with the mortgage unit accounting for the remaining \$0.16. This compares to \$0.41 & \$0.07, respectively in 1Q16.

Profitability remained healthy with 2Q16 ROAA & ROTCE of 1.17% and 9.4%, respectively.

Loan demand has slowed moderately as the Alaska Economy has slowed. NIM contracted 2 bps LQ to 4.27.

Lower credit costs and tax rate drove improved earnings at core bank unit as revenues were down and expenses up.

Mortgage income more than doubled Q/Q to \$1.1 Mil. or \$0.16 per share as a 49% jump in mortgage revenue more than offset a 25% increase in expenses

Credit quality deteriorated in the quarter including the downgrade of \$4.2 Mil. in energy related credits.

TCE increased 10 bps to 10.7% which equates to \$25 Mil. over a 9% TCE ratio.

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: "OutPerform"			
Price Target: \$28.00			
Implied Gain/Loss versus Current Price:			4.9%
2017 EPS	\$2.15	12.6x	\$27.18
Cash Dividends	\$0.82	1.0x	\$0.82
			\$28.00
Tang. Book 06/17	\$24.78	1.13x	\$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	6.969	6.969	6.969
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	2.13	0.42	2.55

Source: FIG Partners Research, SNL Financial

EPS Segment Breakdown	1Q16			2Q16		
	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
Loan Loss Provision	703	0	703	200	0	200
Fee Income	3,409	5,696	9,105	3,354	8,510	11,864
Earn Out Expense	(130)	130	0	(687)	687	0
Operating Expense	12,436	4,935	17,371	13,191	6,178	19,369
Pre Tax Income	4,333	872	5,205	4,479	1,895	6,374
Taxes	1,341	358	1,699	1,091	777	1,868
Net Income	2,992	514	3,506	3,388	1,118	4,506
Noncontrolling Interest	130	0	130	156	0	156
Net Income	2,862	514	3,376	3,232	1,118	4,350
Shares Outstanding	6.965	6.965	6.965	6.969	6.969	6.969
Earnings Per Share	0.41	0.07	0.48	0.47	0.16	0.63

Core Bank Unit contributed \$0.47 to 2Q16 EPS while Mortgage Operation added \$0.16. This compares to \$0.41 and \$0.07, respectively last quarter.

Our 2016 forecast calls for the mortgage unit to contribute \$5.5 Mil. of Pre Tax Earnings which pencils to ~\$0.47 per share.

NRIM Snapshot					% Change		
	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	Y/Y	LQ
Earnings Per Share (EPS)	\$0.69	\$0.77	\$0.59	\$0.48	\$0.63	-9.7%	29.0%
Tangible Book Value	\$21.47	\$22.09	\$22.31	\$22.78	\$23.30	8.5%	2.3%
Shares Outstanding EOP	6.85	6.86	6.88	6.88	6.88	0.3%	0.0%
Net Interest Income	\$14.20	\$14.68	\$14.40	\$14.17	\$14.08	-0.8%	-0.7%
Loan Loss Provision	\$0.38	\$0.68	\$0.38	\$0.70	\$0.20	-46.8%	-71.6%
Total Fee Income	\$11.56	\$12.41	\$10.10	\$9.11	\$11.86	2.6%	30.3%
Gain/Loss on Securities	\$0.02	\$0.00	\$0.14	(\$0.02)	\$0.01	-25.0%	-152.2%
Non-Interest Expense	\$17.75	\$18.20	\$18.23	\$17.37	\$19.37	9.1%	11.5%
Pre-Tax Income	\$7.63	\$8.21	\$5.90	\$5.21	\$6.37	-16.5%	22.5%
Taxes	\$2.69	\$2.68	\$1.67	\$1.70	\$1.87	-30.5%	9.9%
Tax Rate	35%	33%	28%	33%	29%	-16.8%	-10.2%
Net Income	\$4.94	\$5.53	\$4.23	\$3.51	\$4.51	-8.8%	28.5%
Total Core Revenue	\$25.74	\$27.09	\$24.37	\$23.30	\$25.93	0.7%	11.3%
Total Core Fee Income	\$11.55	\$12.40	\$9.97	\$9.13	\$11.85	2.6%	29.8%
Core Expenses	\$17.87	\$18.05	\$18.37	\$17.40	\$18.88	5.7%	8.5%
ROAA	1.37%	1.52%	1.09%	0.94%	1.21%	-11.6%	28.5%
ROAE	11.82%	13.14%	9.73%	7.86%	9.70%	-17.9%	23.4%
Net Interest Margin	4.44%	4.38%	4.10%	4.29%	4.27%	-3.8%	-0.5%
Core Efficiency Ratio	68.6%	65.9%	74.6%	73.7%	72.0%	4.9%	-2.3%
Core Exp. / Avg. Assets	4.95%	4.96%	4.72%	4.67%	5.07%	2.5%	8.5%
Gross Loans	\$975	\$974	\$981	\$971	\$967	-0.8%	-0.3%
Intangibles	\$23.9	\$23.8	\$23.8	\$23.7	\$23.7	-0.8%	-0.1%
Total Deposits	\$1,239	\$1,265	\$1,241	\$1,247	\$1,256	1.4%	0.7%
Total Common Equity	\$171	\$175	\$177	\$180	\$184	7.5%	2.0%
Avg Assets	\$1,445	\$1,456	\$1,555	\$1,489	\$1,489	3.1%	0.0%
Avg Loans	\$967	\$982	\$980	\$980	\$969	0.3%	-1.1%
Avg Earning Assets	\$1,302	\$1,347	\$1,411	\$1,348	\$1,345	3.3%	-0.2%
Avg Deposits	\$1,193	\$1,195	\$1,291	\$1,237	\$1,235	3.5%	-0.1%
Loan / Deposit	78.7%	77.0%	79.0%	77.8%	77.0%	-2.1%	-1.0%
TCE Ratio	9.97%	10.00%	10.40%	10.61%	10.72%	7.5%	1.1%
Net Charge-offs	(\$96)	\$247	\$72	\$673	(\$2)	-97.9%	-100.3%
NPLs + 90 Days Past	\$10,776	\$6,938	\$15,490	\$14,890	\$22,455	108.4%	50.8%
OREO	\$2,807	\$3,511	\$3,053	\$2,702	\$2,558	-8.9%	-5.3%
Total NPA'S	\$13,583	\$10,449	\$18,543	\$17,545	\$24,966	83.8%	42.3%
NPA / (Loans + OREO)	1.39%	1.07%	1.88%	1.80%	2.57%	85.3%	42.8%
NCOs / Avg Loans	-0.04%	0.10%	0.03%	0.27%	0.00%	-97.9%	-100.3%

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	3Q16E	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E
Income Data: (\$ in Millions)																
Net Interest Income	\$52.9	\$56.9	\$57.1	\$57.7	\$13.6	\$14.2	\$14.7	\$14.4	\$14.2	\$14.1	\$14.4	\$14.5	\$13.9	\$14.3	\$14.7	\$14.8
Loan Loss Provision	(\$0.6)	\$1.8	\$2.1	\$2.7	\$0.3	\$0.4	\$0.7	\$0.4	\$0.7	\$0.2	\$0.6	\$0.6	\$0.4	\$0.7	\$0.8	\$0.8
Non-Interest Income	\$16.0	\$44.3	\$42.1	\$39.0	\$10.4	\$11.5	\$12.4	\$10.0	\$9.1	\$11.9	\$11.8	\$9.4	\$8.2	\$10.6	\$10.9	\$9.2
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	(\$0.4)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.4)	\$0.0	\$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	\$19.0	\$17.7	\$17.1	\$18.3	\$18.4	\$17.7
Pre-Tax Income	\$24.7	\$27.1	\$23.7	\$22.5	\$5.4	\$7.6	\$8.2	\$5.9	\$5.2	\$6.4	\$6.6	\$5.5	\$4.5	\$6.0	\$6.4	\$5.6
Taxes	\$6.8	\$8.8	\$7.3	\$7.0	\$1.7	\$2.7	\$2.7	\$1.7	\$1.7	\$1.9	\$2.0	\$1.7	\$1.4	\$1.9	\$2.0	\$1.7
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	\$16.4	\$15.5	\$3.6	\$4.9	\$5.5	\$4.2	\$3.5	\$4.5	\$4.6	\$3.8	\$3.1	\$4.1	\$4.4	\$3.9
Noncontrolling segment income	\$0.5	\$0.6	\$0.6	\$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	\$15.8	\$15.0	\$3.6	\$4.8	\$5.3	\$4.1	\$3.4	\$4.4	\$4.4	\$3.7	\$3.0	\$4.0	\$4.3	\$3.7
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	\$2.27	\$2.15	\$0.52	\$0.69	\$0.77	\$0.59	\$0.48	\$0.63	\$0.63	\$0.53	\$0.43	\$0.57	\$0.62	\$0.53
Per Share Data:																
Reported Book Value	\$23.99	\$25.77	\$27.57	\$29.00	\$24.42	\$24.96	\$25.56	\$25.77	\$26.23	\$26.75	\$27.21	\$27.57	\$27.82	\$28.22	\$28.65	\$29.00
Tangible Book Value	\$20.48	\$22.31	\$24.12	\$25.56	\$20.92	\$21.47	\$22.09	\$22.31	\$22.78	\$23.30	\$23.77	\$24.12	\$24.38	\$24.78	\$25.21	\$25.56
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	\$3.76	\$3.61	\$0.85	\$1.13	\$1.30	\$0.86	\$0.85	\$0.96	\$1.03	\$0.88	\$0.70	\$0.95	\$1.04	\$0.92
CORE GAAP EPS	\$2.22	\$2.54	\$2.30	\$2.15	\$0.50	\$0.69	\$0.77	\$0.58	\$0.49	\$0.66	\$0.63	\$0.53	\$0.43	\$0.57	\$0.62	\$0.53
KEY Ratios:																
Net Interest Margin	4.42%	4.33%	4.26%	4.22%	4.39%	4.44%	4.38%	4.10%	4.29%	4.27%	4.25%	4.24%	4.24%	4.23%	4.21%	4.21%
Return on Avg Assets	1.34%	1.25%	1.09%	1.01%	1.02%	1.37%	1.52%	1.09%	0.94%	1.21%	1.21%	1.00%	0.83%	1.08%	1.14%	0.98%
Return on Avg Equity	11.49%	10.84%	8.88%	7.99%	8.71%	11.82%	13.14%	9.73%	7.86%	9.70%	9.81%	8.11%	6.52%	8.57%	9.07%	7.77%
Return on Tang. Common Eq.	12.53%	11.70%	9.57%	8.60%	10.06%	13.12%	14.21%	10.77%	8.68%	10.91%	10.82%	8.90%	7.17%	9.46%	10.00%	8.54%
Pre-Tax Pre-Provision ROA	1.55%	1.94%	1.74%	1.64%	1.65%	2.18%	2.48%	1.54%	1.59%	1.80%	1.91%	1.61%	1.30%	1.74%	1.87%	1.62%
Efficiency Ratio	69.45%	71.50%	73.49%	73.85%	75.97%	68.15%	66.47%	74.08%	73.63%	72.50%	71.74%	73.38%	76.76%	72.57%	71.02%	72.59%
Overhead Ratio	3.60%	4.94%	4.87%	4.65%	5.17%	4.91%	5.00%	4.69%	4.67%	5.11%	5.05%	4.65%	4.56%	4.80%	4.76%	4.49%
TCE/TA	9.85%	10.40%	10.88%	11.15%	10.07%	9.97%	10.00%	10.40%	10.61%	10.72%	10.83%	10.88%	10.96%	11.03%	11.11%	11.15%
TCE/RWA	11.68%	11.91%	12.70%	12.81%	11.39%	11.39%	11.77%	11.91%	12.30%	12.58%	12.64%	12.70%	12.71%	12.73%	12.76%	12.81%
Period-End Balances: (\$ in Millions)																
Earning Assets	\$1,292	\$1,353	\$1,397	\$1,442	\$1,296	\$1,338	\$1,380	\$1,353	\$1,364	\$1,366	\$1,379	\$1,397	\$1,377	\$1,399	\$1,420	\$1,442
Total Assets	\$1,449	\$1,499	\$1,549	\$1,600	\$1,448	\$1,500	\$1,539	\$1,499	\$1,500	\$1,518	\$1,534	\$1,549	\$1,553	\$1,568	\$1,584	\$1,600
Risk-Weighted Assets	\$1,203	\$1,288	\$1,306	\$1,372	\$1,259	\$1,292	\$1,288	\$1,288	\$1,274	\$1,274	\$1,293	\$1,306	\$1,319	\$1,339	\$1,359	\$1,372
Gross Loans HFI	\$925	\$981	\$982	\$1,011	\$961	\$975	\$974	\$981	\$971	\$967	\$982	\$982	\$972	\$982	\$996	\$1,011
Total Deposits	\$1,180	\$1,241	\$1,281	\$1,320	\$1,191	\$1,239	\$1,265	\$1,241	\$1,247	\$1,256	\$1,268	\$1,281	\$1,281	\$1,294	\$1,307	\$1,320
Intangibles	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24
Total Common Equity	\$164	\$177	\$190	\$199	\$167	\$171	\$175	\$177	\$180	\$184	\$187	\$190	\$191	\$194	\$197	\$199



FIG Partners LLC Distribution of Ratings

	Buy / Outperform	Hold / Market- Perform	Sell / Underperform
% Rated	38.4%	61.6%	0.0%
IB Client % in Category	29.2%	16.9%	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
- The report has not been approved by the subject company, but may have been reviewed for factual accuracy except for the research summary, research rating and price target.
- The subject company has not promised directly or indirectly favorable research, a specific rating or a specific price target nor has the subject company been threatened with a change in research as an inducement for business or compensation.
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