



Analysis of Sales/Earnings

Regional Banks

February 8, 2008

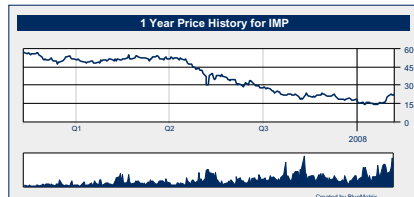
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Market Price:	\$22.82
Target Price:	\$28.00
Proj. Total Return:	25.5%
52 Wk. Range	\$60.10-\$13.68
Dividend (Ann):	\$0.64
Yield:	2.80%
Shr.O/S-Diluted (mm):	5.1
Insider Ownership:	4.2%
Market Cap:	\$116.4mm
Book Value/Share:	\$44.22
Tang. Equity/Assets:	6.3%
NCOs/Loans:	0.18%
Tangible Book Value/Share:	\$43.61
Reserves/Loans:	1.51%



Industry Opinion:

We advocate an underweight position for SMID-cap banks as the combination of our 2008 EPS estimates that call for 2% EPS shrinkage (8% below the Street) and a slowdown of high premium M&A will combine to compress the relatively high 2.5 multiple premium over the large-cap banks.

Company Description: Imperial Capital Bancorp (formerly ITLA Capital) is a \$3.6 billion in asset bank located in La Jolla, CA. Founded in 1973, ITLA is the second-largest depository headquartered in San Diego County.

Imperial Capital Bancorp
(IMP, \$22.82, Outperform, Target: \$28.00)

IMP: IMP 4Q07 Review: Steady Asset Quality Outshines NIM Pressure

Event-- [ROCK: \$0.21, \$0.21, \$0.37, \$0.37] - In our view, steady asset quality at IMP makes up for the EPS miss caused by a NIM-led interest income shortfall. Another highlight in the quarter is solid reserve building, which increased to 1.51% from 1.41% q/q. We will review our estimates and forecast after speaking with management.

	R \$0.21 reported	O \$0.21 operating	C \$0.37 consensus	K \$0.37 BW			
	Earnings Per Share			P/E	%Chg.	L/Term	
Year End Dec	2006A	2007A	2008E	07A	08E	08/07	Grth. Rate
KBW (Curr.)	\$4.71	\$2.81	\$2.60	8.1x	8.8x	-7.47%	12.3%
KBW (Prev.)	\$4.71	\$2.96	\$2.60	6.1x	7.0x	-12.16%	12.3%
FC (Cons.)	—	—	\$2.96	—	7.7x	—	NA

	2006	2007	2008
Efficiency Ratio	48.2%	58.4%	48.2%
NIM	3.06%	2.51%	2.57%
NCOs/Avg. Loans	0.10%	0.30%	0.84%
Fees/Total Rev.	2.9%	3.6%	7.3%

	Quarterly Earnings Per Share				
	1Q	2Q	3Q	4Q	YR
2006A	\$1.10	\$1.18	\$1.20	\$1.22	\$4.71
2007A	\$1.19	\$1.08	\$0.31	\$0.21	\$2.81
2008E	\$0.75e	\$0.57e	\$0.60e	\$0.69e	\$2.60

ROA	0.86%	0.45%	0.40%
ROE	12.7%	6.9%	6.1%

- In the current environment, we would characterize IMP's quarter as "not bad at all" since steady asset quality and solid reserve building are positives that more than offset NIM pressure, which was practically universal for the banks in our coverage. We will update our forecast and estimates for IMP after speaking with company management.
- IMP EPS of \$0.21 missed our number by \$0.16. The difference came from low NII (-11.5 cents), which has been common for many banks this quarter, and high expenses (-17.8 cents), mainly from elevated compensation costs. Offsetting this were low provision costs (+16.6 cents).
- We estimate the NIM in the quarter was 2.28%, down by 9 bps from 3Q07. The yield on loans was down 20 bps q/q while the cost of IB deposits was down only 9 bps. We expect the rate cuts in January will put further incremental pressure on the margin.
- Net charge-offs fell linked quarter by 28 basis points to 0.18% of average loans, a result that stands out this quarter relative to other banks. Provision expense of \$4.6 million was down from 3Q07 by 13.4% and still covered losses and built the reserve level. Reserves to EOP loans rose to 1.51% as of December 31, 2007 from 1.41% as of September 30, 2007. We are constructive on Imperial Capital's proactive approach to building strong reserves early in the credit cycle.



Risk

Risks to our price target include weakness in the commercial real estate market, particularly in Southern California, continued net interest margin pressure, a credit risk related to the company's national expansion.

Imperial Capital Bancorp 4Q07 Earnings Review

IMP 4Q07 ROCK (\$0.21, \$0.21, \$0.37, \$0.37)

Variance table follows text.

IMP EPS of \$0.21 missed our number by \$0.16 (we are the Street on the name). The difference came from low NII (-11.5 cents), which has been common for many banks this quarter, and high expenses (-17.8 cents), mainly from elevated compensation costs. Offsetting this were low provision costs (+16.6 cents), which came in below expectations because net charge-offs were down linked quarter to 0.18% from 0.46% of average loans in 3Q07. Another highlight was increased reserve coverage, which rose to 1.51% of EOP loans from 1.41% at the end of 3Q07. In the current environment, we would characterize Imperial Capital's quarter as "not bad at all" since steady asset quality and solid reserve building are positives that more than offset net interest margin pressure, which was practically universal for the banks in our coverage. We will update our forecast and estimates for IMP after speaking with company management.

Variance breaks down as follows:

Low NII: -11.5 cents

Low fee income: -3.1 cents

High operating expenses: -17.8 cents

Lower provision: +16.6 cents

= \$0.16 difference to EPS

NII / NIM: We estimate the NIM in the quarter was 2.28%, down by 9 basis points from 3Q07 and below our forecast by a similar amount. With many banks this quarter, the decrease to the cost of funding lagged the repricing of earning assets, and Imperial Capital was not immune. The yield on loans was down 20 basis points q/q while the cost of IB deposits was down only 9 bps. Average loans of \$3,181 million grew 2.1% linked quarter and average earning assets grew by 1.5%, but total average deposits of \$2,131 million shrank by 1.5% q/q. Overall the net interest income was \$20.2 million in 4Q07, down 2.3% q/q and down 13.1% y/y. We expect the rate cuts in January will put further incremental pressure on the margin.

Fee income: Fee income of \$0.6 million was down 34% from \$0.9 million in the third quarter. The difference comes from the other operating income line, since late fees and collection fees were essentially steady at \$0.3 million both quarters.

Operating expenses: Operating expenses were up markedly in the fourth quarter, coming in at \$14.4 million, up 6.7% q/q and up 27.5% y/y. The main increase came from compensation costs, which rose by \$0.7 million (+12.2% q/q). Also up notably



were OREO related expenses, which rose to \$0.6 million from \$0.2 million in the previous quarter. Unlike in 3Q07, IMP booked a provision for losses on OREO of \$0.3 million in 4Q07.

Asset quality: Net charge-offs fell linked quarter by 28 basis points to 0.18% of average loans, a result that stands out this quarter relative to other banks. Provision expense of \$4.6 million was down from 3Q07 by 13.4% and still covered losses and built the reserve level. Reserves to EOP loans rose to 1.51% as of December 31, 2007 from 1.41% as of September 30, 2007. We are constructive on Imperial Capital's proactive approach to building strong reserves early in the credit cycle. Other performing loans of concern declined 14% q/q from \$31.9 million last quarter to \$27.4 million.

Non performing loans of \$38 million were down 6.9% linked quarter and non-performing assets of \$57.4 million were down as well by 3.0%. As a percent of loans and OREO, NPAs decreased to 1.80% from 1.85% at the end of 3Q07 but were up from 1.09% at the end of 4Q06. Other real estate of \$19.4 million (49% multifamily, 14% CRE, 10% residential, 26% entertainment) is made up of 19 properties. As of December 31, 2007 Imperial Capital had two non-performing residential construction loans; they amounted to \$8.8 million or 4% of the residential construction book and 23% of the total NPLs at the end of the quarter. One of these projects is in the Inland Empire and the other is in Portland, Oregon. \$1.1 million or 46% of gross charge offs in the quarter related to residential construction.

Loan portfolio: EOP total loans were \$3,173 million, marginally down linked quarter (-0.2%) and up 5.1% year over year. We view the slowdown in loan growth as a positive, since shrinking in the balance sheet is one method to improving profitability for the bank. Loan originations were down sharply linked quarter to \$151 million from \$340 million in 3Q07, with the greatest slowdown in CRE. The total construction portfolio was \$421.1 million at the end of the year, or 13.3% of total gross loans; residential construction stood at \$209.6 million, or 6.6% of total loans.

Capital: Imperial Capital did not repurchase any shares this quarter and its capital ratios trended upward after a year of decreasing. The tangible common equity to assets ratio ticked up to 6.33% at the end of 4Q07 from 6.30% at the end of 3Q07, though still down from 6.39% at the end of 4Q06. Tangible book value was \$43.61 at the end of 4Q07, nudging up from \$43.58 the previous quarter. Building capital in the current industry environment is a sound practice, in our view.

Variance table follows on next page.

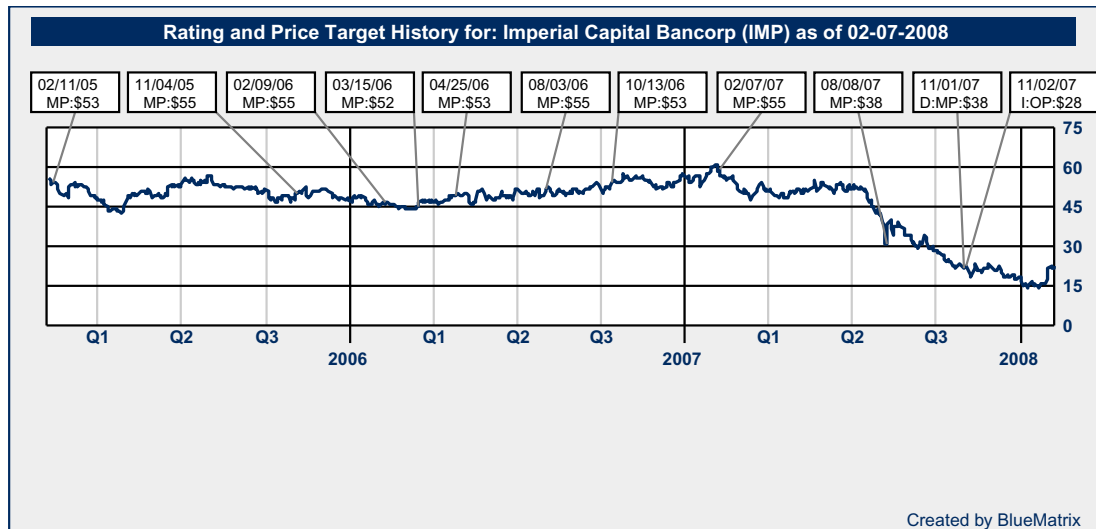


IMP 4Q07 Earnings Variance Table

Imperial Capital Bancorp (IMP) 4Q07 Results					Julianna Balicka / Manuel Ramirez Keefe, Bruyette & Woods, Inc.			
(\$ in mil. except per share amounts)	4Q07A	3Q07A	Q / Q Growth	4Q06A	Y / Y Growth	Reported vs. Forecast		EPS
						4Q07E	Variance	
<u>Income Statement</u>								
Net interest income (FTE)	\$ 20.2	\$ 20.7	-2.3%	\$ 23.2	-13.1%	\$ 21.2	(\$ 1.0)	-11.5 cent/sh
Total non-interest income	0.6	0.9	-34.1%	0.9	-28.2%	0.9	(0.3)	-3.1 cent/sh
Memo: securities gains	-	-	n.m.	-	n.m.	-	-	0.0 cent/sh
Fee income ex. securities gains	0.6	0.9	-34.1%	0.9	-28.2%	0.9	(0.3)	-3.1 cent/sh
Total revenues	\$ 20.8	\$ 21.6	-3.7%	\$ 24.1	-13.6%	\$ 22.1	(\$ 1.3)	-14.6 cent/sh
Total non interest expense	\$ 14.4	\$ 13.5	6.7%	\$ 11.3	27.5%	\$ 12.8	\$ 1.6	-17.8 cent/sh
Operating inc. pretax, pre-provision	6.5	8.2	-20.8%	12.9	-49.6%	9.4	(2.9)	-32.4 cent/sh
Provision	4.6	5.3	-13.4%	1.3	264.9%	6.0	(1.5)	16.6 cent/sh
Operating pretax income	\$ 1.9	\$ 2.9	-34.1%	\$ 11.6	-83.5%	\$ 3.3	(\$ 1.4)	-15.9 cent/sh
Effective tax rate	41%	41%	n.m.	40%	n.m.	40%	1%	n.m.
Operating net income	\$ 1.1	\$ 1.7	-34.0%	\$ 7.0	-83.8%	\$ 2.0	(\$ 0.9)	-16.2 cent/sh
Operating EPS	\$ 0.21	\$ 0.31	-32.3%	\$ 1.22	-82.8%	\$ 0.37	(\$ 0.16)	
After-tax non-operating items	-	-	n.m.	-	n.m.	-	n.m.	
Stated net income	\$ 1.1	\$ 1.7	-34.0%	\$ 7.0	-83.8%	\$ 2.0	(\$ 0.9)	
Net EPS	\$ 0.21	\$ 0.31	-32.3%	\$ 1.22	-82.8%	\$ 0.37	(\$ 0.16)	
Efficiency ratio (calculated)	68.9%	62.2%	+670 bp	46.7%	+2223 bp	57.6%	+1130 bp	
NIM (FTE, estimated)	2.28%	2.37%	-9 bp	2.89%	-61 bp	2.37%	-9 bp	
ROAA (calculated)	0.13%	0.19%	-7 bp	0.86%	-73 bp	0.22%	-10 bp	
ROAE (calculated)	1.96%	2.97%	-100 bp	12.65%	-1068 bp	3.50%	-153 bp	
Tangible ROAE (calculated)	1.99%	3.01%	-102 bp	12.83%	-1084 bp	3.54%	-155 bp	
<u>Balance Sheet</u>								
EOP loans	\$ 3,172.9	\$ 3,179.0	-0.2%	\$ 3,019.4	5.1%	\$ 3,187.4	(\$ 14.5)	
EOP total assets	3,551.2	3,562.1	-0.3%	3,415.5	4.0%	3,644.0	(92.8)	
EOP common equity	227.6	227.3	0.1%	221.3	2.8%	227.8	(0.2)	
EOP goodwill & CDI	3.1	3.1	0.0%	3.1	0.0%	3.1	-	
Average loans	\$ 3,180.6	\$ 3,114.8	2.1%	\$ 2,820.7	12.8%	\$ 3,183.2	(\$ 2.6)	
Average earning assets	3,515.1	3,464.5	1.5%	3,191.8	10.1%	3,548.2	(33.1)	
Average total deposits	2,131.2	2,164.3	-1.5%	1,975.3	7.9%	2,164.3	(33.1)	
Tangible EOP equity/assets	6.33%	6.30%	+3 bp	6.39%	-7 bp	6.17%	+15 bp	
<u>Credit</u>								
NCOs/average loans	0.18%	0.46%	-28 bp	0.33%	-15 bp	0.56%	-38 bp	
Non-performing loans	\$ 38.0	\$ 40.8	-6.9%	\$ 26.3	44.7%	NA	n.m.	
OREO	19.4	18.3	5.8%	6.7	188.2%	NA	n.m.	
NPAs (ex restructured)	\$ 57.4	\$ 59.1	-3.0%	\$ 33.0	74.0%	NA	n.m.	
NPAs/loans + OREO	1.80%	1.85%	-5 bp	1.09%	+71 bp	NA	n.m.	
Reserves	\$ 47.8	\$ 44.7	7.0%	\$ 46.0	3.8%	\$ 46.2	\$ 1.6	
Reserves/loans	1.51%	1.41%	+10 bp	1.53%	-2 bp	1.45%	+6 bp	
Average diluted shares (est.)	5.4 mil sh.	5.5 mil sh.	-0.1 mil sh.	5.7 mil sh.	-0.3 mil sh.	5.5 mil sh.	-0.1 mil sh.	

Source: Company reports, KBW Research.

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Suspended [SP]	18	4.32	5	27.78

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KBW either expects to receive or intends to seek compensation for investment banking services from Imperial Capital Bancorp during the next three months.

KBW currently makes a market in this security IMP.

KBW owns a 1% or greater stake in the equity securities of this company.

KBW has received non-investment banking securities-related compensation from Imperial Capital Bancorp in the past 12 months.

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