CEOCFO Interviews & News!

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Frontier Financial's focus on creating wealth for both the shareholder and the employees has created a productive environment and set them apart from the competition

FRONTIER FINANCIAL CORPORATION

Financial
Regional – Pacific Banks
(FTBK-NASDAQ)

Frontier Financial Corporation

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John J. Dickson
President and CEO

BIO:
John has been with the Bank since April 1985. He became CEO of Frontier Bank on May 18, 2003 and President and CEO of Frontier Financial Corporation January 1, 2006. Prior to his CEO role, John spent the majority of his early tenure in the finance area of the bank. In addition, John spent several years in Credit Administration, and as a Loan Officer. He is a graduate of the University of Puget Sound (1982) earning a BA in Business and Economics. He earned his CPA designation and spent three years in the audit division of a large accounting firm. John graduated with honors in 1994 from the Bank Administration School in Madison, Wisconsin. He is past Chairman of the Washington Bankers Association.

Company Profile:
Frontier Financial Corporation (NASDAQ: FTBK), is the parent company of Frontier Bank, which operates over 40 offices in Clallam, Jefferson, King, Kitsap, Pierce, Skagit, Snohomish, and Whatcom Counties.

Frontier Financial Corporation is a Washington-based financial holding company providing financial services through its commercial bank subsidiary, Frontier Bank. Frontier Bank offers a wide range of financial services to businesses and individuals in its market area, including investment and insurance products.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Dickson, what was your vision when you became CEO of Frontier Financial and where are you today?
Mr. Dickson: "When I took over as CEO in May of 2003, we had gone through a period of fairly slow growth. We had gone through a period where we had taken our focus off of de novo branching because of some potential merger candidates that would have resulted in some overlapping in our branches. As a result, we had a few slow years, so my strategy was to try to get back on a growth pattern by opening at least two de novo offices a year and focusing on internal or organic growth. Over the 28-year history of the bank, we have had eight acquisitions and of the 45 offices that we currently have, 23 of them have come from de novo branches and 22 have come from acquisitions. Our growth historically has been even between de novo and acquired branches. The focus was to get back onto the de novo growth. We have done a good job of that and about a year ago we picked up North Star Bank, which added two branches to our franchise."

CEOCFO: When you are adding branches, are they in the same area that you are serving?
Mr. Dickson: "We are looking to fill in our existing footprint. We are currently in eight counties that surround the Puget Sound here in Washington State. Our focus is to fill in the footprint, plus we would like to continue to move south down the I-5 corridor. We currently have three branches that are in the process of being opened, one of those branches is in Lacey, Washington, which is down near Olympia. That will get us into our ninth county. Beyond that, we do have interest in continuing south down the I-5 corridor, down into the Portland, Oregon area. Oregon does not allow for interstate branching so the only way we would get into Oregon is by acquiring a charter."

CEOCFO: What is the economy like in the area you serve?
Mr. Dickson: "The economy has been very strong. Boeing with the introduction of the 787 and their success in selling airplanes recently has added a boost of confidence in the area. The 787 is due to

go into production this summer. You may be aware that the 787 is the first airplane that Boeing has employed the strategy where a number of components are being assembled in other areas of the country or in other countries and they are bringing those big components here into Everett and putting them together. It is not a huge ramp-up in employees, but just here at the Everett plant at their low point, they were down to about 17,000 employees and more recently, they were in the 25,000 range. Boeing is adding to job growth. Microsoft of course has always been adding people. The biosciences are fairly vibrant in the Puget Sound area. In the last several years, there has been quite a ramp up in construction employment. That is predicted to level off as the housing and construction market has slowed down a bit. The job growth has been helping and is spurring on good population growth. Our population growth this last year and projecting into the future is around 1.7% annual growth, and I think nationwide it is about one percent, so that is quite a higher population growth here."

CEOCFO: Who is your typical customer?

Mr. Dickson: "Our philosophy when we add branches is we like to hire the banker that knows the community, is a fixture in the community first and the location second. As a result, we do not have a very strong retail presence in the respect that a number of retail banks will do their demographic studies and find the perfect corner to locate the branch and then go out and try to hire a banker. Our philosophy is banking is a people business and since we are all pretty much selling the same products, we have to differentiate ourselves with relationship banking and customer service. As a result, we are not very focused on retail banking, even though probably half of our deposit customers are non-businesses in nature. The majority of our customers are small businesses and those people in real estate, construction and land development. The last few years the housing market has been extremely strong here in the Puget Sound. Most of our loan growth has been in the construction and land development arena, primarily residential and that now makes up about 47% of our loan portfolio. Another 31% is what we consider commercial real estate, which is income properties, strip malls, shopping centers, and owner occupied business buildings. This type of Commercial Real Estate used to be the majority of our portfolio. For the last three years, the housing market has been so strong; most of our growth of loans has been going into construction and land development. That environment, coupled with this flat yield curve and very tough competition on low, long-term, fixed rate loans for commercial real estate, has shifted that loan mix the past few years."

CEOCFO: What sets you apart from your competition?

Mr. Dickson: "One of our slogans is, 'Where people really make the difference" and I believe it is the relationship-banking environment that creates our success. If you analyzed our interest margin, you would find that we are not the lowest priced lenders in the market. There are people that bank with us because of the loan officers that they have the relationship with, and the services that we provide make them willing to pay a bit higher rate for their loans. I truly believe that it is the people, particularly on the loan side and on the deposit side; it is a combination of relationships and deposit pricing. We tend to be a bit more aggressive on our deposit pricing primarily because the construction land development type borrowers, generally do not have a lot of idle cash sitting around in deposit accounts and funding loan growth is a big challenge in banking in this area.

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- John J. Dickson

CEOCFO: What might a lender from Frontier do that is a bit different?

Mr. Dickson: "The first thing I would want to talk about is we still, despite our $3.3 billion in assets, have the community bank structure and culture. Our lenders in our branches can make consumer loans, business loans and real estate loans. When a borrower comes into one of our offices, they do not have to go somewhere else for a consumer, business, or real estate loan; it is one-stop-shopping. A second item is as the lending relationship becomes larger and requires a higher level of approval; the loan officer is the advocate for the customer as the loan goes up the chain of command to get loan approvals. This is unlike many of the regional banks where you the relationship officer is a salesperson out in front and an analyst in the back office is basically making the yes or no decision without meeting the customer or visiting their place of business. I think those things differentiate us from many of the other banks, particularly in construction and land development. We have been doing that for years. We have a reputation and a niche in the real estate area. The customers in that trade know what to expect from us and we have also never panicked or turned the loan spigot off so to speak, when there is a downturn, unlike other banks that have on occasion said we are not making those type of loans anymore. I think we have a good reputation of being very reliable."

CEOCFO: How do you drive new business?

Mr. Dickson: "A lot of new business is a result of new hires. Our preference is to hire experienced bankers. When we go to a new community, we like to hire the banker that comes to the top of the mind for someone who lives in that community. A lot of our new business is a result of those new employees. When we are adding two branches a year, a lot of our new business comes from those new branches and those new relationships."

CEOCFO: Do you do much advertising?

Mr. Dickson: "It depends on who you ask. Our marketing director would say that we do not. I think when you compare our advertising budget to some of our peers, we are probably anywhere from 10 to 25% of what their advertising budget is. We do print ads and we have been on television several times in the last couple of years. We also do radio ads, but we do not spend nearly the amount of money that some of our peers do and nowhere near the national banks."

CEOCFO: The limited advertising has not seemed to hurt you!

Mr. Dickson: "No it has not. If we were a retail bank, I believe advertising would be much more important. Because of our business and real estate focus and our relationship banking focus, the advertising is not that critical to us."

CEOCFO: Are your customers taking advantage of your trust and investment services?

Mr. Dickson: "Both of those areas of the business have been growing their customer base and doing fairly well. It is a great referral target for our branches, particularly these days when our depositors are looking for higher yields. They are not huge contributors to our profitability, but they are another source of contact with customers that help keep the relationship here."

CEOCFO: You had nice 1st Quarter earnings; how do you continue?

Mr. Dickson: "If you look at some of our financial performance rations, we are a high performing bank. The one area where we are probably below average is our non-interest income. There reason for that is that we do not have a lot of non-traditional banking services or products. We just talked about the trust and the investment center, we have a real estate division that originates mortgages and sells them service release into the secondary market. That area has been doing well the last few years. Not having a lot of extra departments like international and correspondent banking and merchant bankcard processing, which we outsourced, allows us to be fairly lean and our efficiency ratio is among the best in the country. The last rating we were about the 17th lowest efficiency ratio in the country. That helps our profitability. Our interest margins, although down in the first quarter, have also been strong. A lot of that has been driven by real estate construction in land development that I was referring to, which is primarily variable rate tied to prime as the Fed has increased rates up until last June (2006). That helped our margin expand. Now cost funds are catching up a bit. We had some a little margin compression in the first quarter, but that was combined with some good loan growth. It resulted in a nice increase in 1st Quarter net income. Our strategy is to try to maintain our high performance ROA and ROE and just grow the balance sheet, resulting in continued growth in net income and earnings per share."

CEOCFO: Why should investors be interested and how can they pick you out of a crowd?

Mr. Dickson: "The high performance numbers are not something new. We have consistently been putting those numbers out for years. One of my themes when I make presentations to investors is we have a great management team, with many long-time employees here in management. We have shown through the cycles that we have been able to continue to perform for the shareholders. One of the items that I attempted to send you is the stock appreciation table. If you look at that table you would see that the original share sold in 1978 for $100, is now 1130 shares through stock splits and dividends and it has a value in the neighborhood of $30,000. So the original investors are very pleased. Over a long-term, depending on when an investor bought our stock, they have generally done very well. Our stock has always traded at a premium to book value, generally around three times book, and at a premium on a P/E basis. Most of the value investors look at our stock and say, you seem a bit pricey to us but we will keep you in mind. When I go back to visit some of those same investors, oftentimes the comment I hear is gee, I wish I would have pulled the trigger two years ago when I thought you were overvalued. It is the long stream of high-performance numbers that makes us stick out amongst the crowd."

CEOCFO: What are your final thoughts for our readers?

Mr. Dickson: "A lot of times people ask me why does Frontier Financial have such a low efficiency ratio? In addition to what was previously mentioned, I also point out our employee wealth creation programs. They are based on one of our principles when my father founded the bank in that he wanted to create wealth for both the shareholders and the employees. As a result, we have two programs that benefit the employees and in turn, drives our efficiency. One is our equity compensation program; we grant equity compensation all the way down to any employee who has been with the bank five years or longer. We have messengers, customer service reps, tellers, and many others that receive equity compensation. It promotes loyalty with those employees. The attitude of employees when they are owners of a company changes their perspective on expenses. I have often had employees say to me, 'John why don't we copy this on both sides of the page; just little things here and there that are expense reduction' type comments. The employees know that remaining efficient will help their investment. The other item we have is profit sharing program, which is common in most banks. We set aside 9% of net income into a pool and out of that pool we pay a cash bonus, 401K match and a profit sharing contribution. Historically, the cash bonus has been about five percent of salary, but last year it was 6.5 % because of our outstanding year. We match 401k dollar for dollar for the first four percent. The rest of the money in the pool goes into profit sharing. Last year those three pieces combined, if you maxed out your 401k, would equal about 20% of your annual compensation. Our employees focus on efficiency and profitability through the profit sharing program. A lot of long-time employees have generated nice profit sharing 401 k accounts in the high six figures. Those things set us apart."

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