

NRIM-Northrim BanCorp, Inc.
Profitability Expected to Remain Healthy Despite Slowing Alaskan Economy

- **Maintain “Market Perform” and 2017/2018 EPS of \$2.00 & \$2.15; Raise Price Target to \$32**
- **Loan growth outlook remains muted given weakness in Alaska economy**
- **Higher rates and possible redemption of TRUPS help support NIM**
- **ROAA expected to approximate 0.95% in 2017; Capital & Reserves remain robust**

We are maintaining our “Market Perform” rating bumping our Price Target to \$32, which reflects ~13x our 2017 plus excess capital, 115% of Tangible Book Value one year out or a 4% Core Deposit Premium. We continue to project solid EPS and profitability in the coming quarters; however, we see few catalysts for the shares to significantly outperform the Bank sector indices in the near term given weakness in the Alaskan economy. This supports our Market Perform rating. Our EPS forecast corresponds to an ROAA of ~0.95% in 2017.

Following a review of the quarter, we have made several changes to our model; however, the net effect was no change to our 2017 and 2018 EPS outlook for \$2.00 and \$2.15, respectively. The slight beat in 1Q17 (\$0.04) along with our outlook for a slightly better NIM are offset by higher expenses and a lower earning asset base. Our forecast includes \$1.7 Mil. in expenses related to the core conversion.

Looking forward, we continue to be cautious on loan growth given weakness in the Alaskan economy. Recent employment reporting data indicates that Alaska is in a moderate recession. According to the Alaska Department of Labor the average employment in the state decreased 2% in 2016 and is projected to decline another 2.3% in 2017 or 7,500 jobs. Loan balances continued to moderate declining \$14 Mil. or 6% LQA reflecting normal first quarter seasonality and the ongoing slowdown in the Alaska economy. Our outlook for 2017 is largely unchanged calling for growth of ~1-2% as activity remains slow.

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NRIM: \$31.50

“Market-Perform” // Price Target: \$32

Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	\$217.7
Avg. Volume	16,548
Annual Dividend	\$0.84
Dividend Yield	2.67%
Tangible Book/Share	\$25.04
Price/Tangible Book	126%
Price/2017 EPS	15.7x
Price/2018 EPS	13.5x
Total Assets (\$M)	\$1,513
TCE/TA	11.56%
ROAA (2017)	0.96%
ROAE (2017)	7.58%

EPS Estimates

	2015	2016	2017	2018
Q1	\$0.50	\$0.49	\$0.48	
Q2	\$0.69	\$0.66	\$0.47	
Q3	\$0.77	\$0.67	\$0.55	
Q4	\$0.58	\$0.51	\$0.51	
FY	\$2.54	\$2.33	\$2.00	\$2.15

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

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



Core NIM (ex 4Q16 interest reversal) expanded 9 bps in 1Q17 benefitting primarily from higher rates. Recall, NRIM is asset sensitive with ~65-70% of its loans variable rate and another \$50 Mil in Securities rate sensitive. Looking forward, we expect NIM to have a downward bias given our outlook that a negative mix shift in earning assets will trump any near term benefit from higher rates. Our forecast for deposit growth to outstrip loan growth in 2017 facilitates this negative mix shift. Notably, NRIM's loan yields are higher than peer while its Securities yields are lower than peer as due to the shorter duration. As a result, mix changes are more pronounced at NRIM than peer. We expect NIM to increase modestly in 2018 as deposit growth more closely matches loan growth and the cumulative effect of rate increases on assets outweighs the rise in the cost of funds and mix change. We also see opportunity for NRIM to help support NIM by redeeming its \$8 Million in Trust Preferred Securities which are costing them about 4% (3 Month LIBOR plus 315 bps). The company currently has ample cash at the Parent to redeem these securities and plenty of excess capital at bank unit to upstream to replenish parent company cash.

Our outlook for fee income and expenses is largely unchanged. We break out the performance of the community bank from the mortgage unit. For the community bank, we look for low to mid-single digit growth in fees in 2017 and ~4.5% growth in expenses impacted by its core system conversion which is slated to occur mid-year and add ~\$1.7 Million in expense over the next two quarters. We are projecting community bank fee income of ~\$14.2 Mil. in 2017 (\$13.8 in 2016) with operating expenses of \$50.8 inclusive of the core conversion. For 2Q17 core community bank fees and expenses are forecast at \$3.6 Mil. and \$12.4, respectively, vs. \$3.4 Mil. and \$11.8 Mil.

Mortgage was slightly better than expected in first quarter largely due to a favorable fair value mark. Our outlook for the remainder of the year is mostly unchanged. We project mortgage revenues of ~\$25 Mil. in 2017 with expenses of ~\$21.5 Mil. Inclusive of spread income from loans held for sale, mortgage EPS are projected to approximate ~\$0.39 in 2017 down from ~\$0.46 in 2016 (ex one-time accounting charge).

On the credit front, we continue to believe the impact from lower oil prices and weakness in the Alaska economy is likely to lead to gradual deterioration in credit quality over the coming quarters. At 1Q17 NRIM had \$56.2 Mil. (6% loans) of direct exposure to the oil and gas industry; \$4.3 Mil. of which are classified as substandard; with another \$57 Mil. of unfunded commitments to companies with direct exposure none of which are Classified. We are projecting NCOs of ~20 bps in 2017 more than double 2016 levels which is consistent with our outlook for some further credit deterioration. Prospectively. Our forecast calls for provisioning to cover losses and growth such as to maintain current reserve coverage at around 2.05-2.10% of loans. Notably, management has taken steps to bolster reserves over the last 12 months with reserves increasing 20 bps over time period. Our Pre-Tax, Pre-Provision earnings forecast over the next 12 months is sufficient to absorb a 40% loss rate on the company's direct energy exposure, which we believe is unlikely.



Raising Price Target to \$32

FIG Research Rating: "Market-Perform"

Price Target: \$32.00

Implied Gain/Loss versus Current Price: 1.6%

2018 Outlook			
2018 EPS	\$2.15	12.4x	\$26.62
Cash Dividends	\$0.84	1.0x	<u>\$0.88</u>
			\$27.50
Tangible Book 12/18	\$22.93	1.20x	\$27.50
Excess TCE	\$4.50	<u>1.0x</u>	<u>\$4.50</u>
		Combined	\$32.00

Source: FIG Partners Research & Forward Estimates

Deposit Premium Analysis

	<u>Current</u>	<u>Dec-17</u>	<u>Dec-18</u>
Market-Cap	217.7	224.2	230.9
TCE in \$\$	173.2	179.8	189.6
Total Deposits	1,247.1	1,272.1	1,304.2
CORE Deposits	1,122.4	1,144.9	1,173.8
Premium - Total	3.6%	3.5%	3.2%
Premium - CORE	4.0%	3.9%	3.5%

We are maintaining our "Market Perform" rating bumping our Price Target to \$32, which reflects ~13x our 2017 plus excess capital, 115% of Tangible Book Value one year out or a 4% Core Deposit Premium.

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.



NRIM Quarterly EPS Comparison

EPS Segment Breakdown	1Q16			2Q16			3Q16			4Q16			2016Y		
	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	13,933	241	14,174	13,829	250	14,079	13,901	312	14,213	13,584	307	13,891	55,247	1,110	56,357
Loan Loss Provision	703	0	703	200	0	200	652	0	652	743	0	743	2,298	0	2,298
Fee Income	3,409	5,696	9,105	3,354	8,510	11,864	3,594	8,341	11,935	3,399	6,960	10,359	13,756	29,507	43,263
Earn Out Expense	(130)	130	0	(687)	687	0	(3,250)	3,250	0	(708)	708	0	(4,775)	4,775	0
Operating Expense	12,436	4,935	17,371	13,191	6,178	19,369	14,899	6,287	21,186	12,859	5,495	18,354	53,385	22,895	76,280
Pre Tax Income	4,333	872	5,205	4,479	1,895	6,374	5,194	(884)	4,310	4,089	1,064	5,153	33,440	16,476	21,042
Taxes	1,341	358	1,699	1,091	777	1,868	1,389	(362)	1,027	1,022	436	1,458	9,989	5,585	15,574
Net Income	2,992	514	3,506	3,388	1,118	4,506	3,805	(522)	3,283	3,067	628	3,695	13,251	1,739	14,990
Noncontrolling Interest	130	0	130	156	0	156	188	0	188	105	0	105	579	0	579
Net Income	2,862	514	3,376	3,232	1,118	4,350	3,617	(522)	3,095	2,962	628	3,590	12,672	1,739	14,411
Shares Outstanding	6.965	6.965	6.965	6.984	6.984	6.984	6.994	6.994	6.994	6.984	6.984	6.984	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	0.42	0.09	0.51	1.82	0.25	2.07

EPS Segment Breakdown	1Q17		
	Core Bank	Mortgage Operation	Aggregate Earnings
Net Interest Income	13,549	284	13,833
Loan Loss Provision	400	0	400
Fee Income	3,446	5,450	8,896
Earn Out Expense	(174)	174	0
Operating Expense	11,787	4,819	16,606
Pre Tax Income	4,982	741	5,723
Taxes	1,497	304	1,801
Net Income	3,485	437	3,922
Noncontrolling Interest	97	0	97
Net Income	3,388	437	3,825
Shares Outstanding	6.994	6.994	6.994
Earnings Per Share	0.48	0.06	0.55

Source: FIG Partners Research, SNL Financial

Community Bank Unit contributed \$0.48 to 1Q17 EPS while the Mortgage Operation added \$0.06. This compares to \$0.42 and \$0.09, respectively last quarter.

NRIM Snapshot

								% Change		
	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16A	1Q17A	Y/Y	LQ
Earnings Per Share (EPS)	\$0.69	\$0.77	\$0.59	\$0.48	\$0.63	\$0.44	\$0.51	\$0.48	-0.3%	-6.0%
Tangible Book Value	\$21.47	\$22.09	\$22.31	\$22.78	\$23.30	\$24.61	\$24.70	\$25.06	10.0%	1.4%
Shares Outstanding EOP	6.85	6.86	6.88	6.88	6.88	6.88	6.90	6.91	0.5%	0.2%
Net Interest Income	\$14.20	\$14.68	\$14.40	\$14.17	\$14.08	\$14.21	\$13.89	\$13.83	-2.4%	-0.4%
Loan Loss Provision	\$0.38	\$0.68	\$0.38	\$0.70	\$0.20	\$0.65	\$0.74	\$0.40	-43.1%	-46.2%
Total Fee Income	\$11.56	\$12.41	\$10.10	\$9.11	\$11.86	\$11.94	\$10.36	\$8.90	-2.3%	-14.1%
Gain/Loss on Securities	\$0.02	\$0.00	\$0.14	(\$0.02)	\$0.01	\$0.00	\$0.00	\$0.00	-100.0%	
Non-Interest Expense	\$17.75	\$18.20	\$18.23	\$17.37	\$19.37	\$21.19	\$18.35	\$16.61	-4.4%	-9.5%
Pre-Tax Income	\$7.63	\$8.21	\$5.90	\$5.21	\$6.37	\$4.31	\$5.15	\$5.28	1.4%	2.4%
Taxes	\$2.69	\$2.68	\$1.67	\$1.70	\$1.87	\$1.03	\$1.46	\$1.80	6.0%	23.5%
Tax Rate	35%	33%	28%	33%	29%	24%	28%	34%	4.5%	20.6%
Net Income	\$4.94	\$5.53	\$4.23	\$3.51	\$4.51	\$3.28	\$3.70	\$3.48	-0.8%	-5.9%
Total Core Revenue	\$25.74	\$27.09	\$24.37	\$23.30	\$25.93	\$26.15	\$24.25	\$22.72	-2.5%	-6.3%
Total Core Fee Income	\$11.55	\$12.40	\$9.97	\$9.13	\$11.85	\$11.94	\$10.36	\$8.88	-2.7%	-14.3%
Core Expenses	\$17.87	\$18.05	\$18.37	\$17.37	\$19.01	\$18.59	\$18.35	\$16.83	-3.1%	-8.3%
ROAA	1.37%	1.52%	1.09%	0.94%	1.21%	0.86%	0.97%	0.93%	-1.0%	-4.0%
ROAE	11.82%	13.14%	9.73%	7.86%	9.70%	7.18%	8.24%	7.44%	-5.3%	-9.7%
Net Interest Margin	4.44%	4.38%	4.10%	4.29%	4.27%	4.17%	4.07%	4.22%	-1.6%	3.7%
Core Efficiency Ratio	68.6%	65.9%	74.6%	73.7%	72.6%	70.4%	74.9%	73.3%	-0.7%	-2.2%
Core Exp. / Avg. Assets	4.95%	4.96%	4.72%	4.67%	5.11%	4.87%	4.82%	4.51%	-3.3%	-6.5%
Gross Loans	\$975	\$974	\$981	\$971	\$967	\$997	\$975	\$961	-1.0%	-1.5%
Intangibles	\$23.9	\$23.8	\$23.8	\$23.7	\$23.7	\$16.4	\$16.3	\$16.3	-31.4%	-0.2%
Total Deposits	\$1,239	\$1,265	\$1,241	\$1,247	\$1,256	\$1,278	\$1,268	\$1,247	0.0%	-1.6%
Total Common Equity	\$171	\$175	\$177	\$180	\$184	\$186	\$187	\$189	5.0%	1.5%
Avg Assets	\$1,445	\$1,456	\$1,555	\$1,489	\$1,489	\$1,525	\$1,522	\$1,492	0.2%	-2.0%
Avg Loans	\$967	\$982	\$980	\$980	\$969	\$979	\$978	\$970	-1.0%	-0.7%
Avg Earning Assets	\$1,302	\$1,347	\$1,411	\$1,348	\$1,345	\$1,375	\$1,379	\$1,352	0.3%	-1.9%
Avg Deposits	\$1,193	\$1,195	\$1,291	\$1,237	\$1,235	\$1,264	\$1,265	\$1,231	-0.5%	-2.7%
Loan / Deposit	78.7%	77.0%	79.0%	77.8%	77.0%	78.0%	76.9%	77.0%	-1.0%	0.2%
TCE Ratio	9.97%	10.00%	10.40%	10.61%	10.72%	11.12%	11.28%	11.57%	9.1%	2.6%
Net Charge-offs	(\$96)	\$247	\$72	\$673	(\$2)	(\$442)	\$525	\$204	-69.7%	-61.1%
NPL's + 90 Days Past	\$10,776	\$6,938	\$15,490	\$14,890	\$22,455	\$24,197	\$19,523	\$20,979	40.9%	7.5%
OREO	\$2,807	\$3,511	\$3,053	\$2,702	\$2,558	\$2,824	\$6,379	\$5,802	114.7%	-9.0%
Total NPA'S	\$13,583	\$10,449	\$18,543	\$17,545	\$24,966	\$27,021	\$25,446	\$26,193	49.3%	2.9%
NPA / (Loans + OREO)	1.39%	1.07%	1.88%	1.80%	2.57%	2.70%	2.59%	2.71%	50.3%	4.5%
NCOs / Avg Loans	-0.04%	0.10%	0.03%	0.27%	0.00%	-0.18%	0.21%	0.08%	-69.4%	-60.9%

Earnings Model

	Annual			2016 Quarterly				2017 Quarterly				2018 Quarterly			
	2016A	2017E	2018E	1Q16A	2Q16A	3Q16A	4Q16A	1Q17A	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E
<i>Income Data: (\$ in Millions)</i>															
Net Interest Income	\$56.4	\$56.7	\$57.4	\$14.2	\$14.1	\$14.2	\$13.9	\$13.8	\$14.1	\$14.4	\$14.3	\$13.8	\$14.2	\$14.7	\$14.8
Loan Loss Provision	\$2.3	\$2.4	\$3.0	\$0.7	\$0.2	\$0.7	\$0.7	\$0.4	\$0.6	\$0.7	\$0.7	\$0.6	\$0.7	\$0.9	\$0.8
Non-Interest Income	\$43.3	\$39.2	\$39.2	\$9.1	\$11.9	\$11.9	\$10.4	\$8.9	\$10.6	\$10.8	\$8.9	\$8.4	\$10.7	\$11.0	\$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
Gain/Loss on Securities	(\$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
One-Time Items	(\$3.0)	(\$0.2)	\$0.0	\$0.0	(\$0.4)	(\$2.6)	\$0.0	(\$0.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$73.3	\$72.4	\$71.8	\$17.4	\$19.0	\$18.6	\$18.4	\$16.8	\$19.3	\$19.0	\$17.3	\$17.3	\$18.5	\$18.5	\$17.5
Pre-Tax Income	\$21.0	\$20.8	\$21.8	\$5.2	\$6.4	\$4.3	\$5.2	\$5.3	\$4.8	\$5.6	\$5.2	\$4.2	\$5.7	\$6.4	\$5.5
Taxes	\$6.1	\$6.3	\$6.3	\$1.7	\$1.9	\$1.0	\$1.5	\$1.8	\$1.4	\$1.6	\$1.5	\$1.2	\$1.7	\$1.8	\$1.6
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
Net Income	\$15.0	\$14.5	\$15.5	\$3.5	\$4.5	\$3.3	\$3.7	\$3.5	\$3.4	\$3.9	\$3.7	\$3.0	\$4.1	\$4.5	\$3.9
Noncontrolling segment income	\$0.579	\$0.472	\$0.5	\$0.1	\$0.2	\$0.2	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Net Income Avail. To Common	\$14.4	\$14.0	\$15.0	\$3.4	\$4.4	\$3.1	\$3.6	\$3.4	\$3.3	\$3.8	\$3.6	\$2.9	\$3.9	\$4.4	\$3.8
Avg. Shares O/S	7.0	7.0	7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0
Earnings Per Share (EPS)	\$2.07	\$2.00	\$2.15	\$0.48	\$0.63	\$0.44	\$0.51	\$0.48	\$0.47	\$0.55	\$0.51	\$0.41	\$0.56	\$0.63	\$0.54
<i>Per Share Data:</i>															
Reported Book Value	\$27.07	\$28.38	\$29.79	\$26.23	\$26.75	\$26.99	\$27.07	\$27.42	\$27.70	\$28.06	\$28.38	\$28.60	\$28.98	\$29.43	\$29.79
Tangible Book Value	\$24.70	\$26.03	\$27.43	\$22.78	\$23.30	\$24.61	\$24.70	\$25.06	\$25.34	\$25.70	\$26.03	\$26.25	\$26.63	\$27.07	\$27.43
Dividends	\$0.78	\$0.84	\$0.84	\$0.19	\$0.19	\$0.20	\$0.20	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21
Pre-Tax, Pre-Provision EPS	\$3.77	\$3.35	\$3.54	\$0.85	\$0.96	\$0.71	\$0.85	\$0.84	\$0.77	\$0.89	\$0.84	\$0.69	\$0.92	\$1.03	\$0.91
CORE GAAP EPS	\$2.30	\$2.00	\$2.15	\$0.49	\$0.66	\$0.67	\$0.49	\$0.48	\$0.47	\$0.55	\$0.51	\$0.41	\$0.56	\$0.63	\$0.54
<i>KEY Ratios:</i>															
Net Interest Margin	4.20%	4.17%	4.17%	4.29%	4.27%	4.17%	4.07%	4.22%	4.18%	4.16%	4.14%	4.16%	4.16%	4.18%	4.18%
Return on Avg Assets	1.00%	0.96%	1.02%	0.94%	1.21%	0.86%	0.97%	0.93%	0.90%	1.04%	0.97%	0.80%	1.08%	1.18%	1.01%
Return on Avg Equity	8.25%	7.58%	7.73%	7.86%	9.70%	7.18%	8.24%	7.44%	7.11%	8.19%	7.56%	6.06%	8.18%	8.97%	7.68%
Return on Tang. Common Eq.	8.51%	7.84%	7.95%	8.68%	10.91%	7.36%	8.47%	7.85%	7.48%	8.65%	7.96%	6.34%	8.62%	9.45%	4.00%
Pre-Tax Pre-Provision ROA	1.75%	1.55%	1.63%	1.59%	1.80%	1.29%	1.56%	1.57%	1.43%	1.65%	1.56%	1.28%	1.70%	1.89%	1.63%
Efficiency Ratio	73.46%	75.48%	74.23%	73.75%	72.63%	70.40%	74.92%	73.25%	77.46%	74.47%	73.79%	77.43%	73.40%	71.15%	72.71%
Overhead Ratio	4.87%	4.81%	4.71%	4.67%	5.11%	4.87%	4.82%	4.51%	5.15%	5.02%	4.57%	4.64%	4.89%	4.82%	4.51%
TCE/TA	11.28%	11.66%	11.90%	10.61%	10.72%	11.12%	11.28%	11.57%	11.58%	11.63%	11.66%	11.73%	11.78%	11.86%	11.90%
<i>Period-End Balances: (\$ in Millions)</i>															
Earning Assets	\$1,369	\$1,381	\$1,419	\$1,364	\$1,366	\$1,385	\$1,369	\$1,360	\$1,367	\$1,381	\$1,381	\$1,363	\$1,377	\$1,398	\$1,419
Total Assets	\$1,527	\$1,558	\$1,610	\$1,500	\$1,518	\$1,540	\$1,527	\$1,513	\$1,528	\$1,543	\$1,558	\$1,562	\$1,578	\$1,594	\$1,610
Risk-Weighted Assets	\$1,297	\$1,334	\$1,402	\$1,274	\$1,280	\$1,310	\$1,297	\$1,282	\$1,302	\$1,321	\$1,334	\$1,348	\$1,368	\$1,388	\$1,402
Gross Loans HFI	\$975	\$978	\$992	\$971	\$967	\$997	\$975	\$961	\$966	\$978	\$978	\$968	\$973	\$987	\$992
Total Deposits	\$1,268	\$1,272	\$1,304	\$1,247	\$1,256	\$1,278	\$1,268	\$1,247	\$1,260	\$1,272	\$1,272	\$1,272	\$1,278	\$1,291	\$1,304
Intangibles	\$16	\$16	\$16	\$24	\$24	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16
Total Common Equity	\$187	\$196	\$206	\$180	\$184	\$186	\$187	\$189	\$191	\$194	\$196	\$198	\$200	\$203	\$206



FIG Partners LLC Distribution of Ratings

	Buy / Outperform	Hold / Market- Perform	Sell / Underperform
% Rated	33.6%	66.4%	0.0%
IB Client % in Category	30.2%	15.3%	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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