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3-SIGMA VALUE

Bank Investing in 2012

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On December 16, 2008, the Federal Reserve lowered its targeted Fed Funds rate of 1% by 75-100 basis points, pushing interest rates down to their lowest levels since the 1950s. The Federal Reserve then announced on August 10, 2011 that it would maintain zero-bound interest rates through the middle of 2013. And most recently, on January 25, 2012 the Fed downgraded its outlook for US economic growth and extended its zero-bound interest rate policy through 2014.

On September 21, 2011, the Federal Reserve announced "Operation Twist", in which it would purchase $400 billion of long-term bonds (6 to 30 year maturities) financed by the sale of shorter-term bonds (maturities less than 3 years), intended to flatten the yield curve as long-term rates drop while short-term rates stay relatively the same. 30-year mortgage rates hit a record low recently, averaging 3.9% for the week ended January 5, 2012, ostensibly offering consumers incentive to buy houses and refinance debts. Unfortunately, the problem isn't the supply of credit here in the United States but the demand for it. Loan demand is anemic, according to bank CEOs around the country. The wave of refinancing that began in 2010 has washed ashore. Anybody with debt has refinanced by now. We live in an era of deleveraging. How does more debt solve the problem of too much debt?

Whether and when the Fed will eventually raise its target for short-term interest rates depends on the economy, inflation expectations, and most importantly, the success of deleveraging balance sheets. Interest rates cannot rise because then our government, companies, and households won't be able to service their debts. The government is selling ten-year bonds (~2%) below the rate of inflation (>2%). One-year treasuries yield a measly 12 bips. Five years out on the curve only gets you 86 bips, still less than 1% per year, and well below inflation. What will happen to deficits when rates rise back up to normalized levels? We can only hope that when the day arrives, the deleveraging cycle will be largely complete. Until then we're trapped in an era of historically low interest rates.

Despite the Fed's effort to flatten the yield curve, December marked the 48th consecutive month of a historically-steep yield curve enabling banks to earn juicy net interest margin (NIM) averaging 3.56%. However, while FDIC-insured banks in the third quarter of 2011[1] earned their highest quarterly net income since the onset of the financial crisis – due to high levels of NIM

[1] Latest information available.

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and falling loan loss provisions – revenues posted a year-over-year decline for the third consecutive quarter, unprecedented in 27 years for which data are available. Weak loan demand is the primary culprit as loan balances rose a meager 0.3%.

Meanwhile, legacy credit issues continue to eradicate the earnings of much of the banking system despite the heralded improvement in industry-wide loss provisioning in 2011. At the depths of the financial crisis in early 2009, FASB[2] looked into the abyss and ceded the rules governing mark-to-market accounting. On April 9, 2009, FAS 157 was officially updated, suspending the accounting of reality when market conditions are deemed "unsteady or inactive". Since then, it has become nearly-impossible to rely on the valuations of loans and other assets as reflected in a bank's audited financial statements.

As a result of the uncertainty created by the absence of mark-to-market accounting, bank valuations have polarized. Banks that trade at a fraction of their book value are likely insolvent on a mark-to-market basis. Banks that are healthy – either because they were managed conservatively during the credit bubble, or because they have been successfully recapitalized since – trade at normal valuation multiples corresponding to the returns generated on their tangible common equity (ROTCE)[3].

For example, banks that earn a consistent ROTCE of 10% or more typically trade around 1.5x tangible book value. A 15% ROTCE translates to approximately 2x book value. Banks that earn an ROTCE around zero typically trade below book value. The problem in today's world is that the book value number is imaginary, concocted by financial re-engineers who manipulate assumptions to satisfy a conclusion derived in advance, ergo – the bank is solvent.

It's a great time to be in the banking business, as long as the bank is solvent on a mark-to-market basis. Which is what leads us to identifying the important factors when analyzing a bank investment in the current market environment:

(1) <u>Quantifiable legacy credit risk</u>. Our preference is to invest in banks growing via FDIC-assisted acquisitions in which the government assumes a majority of (80% is normal)

[2] The Financial Accounting Standards Board (FASB) is the government designated organization responsible for setting accounting standards for public companies in the U.S.

[3] Regressing price-to-tangible-book value (P/TBV) versus return on tangible common equity (ROTCE) generates an R-squared of 75%+ depending on asset size, geography, and other factors.

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future charge-offs out of the acquired loan portfolio (called "covered" loans because they are covered by FDIC loss-sharing). In FDIC-assisted deals, the legacy credit risk is fixed and known, and in many cases negligible.

In lieu of FDIC-assisted growth, we seek investments in post-recapitalization banks in which either (a) more than enough capital was raised to repair the balance sheet; or (b) not nearly enough capital was raised. Bank of Hampton Roads (HMPR) as previously discussed is an example of b. The culmination of this analysis is a profile of Hamni Bank (HAFC), an example of a.

(2) Solid core deposit base. With interest rates pegged at zero, savers are suffering, deposits yield next to nothing. But if you've been banking with a particular institution for years or even decades you're unlikely to move your business for a few basis points. Convenience matters. Community banking is a local business. Service matters. Banks that have survived cycles tend to have sticky core deposit bases forming the foundation of a valuable banking franchise.

(3) Management team. Banking, like all financial services, is a human capital business. The quality and credibility of a management team trumps all the statistical factors.

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Buy: Hanmi Financial Corp (HAFC)

Hamni Financial (HAFC)	
Share Price as of 12/31/11	7.40
x FD Shares Out.	31.5
= Market Capitalization	**233.0**
Tangible Book Value (TBV) - YE 2011	9.02
P / TBV	**0.82x**
Tangible Book Value (TBV) - YE 2012	13.14
P / TBV	**0.56x**
ROE -- 2011	9.9%
ROE -- 2012	8.2%
ROE -- 2013	9.3%
P/E -- 2011	4.6x
P/E -- 2012	5.9x
P/E -- 2013	4.3x

Established in 1982, Hamni Bank ($2.7 billion of assets) is a wholly-owned subsidiary of Hamni Financial (HAFC) and one of the three largest Korean-American banks based in California, the state with the largest Korean-American population[4]. Like much of the banking system, Hamni Bank chased loan growth during the credit bubble and ultimately erased its own equity. Facing insolvency, in May 2010 the Bank agreed to a $240 million investment[5] by Woori Financial Group (WFG) for a majority stake. WFG is a $264 billion financial holding company headquartered in Korea with a U.S. subsidiary, Woori American Bank (WAB).

Not coincidentally, Hamni's current CEO, Jay Seung Yoo, was Woori American Bank's CEO from 2001-2007. And although we at 3-Sigma Value never invest simply because we believe in the high-probability of a take-out, given the cooperation between the two institutions, overlapping management teams, and the fact that Woori was willing to pay $9.60 per share

[4] The other two are BBCN Bank (BBCN), the product of the November 2011 merger of Center Bank + Nara Bank ($3.0 billion), and Wilshire State Bank ($2.7 billion).

[5] 200 million shares at $1.20 per share, pre-8-for-1 reverse split, is equivalent to $9.60 per share.

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staring into the abyss, it seems likely that Woori will eventually consolidate or otherwise cause the consolidation of Hamni Bank. If a take-out were to price at merely 1x TBV (tangible book value) then 3-Sigma Value will earn 2.5x its investment.

To the chagrin of both Woori and Hamni management, regulators squashed the deal without a public explanation. In its place, Hamni Bank raised $120 million at the same $1.20 per share, mainly from investors and customers within the Korean community. Unfortunately for them, $120 million wasn't enough to offset the legacy losses embedded in the loan portfolio.

By the summer of 2011, Hamni Bank was back in the capital markets seeking around $80 million, this time priced at $0.80 per share. The deal eventually closed in November 2011, two-times over-subscribed. Woori acquired a 4% stake. The Fed limited them to 4.9%, and because of the over-subscription their allocation was reduced along with other participating investors.

Second Time's the Charm – a profitable theme guiding 3-Sigma Value's research into the banking industry is the chronic under-estimation of legacy credit risk, and as a direct result the inadequate recapitalization of banks that market themselves to investors (via Wall Street) as turnaround stories. As of December 31, 2011, 3-Sigma Value, LP was short two banks that, similar to Hamni Bank, did not raise enough equity capital the first time and will require a second infusion at some point sooner rather than later.

In the case of Hamni Bank, we invested as part of the *second* recapitalization.

Hamni finally raised more than enough capital to charge-off its remaining non-performing assets[6] (NPAs) without coming close to piercing its equity. The Allowance for Loan & Lease Losses (ALLL) covers 171% of non-performing loans (NPLs), and 5% of total loans, well-above management's target coverage of 3-3.25% by the end of 2012 and 2.25-2.5% by 2013.

According to management, NPAs will be charged-down to $45 million by June 2012, leaving ALLL at 194% of NPAs, a level of extreme conservatism unmatched by its peers. This is effectively a clean bank with **quantifiable balance sheet risk.** Hanmi has successfully and finally recapitalized itself. In fact, based on management's guidance for ALLL coverage to

[6] NPAs = non-performing loans plus other real estate owned (OREO).

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normalize, reserve releases in 2012 will more than offset new provisioning resulting in ~$20 million of additional profits, boosting tangible book value to ~$13 per share by the end of 2012.

Non-Performing Assets (NPAs)	3/31/11	6/30/11	9/30/11	12/31/11	2012	2013
Type of Loan:						
Real Estate Loans						
Commericial Property						
Retail	8,669	14,335	7,121	4,782	4,109	4,109
Land	22,523	25,184	2,723	1,829	1,571	1,571
Other	2,177	3,772	3,299	2,216	1,903	1,903
Construction	23,421	12,298	6,142	4,125	3,544	3,544
Residential Property	2,014	1,460	1,464	983	845	845
Commerical & Industrial (C&I) Loans						
Commercial Term						
Unsecured	10,370	10,758	10,395	6,981	5,998	5,998
Secured by Real Estate	27,959	46,454	22,285	14,966	12,858	12,858
Commercial Lines of Credit	2,169	2,905	2,222	1,492	1,282	1,282
SBA	24,327	23,263	21,240	14,265	12,255	12,255
International	123	3,243	0	0	0	0
Consumer	966	824	1,100	739	635	635
Total Non-Performing Loans (NPLs)	124,718	144,496	77,991	52,378	45,000	45,000
OREO	2,642	1,340	289	180	0	0
Total non-performing assets (NPAs)	**127,360**	**145,836**	**78,280**	**52,558**	**45,000**	**45,000**
NPAs as a % of total assets	**4.4%**	**5.4%**	**2.9%**	**1.9%**	**1.5%**	**1.4%**
Texas Ratio = NPAs divided by tangible equity capital plus allowance for loan lo	**226.4%**	**166.6%**	**77.7%**	**27.1%**	**13.1%**	**10.0%**
Allowance for Loan Losses						
Balance at Beginning of Period	146,059	125,780	109,029	100,792	89,936	66,918
Provision	1,276	-250	7,269	4,241	-15,460	-11,615
Charge-Offs, Net of Recoveries	-21,555	-16,501	-15,506	-15,097	-7,558	0
Balance at End of Period	125,780	109,029	100,792	89,936	66,918	55,302
as a % of NPAs	**98.76%**	**74.76%**	**128.76%**	**171.12%**	**148.71%**	**122.89%**
as a % of Total Loans	**5.92%**	**5.27%**	**5.06%**	**4.64%**	**3.12%**	**2.47%**

The principal risk in 2012 and beyond is that the Bank originates bad loans. As part of the ongoing diversification of the loan book away from commercial real estate (75% of total loans), the Bank hired an SBA lending team that began originating loans in 4Q 2011 with the goal of generating at least $65 million per quarter in 2012 and then $75 million per quarter in 2013. In addition, Hamni has the highest proportion of owner-occupied (O&O) commercial real estate loans among its peer group with 62% occupied by the owner of the property. Owner-occupied properties typically default at much lower rates then properties occupied by someone other than the owner.

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To project the future performance of Hamni Bank, or any bank for that matter, we focus on the underlying assumptions that drive net income. Net income is the principal metric by which we determine a bank's valuation – the higher the net income as reflected in ROE, the higher the price investors will pay as a percentage of tangible book value (P/TBV).

We begin with the basic formula:

Net Income = **Net Interest Income** plus **Non Interest Income** minus **Non Interest Expense**

Net Interest Income – NIM[7] averaged 3.68% in 2011. Longer-term, management targets NIM expansion to 4-4.25% due to the following factors: (1) increasing the loan-to-deposit ratio, (2) improving asset yields as rates rise; (3) relatively-stable funding costs with limited sensitivity to interest rates – 27% of deposits are non-interest bearing, and (4) running-off high cost CDs – $650 million of CDs are re-pricing in the first half of 2012. CDs paying 1.8% will re-price at below 1%. However, as long as interest rates remain at historically low levels, the loan portfolio will re-price at lower yields; and therefore, we expect NIM to remain relatively constant as long as the shape of the yield curve remains relatively steep[8].

[7] Net Interest Margin (NIM) = Net interest income reflected as a % of earning assets.

[8] For the month of December 2011, the slope of the yield curve as measured by the difference between the 3-month and the 10-year Treasury yields was +187 basis points, above the 20-year average of 180 basis points.

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Net Interest Margin (NIM) Analysis

	2011			2012			2013				
Assets	Avg Balance	Yield	Interest Income	Avg Balance	Yield (4Q11)	Interest Income	Avg Balance	Yield	Interest Income	Notes	
Non-Earning Assets:											
Cash	68,255	0.00%	0	68,255	0.00%	0	68,255	0.00%	0		
Allowance for Loan Losses	-119,233	0.00%	0	-119,233	0.00%	0	-119,233	0.00%	0		
Other Assets	85,989	0.00%	0	85,989	0.00%	0	85,989	0.00%	0		
Total Non-Earning Assets:	**35,011**	0.00%	0	**35,011**	0.00%	0	**35,011**	0.00%	0		
as a % of Total Assets	***1.3%***			***1.2%***			***1.2%***				
Earning Assets:											
Interest-Bearing Deposits in other Banks	113,829	0.28%	315	114,144	0.26%	297	114,441	0.26%	298		
Repos	5,857	0.46%	27	5,884	0.40%	24	5,908	0.40%	24		
Term Federal Funds Sold	38,693	0.71%	276	115,000	0.93%	1,070	116,070	0.93%	1,079		
Municipal Securities - Taxable	21,740	4.07%	884	22,624	3.98%	900	23,524	3.98%	936		
Municipal Securities - Nontaxable	6,544	5.07%	332	6,876	4.67%	321	7,197	4.67%	336		
Obligations of other US Gov't Agencies	121,961	1.61%	1,963	123,924	1.53%	1,896	125,820	1.53%	1,925		
Other Debt Securities	295,953	2.30%	6,806	302,759	1.71%	5,177	307,936	1.71%	5,266		
Equity Securities	33,573	1.59%	534	34,107	1.74%	593	34,700	1.74%	604		
Loans:	9/30/11 CALL Report										
CRE	1,537,501	5.91%	90,805	1,628,306	5.91%	90,805	1,735,394	5.91%	96,168	Constant yield	
% of Total	*72.7%*			*75.8%*			*77.4%*				
% Growth							1.00%			1-2% growth	
C&I	270,772	6.00%	16,246	287,018	6.00%	16,246	316,180	6.00%	17,221	5.8-6%	
% of Total	*12.8%*			*13.4%*			*14.1%*				
% Growth							4.50%			4-5% growth	
Resi	92,194	4.00%	3,688	95,882	4.00%	3,688	103,884	4.00%	3,835	3.5-4%	
% of Total	*4.4%*			*4.5%*			*4.6%*				
% Growth							4.50%			4-5% growth	
Construction	52,880	5.00%	2,644	55,524	5.00%	2,644	691	5.00%	2,776	Loan Balance - 2013	2,185,781
% of Total	*2.5%*			*2.6%*			*0.0%*				
% Growth							-98.76%			Charge-Offs	56,046
										Assume all charge-offs are in construction	
Multifamily	65,425	5.91%	3,864	69,289	5.91%	3,864	73,846	5.91%	4,092	Constant yield	
% of Total	*3.1%*			*3.2%*			*3.3%*				
% Growth							1.00%				
Consumer	10,755	5.00%	538	11,293	5.00%	538	11,831	5.00%	565	Constant yield	
% of Total	*0.5%*			*0.5%*			*0.5%*				
% Growth							0.00%			Assume no growth	
Total Loans	**2,114,546**	5.57%	117,785	**2,147,312**	5.49%	117,785	**2,241,826**	5.56%	124,658	Guidance = 10% growth in 2012, supported by	
% Growth				**1.55%**			**4.40%**			SBA lending team year 1 target = $150M	
Total Earning Assets	**2,752,696**	4.68%	128,922	**2,872,630**	4.55%	128,063	**2,977,422**	4.62%	135,125		
Total Assets	**2,787,707**	4.62%	128,922	**2,907,641**	4.40%	128,063	**3,012,433**	4.49%	135,125		

	2011			2012			2013				
Liabilities	Avg Balance	Yield	Interest Expense	Avg Balance	Yield (4Q11)	Interest Expense	Avg Balance	Yield	Interest Expense	Notes	
Interest-Bearing Liabilities:											
Deposits:											
Savings	109,272	2.52%	2,754	113,161	2.29%	2,591	116,535	2.29%	2,669		
Money Market Checking and NOW Accounts	465,840	0.74%	3,447	482,418	0.57%	2,750	496,802	0.57%	2,832		
Retail Time Deposits (<$100k)	315,174	1.23%	3,877	326,390	1.16%	3,786	336,122	1.00%	3,361	650M CDs repricing 1H12	
Total Core Deposits	890,286	1.13%	10,078	921,969	0.99%	9,127	949,458	0.93%	8,862	CD rate:	1.80%
Jumbo Time Deposits (>$100k)	913,643	1.52%	13,887	946,157	1.49%	13,613	974,368	1.00%	9,462	Rollover rate:	1.00% or below
Total Interest-Bearing Deposits	1,803,929	1.33%	23,965	1,868,126	1.22%	22,741	1,923,826	0.95%	18,323	Peer group in-market avg:	1.05%-1.15%
Junior Subordinated Debentures	82,406	3.54%	2,917	82,406	3.72%	3,066	82,406	3.72%	3,066		
FHLB Advances	66,191	1.00%	662	3,303	5.26%	174	3,303	5.26%	174		
Other Borrowings	4,551	2.09%	86	0	2.73%	0	0	2.73%	0		
Total Interest-Bearing Liabilties	1,957,077	1.41%	27,630	1,953,835	1.33%	25,980	2,009,535	1.07%	21,562		
Noninterest-Bearing Liabilities:											
Demand Deposits	600,726	0.00%	0	692,956	0.00%	0	713,617	0.00%	0		
Other	29,387	0.00%	0	29,387	0.00%	0	29,387	0.00%	0		
Total Noninterest-Bearing Liabilties	630,113	0.00%	0	722,343	0.00%	0	743,004	0.00%	0		
as a % of Total Liabilities	***24.4%***			***27.0%***			***27.0%***				
Total Liabilties	2,587,190	1.07%	27,630	2,676,178	0.97%	25,980	2,752,539	0.78%	21,562		
Net Interest Income			**101,292**			**102,083**			**113,563**		
% NIM			**3.68%**			**3.55%**			**3.81%**		

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Non-Interest Income – fees are depressed because interest rates are zero-bound. Longer-term, management targets non-interest income as a percentage of assets to eclipse 1%, but for now is satisfied with 0.6% fees earned on SBA loans, the focal point of new origination.

Non-Interest Expense – the Bank's Efficiency Ratio[9] of 67% in 2011 was well-above management's target of mid 50% in 2012, and 45-50% in 2013. Overseeing this effort is new CFO, Lonny Robinson, a highly-regarded cost cutter with over 25 years of community banking experience and prior to that a CPA at Ernst & Young specializing in banks. The improvement in operational efficiency is being driven by (1) lower SG&A, (2) lower regulatory-related fees and assessments, (3) lower resolution expenses due to lower balances of non-performance assets, and (4) the elimination of other non-recurring charges.

On the subject of taxes, the Bank has an $82 million deferred tax asset (DTA) that is 100% offset by a valuation allowance. Under GAAP, a valuation allowance must be recorded if it is "more likely than not" that such deferred tax assets will not be realized. However, after five straight quarters of profits, management expects the allowance to be reversed in a multi-step event beginning in 2012. They estimate $60 million will be recoverable.

Capitalization & Other Balance Sheet Considerations – In order to generate the double-digit return on equity (ROE) required to earn a 1.5x or higher multiple of tangible book value (TBV), capitalization as reflected in the ratio of tangible common equity to total assets (TCE / TA) must be optimized. In other words, a bank weighed down by excess cash earning zero percent doesn't deserve a multiple much higher than 1x TBV.

At the end of Q3 2011, Hamni Bank reported a 7.5% TCE Ratio that rose to 10.4% in Q4 after the November common stock offering. Longer-term, management targets TCE in the 9-10% range; however, the reversal of the deferred tax asset valuation allowance in 2012 combined with a restructured operation will elevate TCE up to 13.4%, a level of over-capitalization that suppresses return on equity. ROE will stay around 8% or 9% unless management is able to prudently re-leverage the balance sheet.

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[9] Efficiency Ratio is a key measure of expense control. It equals non-interest expense divided by (net interest income before provision for credit losses plus total non-interest income). Non-interest expenses include salaries and employee benefits, occupancy and equipment expenses, other real estate (OREO) and troubled asset resolution related expenses, professional services, and other.

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Assuming management is able to achieve its target 9-10% TCE Ratio then the Bank should generate ROE in a range of 10% to 16% based on ROA in the range of 1.0% to 1.4% through 2014[10].

<u>Valuation</u> – We employ a range of Price-to-Tangible Book Value multiples (P/TBV) – from 1.00x to 1.50x – to estimate the future value of Hamni Bank. This multiple range is based on (1) the high correlation between return on tangible common equity (ROTCE) and P/TBV, and (2) comparable bank valuations.

Westcoast Banks

	Price as of 12/31/11	Shares Out	Market Cap	2011E Assets	TCE / TA	TBV	P/TBV	NIM	ROA	ROTCE
Korean Banks in California										
Hanmi Financial (HAFC)	**7.40**	**31.5**	**233.0**	**2,687**	**10.3%**	**9.02**	**0.8x**	**3.7%**	**1.0%**	**9.9%**
BBCN Bancorp (BBCN)	9.45	38.1	360.0	3,016	10.5%	8.29	1.1x	4.2%	0.9%	8.1%
Wishire State Bank (WIBC) *	3.63	71.3	258.8	2,681	8.7%	3.27	1.1x	4.3%	1.0%	11.5%
Other Korean Banks in CA include Saehan Bank ($579M), Pacific City Bank ($526M), Common Wealth Business Bank ($403M						**Average:**	**1.0x**			
Other Korean Banks in the US include United Central Bank (TX, $2,553M), Woori American Bank (NY, $1,031M), Shinhan Bank America (NY, $953M),										
Foster Bank (IL, $540M), Bank of Princeton (NJ, $524M), Metro City Bank (GA, $384M)										
Chinese Banks in California										
East West Bancorp (EWBC)	19.75	149.0	2,942.8	21,813	8.1%	11.83	1.7x	4.5%	1.1%	13.6%
Cathay Bank (CATY)	14.93	78.6	1,173.5	10,499	8.7%	11.64	1.3x	3.3%	0.9%	10.3%
MetroCorp Bancshares (MCBI)	6.35	13.2	83.8	1,498	6.8%	7.75	0.8x	3.8%	0.5%	7.3%
						Average:	**1.3x**			
Other Small Cap Banks in Los Angeles										
CVB Financial (CVBF)	10.03	105.2	1,055.2	6,530	9.8%	6.10	1.6x	3.8%	1.3%	12.7%
PacWest Bancorp (PACW) d.b.a. Pacific Western Bank	18.95	37.3	706.8	5,494	9.2%	13.55	1.4x	5.3%	0.9%	9.8%
First California Financial (FCAL)	3.26	29.6	96.4	1,520	7.9%	4.08	0.8x	3.9%	0.6%	7.6%
Preferred Bank Los Angeles (PFBC)	7.45	13.0	96.9	1,261	12.1%	11.73	0.6x	3.8%	1.0%	8.3%
Pacific Mercantile Bancorp (PMBC)	3.26	12.3	40.1	1,007	6.8%	5.55	0.6x	3.5%	0.5%	7.4%
Pacific Premier Bancorp (PPBI)	6.34	10.6	67.2	929	9.3%	8.18	0.8x	4.5%	1.1%	11.8%
						Average:	**1.0x**			
Westcoast Recaps										
Sterling Financial (STSA)	16.70	62.0	1,034.9	9,176	9.2%	13.66	1.2x	3.3%	0.4%	4.3%
Pacific Capital Bancorp (PCBC) - d.b.a. Santa Barbara Bank & T	28.24	33.0	930.7	5,843	11.2%	19.83	1.4x	4.1%	1.0%	8.9%
Central Pacific Bank (CPF)	12.92	41.7	538.8	4,119	10.2%	10.09	1.3x	3.1%	0.9%	8.7%
Cascade Bancorp (CACB) d.b.a. Bank of the Cascades	**4.38**	**47.1**	**206.3**	**1,393**	**11.1%**	**3.28**	**1.3x**	**3.7%**	**neg**	**neg**
HomeStreet Bank (HMST) - IPO pulled 2 times in 2011; OneWest (private)						**Average:**	**1.3x**			
Large Westcoast Banks										
Zions Bancorp (ZION)	16.28	184.3	3,000.4	51,531	6.7%	18.87	0.9x	3.8%	0.4%	5.2%
First Republic Bank of San Francisco (FRC)	30.61	132.4	4,052.8	26,201	8.8%	17.39	1.8x	4.5%	1.4%	15.9%
City National Bank (CYN)	44.18	52.7	2,328.3	23,104	6.9%	30.42	1.5x	3.8%	0.7%	10.1%
SVB Financial (SIVB)	47.69	43.8	2,088.8	19,195	8.1%	35.50	1.3x	3.1%	0.8%	9.9%
Washington Federal (WFSL)	13.99	109.0	1,524.9	13,441	11.8%	14.52	1.0x	3.3%	0.8%	6.8%
Bank of Hawaii (BOH)	44.49	46.6	2,073.2	13,305	7.4%	21.18	2.1x	3.1%	1.2%	16.2%
Umpqua Holdings (UMPQ)	12.39	114.8	1,422.4	11,773	8.7%	8.88	1.4x	4.1%	0.7%	8.1%
First Interstate Bancsystems (FIBK)	13.03	42.8	557.7	7,203	7.3%	12.25	1.1x	3.8%	0.5%	6.9%
Glacier Bancorp (GBCI)	12.03	71.9	865.0	7,043	10.5%	10.24	1.2x	3.9%	0.2%	1.9%
WestAmerica Bancorp (WABC)	43.90	28.5	1,251.2	4,966	8.2%	14.21	3.1x	5.4%	1.8%	22.1%
Columbia Banking System (COLB) d.b.a. Columbia State Bank	19.27	39.5	761.2	4,756	13.3%	15.99	1.2x	5.5%	1.0%	7.5%
						Average:	**1.5x**			
* ROA / ROE estimates are for 2012 because 2011 is not material (NM).										

[10] The yield assumptions underlying net interest margin (NIM) and therefore return on assets (ROA) are based on virtually no movement in the yield curve, a condition that we believe is most likely despite the threat of moderate flattening via Operation Twist and QE3. The curve has barely moved since the crisis. It is steep. As long as the Fed pegs short-term interest rates at zero it will remain so.

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3-SIGMA VALUE

Conclusion – Hamni Bank is a well-capitalized post-restructuring bank that accelerated through the credit cycle via two rounds of financing. Unfortunately for investors in the first round, the amount raised wasn't enough.

Investors in the second round however can expect to earn a 150% return on their investment based on a prospective 1x multiple of 2013 tangible book value.

Financial & Valuation Analysis

Income Statement Statistics:	**3/31/11**	**6/30/11**	**9/30/11**	**12/31/11**	**2011**	**2012**	**2013**
Interest and Dividend Income	33,875	32,618	31,674	30,640	128,807	128,063	135,125
Interest Expense	7,766	7,143	6,515	6,206	27,630	25,980	21,562
Net Interest Income - Pre-Provision	26,109	25,475	25,159	24,434	101,177	102,083	113,563
Net Interest Margin (NIM) - Pre-Provision	***3.68%***	***3.83%***	***3.82%***	***3.62%***	***3.68%***	***3.55%***	***3.81%***
Net Provision	0	0	8,100	4,000	12,100	4,688	2,127
Net Interest Income - Post-Provision	26,109	25,475	17,059	20,434	89,077	97,395	111,436
Net Interest Margin (NIM)- Post-Provision	***3.68%***	***3.83%***	***2.59%***	***3.03%***	***3.24%***	***3.39%***	***3.74%***
Non-Interest Income	5,508	6,017	5,978	6,348	23,851	28,910	32,616
as a % of assets	*0.77%*	*0.89%*	*0.89%*	*0.93%*	*0.87%*	*0.93%*	*1.00%*
Non-Interest Expense	21,061	22,886	18,852	21,249	84,048	74,029	72,026
% Efficiency Ratio	*66.6%*	*72.7%*	*60.5%*	*69.0%*	*67.2%*	*58.6%*	*50.0%*
Pre-tax Income	10,556	8,606	4,185	5,533	28,880	52,275	72,026
Income Taxes (Benefit)	119	605	-18	27	733	18,296	25,209
% Tax Rate	*1.1%*	*7.0%*	*-0.4%*	*0.5%*	*2.5%*	*35.0%*	*35.0%*
Net Income	10,437	8,001	4,203	5,506	28,147	33,979	46,817
Shares Outstanding	151,288	151,258	18,907	24,925	20,425	31,485	31,485
EPS	0.07	0.05	0.22	0.22	1.38	1.08	1.49
P/E - Price Paid					**4.6x**	**5.9x**	**4.3x**
P/E - 12/31/11 Price					**5.4x**	**6.9x**	**5.0x**
ROA	**0.4%**	**0.3%**	**0.2%**	**0.2%**	**1.0%**	**1.1%**	**1.4%**
ROE	**5.7%**	**4.1%**	**2.1%**	**1.9%**	**9.9%**	**8.2%**	**9.3%**
Balance Sheet Statistics:	**3/31/11**	**6/30/11**	**9/30/11**	**12/31/11**	**2011**	**2012**	**2013**
Cash	170,361	198,923	228,862	203,501	203,501	234,496	281,272
Term Federal Fund Sold	0	0	0	115,000	115,000	115,000	115,000
Securities	539,194	391,045	415,698	441,604	441,604	490,290	499,178
Loans - Receivable	**2,125,766**	**2,068,593**	**1,992,325**	**1,938,956**	**1,938,956**	**2,147,312**	**2,241,826**
% Growth						*10.7%*	*4.4%*
LESS: Allowance for loan and lease losses	-125,780	-109,029	-100,792	-89,936	-89,936	-69,788	-56,046
% Coverage	*5.9%*	*5.3%*	*5.1%*	*4.6%*	*4.6%*	*3.3%*	*2.5%*
Loans - Held for Sale	47,649	44,105	37,202	22,587	22,587	0	0
Other real estate owned (OREO)	2,642	1,340	289	180	180	0	0
Premises and fixed assets	17,165	16,869	16,627	16,603	16,603	16,271	15,946
Investments in FHLB Stock and FRB Stock, at cost	33,649	32,565	31,451	31,412	31,412	31,412	31,412
Bank-Owned Life Insurance (BOLI)	27,581	27,813	28,051	28,289	28,289	28,289	28,289
Intangibles	2,015	1,825	1,664	1,533	1,533	1,533	1,533
Other assets (accrued interest receivable, servicing assets, DTA, other.)	39,424	36,786	35,193	35,095	35,095	98,866	103,218
Total assets	**2,879,666**	**2,710,835**	**2,686,570**	**2,744,824**	**2,744,824**	**3,093,682**	**3,261,628**
Deposits:							
Noninterest-Bearing	576,733	600,812	621,195	634,466	634,466	692,956	713,617
% of deposits paying no interest	*23.7%*	*25.1%*	*26.4%*	*27.1%*	*27.1%*	*27.1%*	*27.1%*
Interest-Bearing	1,854,207	1,797,563	1,731,974	1,710,444	1,710,444	1,868,126	1,923,826
Total Deposits	2,430,940	2,398,375	2,353,169	2,344,910	2,344,910	2,561,082	2,637,443
Loan-to-Deposit Ratio	*87.4%*	*86.2%*	*84.7%*	*82.7%*	*82.7%*	*83.8%*	*85.0%*
Federal Home Loan Bank Advances	153,565	3,479	3,392	3,303	3,303	3,303	3,303
Junior Subordinated Debentures	82,406	82,406	82,406	82,406	82,406	82,406	82,406
Other Borrowings	1,386	1,034	18,708	0	0	0	0
Other	27,318	27,176	25,692	28,597	28,597	31,670	33,064
Total liabilties	2,695,615	2,512,470	2,483,367	2,459,216	2,459,216	2,678,461	2,756,216
Total equity capital	**184,051**	**198,365**	**203,203**	**285,608**	**285,608**	**415,220**	**505,413**
Total liabilties and equity capital	**2,879,666**	**2,710,835**	**2,686,570**	**2,744,824**	**2,744,824**	**3,093,682**	**3,261,628**
TCE / TA	***6.32%***	***7.25%***	***7.50%***	***10.35%***	***10.35%***	***13.37%***	***15.45%***
Tangible Book Value (TBV)	**182,036**	**196,540**	**201,539**	**284,075**	**284,075**	**413,687**	**503,880**
per share					**9.02**	**13.14**	**16.00**
Price / TBV @ Price Paid ($0.80 reverse-split 1-for-8)					**0.71x**	**0.49x**	**0.40x**
Price / TBV @ Current Market Price					**0.82x**	**0.56x**	**0.46x**

Valuation is Based on FY 2013 Tangible Book Value			
Multiple Range	**1.00x**	**1.25x**	**1.50x**
Implied Market Valuation	**503,880**	**629,849**	**755,819**
per share	**16.00**	**20.00**	**24.01**
Multiple of Initial Investment	**150.1%**	**212.6%**	**275.1%**

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