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Analysis of Sales/Earnings

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Flash Note

Regional Banks

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Imperial Capital Bancorp
(IMP, $15.07, Market Perform, Target: $27.00)

IMP: First Review of IMP 1Q08 Results

***Event*-- IMP 1Q08 ROCK ($0.13, $0.13, $0.31, $0.31)** The biggest component of the miss came from higher than expected operating expenses. Credit deterioration was led by the residential/condo conversion portfolio. We will review our forecast and update our estimates after speaking with management. We would characterize the quarter as mixed: asset quality deteriorated but within range of our expectations, while the NIM appears to have improved at first calculation.

Imperial Capital reported 1Q08 EPS of $0.13, missing our estimate by $0.18 (we are the Street). *Variance table follows text.*

Variance relative to our expectations:
+12.5 of higher than expected net interest income,
-5.4 cents of lower fee income,
-21.0 cents of above expectations operating expenses
-4.6 cents on higher than forecast provisions
Balanced by a slightly lower tax rate and slightly lower sharecount.
= -18.2 cent difference.

NII / NIM / Loans: Net interest income of $20.1 million was down 0.6% linked quarter and was 16.3% lower than in the year-ago quarter, coming in $1.1 million ahead of our forecast. We estimate the FTE net interest margin was 2.31% in the quarter, an improvement from 2.26% in the last quarter. The lift to NII from a slightly higher NIM was offset by the decline in the balance sheet.

EOP loans of $3.1 billion were down by 1.7% linked quarter and total assets of $3.5 billion stayed essentially flat (-0.2%). Shrinking the balance sheet has been an active goal for IMP as a method of shoring up capital and improving the profitability metrics of the bank. Loan production was $88.5 million in 1Q08, down from $150.6 million in 4Q07 and down from $339.4 million in 1Q07. The decline in loan production was expected, and the company does not anticipate this to improve until the credit markets stabilize.

Asset Quality: We estimate NCOs to average loans in 1Q08 were 0.48%, up 30 basis points from 0.18% in 4Q07. NPAs rose sharply, to $110 million from $57.3 million last quarter, rising to 3.51% of loans and OREO, up from 1.80% at the end of the year. The reserve coverage rose to 1.55% at the end of 1Q08, up by 4 basis points from the previous quarter and almost in line with the 1.54% coverage from 1Q07. The provision for loans losses was $4.3 million in the first quarter.

Please refer to important disclosures and analyst certification information on pages 4 - 5.

The increase in NPLs in 1Q08 was primarily caused by 4 construction and land loans that totaled $54.4 million: $32.7 million of resi/condo construction (2 relationships), a $17.7 million land loan, and a $4 million mixed-use construction project. Notable loans in the aggregate NPL portfolio include $40.3 million in 3 resi / condo construction projects (Huntington Beach south of Los Angeles, Corona in the western Inland Empire, Indio in the eastern Inland Empire) and one in Portland, Oregon. Also worth mentioning is a $17.7 million resi land development loan in Cathedral City, in the eastern Inland Empire (new this quarter).

Other loans of concern increased from $27.4 million at the end of 2007 to $115.7 million as of March 31, 2008, a fourfold increase. The increase came from $44.8 million of residential construction, $15.7 million of commercial construction, and $28 million of CRE & multifamily loans.

Total construction exposure was $425.4 million at the end of the quarter (14% of total portfolio), of which 65% or $277 million were residential construction, condominium conversion, or land loans (9% of total portfolio).

Capital: IMP's book value per share was $44.38 at the end of 1Q08, up by 0.4% q/q and tangible book value per share was $43.77, also up by 0.4% linked quarter. The holding company ended the quarter with a Tier 1 to risk weighted assets ratio of 9.81% and a total risk-based capital to RWA ratio of 11.38%.

Variance table follows on next page.

IMP 1Q08 Earnings Variance Table

Imperial Capital Bancorp (IMP) — **1Q08 Results** — **Julianna Balicka**, **Keefe, Bruyette & Woods, Inc.**

($ in mil. except per share amounts)	1Q08A	4Q07A	Q / Q Growth	1Q07A	Y / Y Growth	Reported vs. Forecast 1Q08E	Variance	EPS
Income Statement								
Net interest income (FTE)	$ 20.1	$ 20.2	-0.6%	$ 24.0	-16.3%	$ 19.0	$ 1.1	12.5 cent/sh
Total non-interest income	0.3	0.6	-57.1%	0.7	-62.6%	0.8	(0.5)	-5.4 cent/sh
Memo: securities gains	-	-	n.m.	-	n.m.	-	-	0.0 cent/sh
Fee income ex. securities gains	0.3	0.6	-57.1%	0.7	-62.6%	0.8	(0.5)	-5.4 cent/sh
Total revenues	$ 20.3	$ 20.8	-2.3%	$ 24.7	-17.6%	$ 19.7	$ 0.6	7.2 cent/sh
Total non interest expense	$ 14.9	$ 14.4	4.1%	$ 12.6	18.8%	$ 13.1	$ 1.9	-21.0 cent/sh
Operating inc. pretax, pre-provision	5.4	6.5	-16.6%	12.1	-55.4%	6.6	(1.2)	-13.8 cent/sh
Provision	4.3	4.6	-6.8%	0.8	466.7%	3.8	0.4	-4.6 cent/sh
Operating pretax income	$ 1.2	$ 1.9	-39.9%	$ 11.4	-89.9%	$ 2.8	($ 1.7)	-18.4 cent/sh
Effective tax rate	39%	41%	n.m.	41%	n.m.	40%	-1%	n.m.
Operating net income	$ 0.7	$ 1.1	-38.4%	$ 6.7	-89.7%	$ 1.7	($ 1.0)	-18.2 cent/sh
Operating EPS	$ 0.13	$ 0.21	-37.4%	$ 1.19	-89.0%	$ 0.31	($ 0.18)	
After-tax non-operating items	-	-	n.m.	-	n.m.	-	n.m.	
Stated net income	$ 0.7	$ 1.1	-38.4%	$ 6.7	-89.7%	$ 1.7	($ 1.0)	
Net EPS	$ 0.13	$ 0.21	-37.4%	$ 1.19	-89.0%	$ 0.31	($ 0.18)	
Efficiency ratio (calculated)	73.5%	68.9%	+455 bp	50.9%	+2252 bp	66.3%	+718 bp	
NIM (FTE, estimated)	2.31%	2.26%	+4 bp	2.88%	-57 bp	2.16%	+15 bp	
ROAA (calculated)	0.08%	0.13%	-5 bp	0.80%	-72 bp	0.19%	-11 bp	
ROAE (calculated)	1.23%	1.96%	-73 bp	12.20%	-1097 bp	2.95%	-172 bp	
Tangible ROAE (calculated)	1.25%	1.99%	-74 bp	12.37%	-1112 bp	2.99%	-174 bp	
Balance Sheet								
EOP loans	$ 3,117.7	$ 3,172.9	-1.7%	$ 3,054.0	2.1%	$ 3,080.3	$ 37.3	
EOP total assets	3,543.7	3,551.2	-0.2%	3,461.5	2.4%	3,461.8	82.0	
EOP common equity	226.5	227.6	-0.5%	226.9	-0.1%	228.6	(2.1)	
EOP goodwill & CDI	3.1	3.1	0.0%	3.1	0.0%	3.1	-	
Average loans (est.)	$ 3,145.3	$ 3,201.1	-1.7%	$ 3,004.2	4.7%	$ 3,126.6	$ 18.7	
Average earning assets (est.)	3,501.0	3,539.3	-1.1%	3,377.4	3.7%	3,526.6	(25.6)	
Average total deposits (est.)	2,124.2	2,130.8	-0.3%	2,080.4	2.1%	2,172.6	(48.4)	
Tangible EOP equity/assets	6.31%	6.33%	-2 bp	6.47%	-16 bp	6.52%	-21 bp	
Credit								
NCOs/average loans (est.)	0.48%	0.18%	+30 bp	-0.05%	+53 bp	0.30%	+18 bp	
Non-performing loans	$ 91.6	$ 38.0	141.0%	$ 26.3	247.8%	NA	n.m.	
OREO	18.4	19.4	-4.9%	6.6	177.7%	NA	n.m.	
NPAs (ex restructured)	$ 110.0	$ 57.4	91.7%	$ 33.0	233.7%	NA	n.m.	
NPAs/loans + OREO	3.51%	1.80%	+171 bp	1.08%	+243 bp	NA	n.m.	
Reserves	$ 48.3	$ 47.8	1.0%	$ 47.2	2.3%	$ 49.3	($ 1.0)	
Reserves/loans	1.55%	1.51%	+4 bp	1.54%	+0 bp	1.60%	-5 bp	
Average diluted shares (est.)	5.4 mil sh.	5.4 mil sh.	-0.1 mil sh.	5.7 mil sh.	-0.3 mil sh.	5.4 mil sh.	-0.1 mil sh.	

Source: Company reports, KBW Research.

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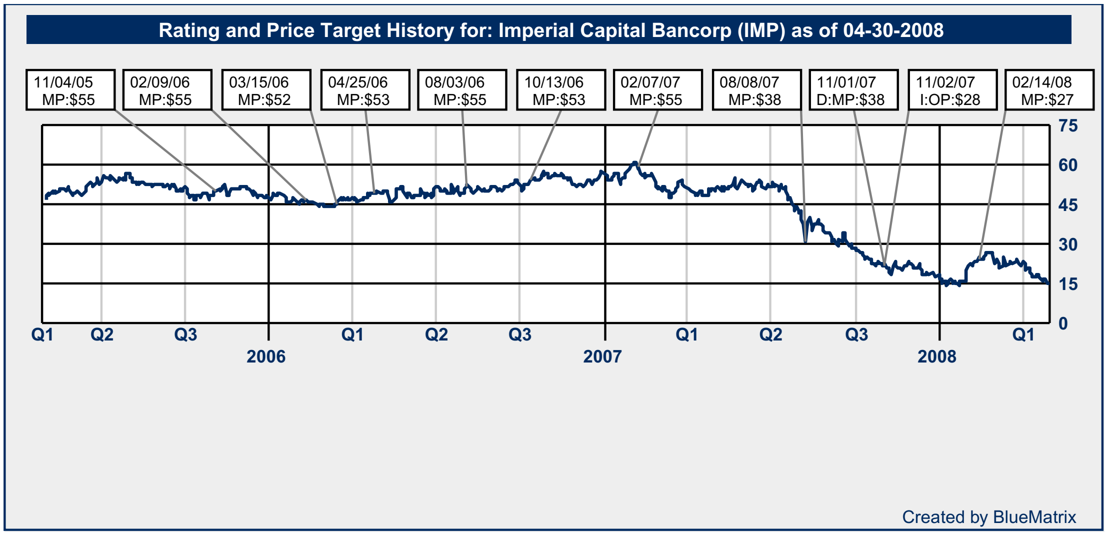

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