Company Update

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NRIM: $25.44
"Outperform"
Price Target: $28.50

Summary Statistics	
Exchange	NASDAQ
Market Cap ($M)	$163.5
Avg. Volume	30,172
Annual Dividend	$0.60
Dividend Yield	2.36%
Tangible Book/Share	$20.25
Price/Tangible Book	125%
Price/2013 EPS	13.8x
Price/2014 EPS	14.1x
Total Assets ($M)	$1,165
TCE/TA	11.40%
ROAA (2013)	1.09%
ROAE (2013)	8.93%

EPS Estimates

	2011	2012	2013	2014
Q1	$0.37	$0.39	$0.41	$0.38
Q2	$0.49	$0.48	$0.53	$0.44
Q3	$0.38	$0.62	$0.44	$0.48
Q4	$0.50	$0.48	$0.46	$0.50
FY	$1.74	$1.97	**$1.84**	**$1.80**

Industry Type	Bank
Headquarters	Anchorage, AK
Offices	10
Date Established	2002
CEO	R. Marc Langland
CFO	Joseph M. Schierhorn

Northrim BanCorp Inc.

Improving Alaska Economy Supports Expanding Loan Volumes – Maintain Rating; Increase Estimates

- NRIM reported 2Q13 core EPS at $0.51. The company fired on all cylinders with positive trends noted on all fronts. ROTCE increased to over 10% even with robust capital levels.
- Total revenues expanded nearly 8% as a 23% jump in fee income was augmented by a 3.5% lift in spread revenues. Strong mortgage income and increased swap income drove fees.
- Top line benefitted from good growth and a flattish NIM. Margin is expected to be stable to slightly higher in the coming quarters as loan growth is funded by excess liquidity.
- Loans declined $3 Mil. as pay downs of several large CRE loans more than offset good commercial growth. Mid single digit growth appears sustainable given an improving Alaska economy and ability to take share.
- Core operating expenses declined 1% linked quarter to $9.5 Mil. and represented 3.3% of average assets. We expect little change in the current base line run rate.
- Improved credit leverage is forecast given recent trends and an improving Alaska economy. We are forecasting the relative reserve to drop to 2% of loans by year end 2014 from 2.25% today.
- Following a review of the quarter we are increasing our 2013 and 2014 EPS estimates to $1.83 and $1.80 from $1.68 and $1.75, respectively. Our estimate revisions reflect 2Q13's stronger than expected performance coupled with our outlook for a better margin and slightly greater credit leverage.
- We are maintaining our "Outperform" rating on shares of NRIM. Applying a 13x P/E multiple on our 2014 EPS estimate and then adding in over $5 of excess capital results in a one year price target of $28.50.

Please see important disclosures regarding FIG Partners' equity rating system, distribution of ratings, and other report disclosures on the last page of this report.

Additional Analysis

The road map ahead calls for solid loan growth and a relatively stable margin to support earnings as mortgage income weakens and little change is expected in credit costs or operating expenses which are at a base line level. We remain positive on NRIM's ability to expand their loan base given 1) the healthy Alaska economy and 2) their ability to continue to take market share. Already on solid footing, the Alaska economy is poised to benefit from the recent decrease in oil taxes which was designed to boost oil and gas exploration and production. Notably, major energy producers have recently announced plans for significant new drilling programs. Excess liquidity of ~$80 Mil. provides ample runway to fund future growth which should help support NIM at current levels or higher. Holding loan yields is no guarantee as price competition is fierce. Increased volumes could help offset pricing pressure. We are modeling mid to high single digit loan growth for both 2013 and 2014. We are modeling fee income and expense run rates of $~$3.2 Mil. and $10 Mil. which compare to 1H13 average of $3.3 Mil. and $9.7 Mil., respectively.

Provisioning has been low though is projected to drop to zero over the next couple quarters given recent credit trends and an improving Alaska economy. NPAs are down $6 Mil. over the past four quarters while reserves are unchanged over that same time period. Expanding loan growth coupled with our forecast for modest charge offs (~10 bps) should allow the reserve to drop to ~2% of loans by year end 2014. Notably, this tempering of our provision forecast has minimal impact on our EPS forecast given that credit costs are already at de minimus levels. M&A remains a focus and an improving currency may help accelerate potential opportunities.

NPAs are down $6 Mil. over the past four quarters while reserves are unchanged over that same time period

Asset Quality						YOY
	2Q12	3Q12	4Q12	1Q13	2Q13	Change
NonAccrual Loans	5.9	4.9	4.5	4.4	3.8	-36%
TDR's	8.1	7.9	8.6	6.6	6.2	-24%
NonPerforming Loans	14.1	12.8	13.2	11.0	10.0	-29%
OREO	6.4	5.8	4.5	4.5	4.3	-33%
NonPerforming Assets	*20.5*	*18.5*	*17.7*	*15.5*	*14.3*	-30%
Net Charge-offs	-0.1	-1.4	-0.2	-0.8	0.1	-201%
Impaired Loans	14.2	13.1	13.1	11.6	11.2	-21%
Reserves	16.5	16.5	16.4	16.6	16.5	0%
Reserves/ NPLs	279%	337%	362%	377%	434%	56%

2Q13 EPS Review

NRIM reported 2Q13 EPS of $0.53 per share. Excluding securities gains and a reserve release at its purchase receivable line of business, we place core EPS at $0.51. The company fired on all cylinders with positive trends noted on all fronts.

Total revenues expanded nearly 8% linked quarter as a 23% jump in fee income was augmented by a 3.5% lift in spread revenues. Fee income benefitted from a more than doubling of mortgage income coupled with a jump in "other income" which was aided by NRIM's foray into swap income.

Modest margin expansion and growth in average earning assets contributed to the strength in top line revenue. Margin was up 1 bp to 4.33% as loan yields held stable while cost of funds ticked lower reaching what appears to be a bottom at ~15 bps.

Average earning assets expanded $18 Mil. or 7% annualized with significant mix improvements noted as growth of $28 Mil. in average loans more than offset shrinkage of $10 Mil. in low yielding short term investments. Period end loans declined $3 Mil. as the pay down of several large CRE loans more than offset growth in the commercial portfolio.

Core operating expenses declined 1% linked quarter to $9.5 Mil. on lower compensation costs and represented 3.3% of average assets. OREO related expense remains de minimus.

In addition to minimal NCOs of 6 bps, NPAs (including performing TDRs) declined 7% and are now sub 2% of loans & OREO. Reserve coverage of NPLs grew further to a robust 430%, or 164% inclusive of TDRs even with no provisioning in the quarter given minimal losses and slight period end loan shrinkage.

ROTCE increased to over 10% even with robust capital levels—TCE of 11.4%. TBV expanded $0.30 to $20.25 even with some negative impact on the AFS portfolio given the recent rise in rates.

Background & Risks

NRIM, a one-bank holding company and the parent of Anchorage, Alaska-based Northrim Bank, operates with $1.164 billion in assets and 10 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 70% of the state's population. Complimenting the commercial focus, NRIM also operates five non-banking subsidiaries which provide investment advisory and trust, mortgage origination (largest in Alaska), purchased receivables, and employee benefit sales and services. Four of these are not wholly owned and two operate in the Pacific Northwest.

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 Snap.Shot	2Q12A	3Q12A	4Q12A	1Q13A	2Q13A	% Change Y/Y	% Change LQ
Earnings Per Share (EPS)	$0.48	$0.62	$0.48	$0.41	$0.53	-14.3%	30.7%
CORE GAAP EPS	$0.45	$0.62	$0.47	$0.38	$0.51	-17.6%	32.7%
Reported Book Value	$20.14	$20.70	$20.93	$21.19	$21.48	3.8%	1.4%
Tangible Book Value	$18.86	$19.43	$19.67	$19.95	$20.25	4.2%	1.5%
Shares Outstanding EOP	6.47	6.47	6.51	6.51	6.52	0.6%	0.0%
Net Interest Income	$10.50	$10.59	$10.78	$10.56	$10.93	3.2%	3.5%
Loan Loss Provision	$0.09	($1.44)	($0.30)	$0.15	$0.00	-100.0%	-100.0%
Total Fee Income	$3.48	$4.16	$4.28	$2.92	$3.60	-13.4%	23.3%
Gain/Loss on Securities	$0.25	$0.00	$0.06	$0.22	$0.10	na	-54.1%
Non-Interest Expense	$9.30	$9.99	$10.56	$9.70	$9.39	-6.0%	-3.2%
Pre-Tax Income	$4.84	$6.20	$4.87	$3.85	$5.24	-15.4%	36.0%
Taxes	$1.55	$1.99	$1.59	$1.09	$1.64	-17.9%	50.0%
Tax Rate	32%	32%	33%	28%	31%	-2.9%	10.3%
Net Income	$3.29	$4.20	$3.28	$2.76	$3.61	-21.8%	30.4%
Total Core Revenue	$13.98	$14.75	$15.06	$13.48	$14.53	-5.3%	7.8%
Total Core Fee Income	$3.48	$4.16	$4.28	$2.92	$3.60	-16.3%	23.3%
Core Expenses	$9.18	$9.74	$9.93	$9.70	$9.49	-5.8%	-2.2%
ROAA	1.23%	1.52%	1.16%	0.99%	1.26%	-18.8%	26.8%
ROAE	10.17%	12.72%	9.71%	8.06%	10.37%	-20.0%	28.7%
Net Interest Margin	4.51%	4.36%	4.25%	4.32%	4.34%	3.4%	0.5%
Core Efficiency Ratio	67.0%	68.9%	70.9%	72.7%	65.3%	-2.8%	-10.2%
Core Expense / Avg. Assets	3.49%	3.61%	3.72%	3.48%	3.28%	-3.4%	-5.8%
Gross Loans	$679	$709	$716	$733	$734	-4.2%	0.1%
Intangibles	$8.3	$8.2	$8.2	$8.1	$8.1	0.8%	-0.7%
Total Deposits	$895	$945	$970	$955	$959	-5.3%	0.4%
Total Common Equity	$130	$134	$136	$138	$140	-2.7%	1.4%
Avg Assets	$1,065	$1,106	$1,136	$1,114	$1,146	-3.7%	2.8%
Avg Loans	$677	$696	$709	$717	$745	-2.7%	4.0%
Average Earning Assets	$950	$987	$1,023	$1,005	$1,023	-3.8%	1.8%
Avg Deposits	$890	$927	$947	$924	$944	-4.0%	2.2%
Loan / Deposit	75.9%	75.0%	73.8%	76.8%	76.5%	1.2%	-0.3%
TCE Ratio	11.47%	11.17%	11.12%	11.37%	11.40%	2.7%	0.3%
Net Charge-offs	($112)	($1,438)	($218)	($82)	$113	-92.2%	-237.8%
Total NPL's	$14,156	$12,766	$13,158	$10,986	$10,077	10.9%	-8.3%
Loans 90+ Days Past Due	$91	$0	$0	$112	$0	na	-100.0%
NPL's + 90 Days Past	$14,247	$12,766	$13,158	$11,098	$10,077	11.6%	-9.2%
OREO	$6.45	$5.77	$4.54	$4.52	$4.29	11.8%	-4.9%
Total NPA'S	$20,604	$18,532	$17,701	$15,502	$14,370	11.2%	-7.3%
NPA / (Loans + OREO)	3.11%	2.94%	2.50%	2.13%	1.99%	5.7%	-6.8%
NCOs / Avg Loans	-0.07%	-0.83%	-0.13%	-0.05%	0.06%	-92.0%	-234.3%

Northrim BanCorp, Inc. (NRIM) **Updated on 8/5/13**

Earnings Model

	Annual			2013 Quarterly				2014 Quarterly			
	2012E	2013E	2014E	1Q13A	2Q13A	3Q13E	4Q13E	1Q14E	2Q14E	3Q14E	4Q14E
Income Data: ($ in Millions)											
Net Interest Income	$42.2	$43.8	$45.4	$10.6	$10.9	$11.1	$11.3	$10.9	$11.1	$11.5	$11.8
Loan Loss Provision	($1.6)	$0.2	$0.2	$0.15	$0.00	$0.00	$0.00	$0.05	$0.05	$0.05	$0.05
Non-Interest Income	$15.1	$12.7	$13.1	$2.9	$3.6	$3.1	$3.1	$3.1	$3.3	$3.4	$3.3
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
Gain/Loss on Securities	$0.3	$0.3	$0.0	$0.2	$0.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
One-Time Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-Interest Expense	$39.6	$38.7	$40.4	$9.7	$9.4	$9.8	$9.8	$10.1	$10.1	$10.1	$10.1
Pre-Tax Income	$19.6	$18.0	$17.8	$3.9	$5.2	$4.4	$4.5	$3.8	$4.3	$4.7	$5.0
Taxes	$6.2	$5.5	$5.5	$1.1	$1.6	$1.4	$1.4	$1.2	$1.3	$1.5	$1.5
Extraordinary Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Income	$13.5	$12.5	$12.3	$2.8	$3.6	$3.0	$3.1	$2.6	$3.0	$3.3	$3.4
Noncontrolling segment income	$0.5	$0.4	$0.4	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
Net Income Avail. To Common	**$12.9**	**$12.1**	**$11.8**	**$2.7**	**$3.5**	**$2.9**	**$3.0**	**$2.5**	**$2.9**	**$3.2**	**$3.3**
Avg. Shares O/S	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Earnings Per Share (EPS)	**$1.97**	**$1.83**	**$1.80**	**$0.41**	**$0.53**	**$0.44**	**$0.46**	**$0.38**	**$0.44**	**$0.48**	**$0.50**
Per Share Data:											
Reported Book Value	$20.93	$22.13	$23.41	$21.19	$21.48	$21.80	$22.13	$22.38	$22.69	$23.04	$23.41
Tangible Book Value	**$19.67**	**$20.90**	**$22.19**	**$19.95**	**$20.25**	**$20.57**	**$20.90**	**$21.15**	**$21.46**	**$21.81**	**$22.19**
Dividends	$0.56	$0.60	$0.60	$0.15	$0.15	$0.15	$0.15	$0.15	$0.15	$0.15	$0.15
Pre-Tax, Pre-Provision EPS	**$2.69**	**$2.70**	**$2.73**	**$0.57**	**$0.78**	**$0.67**	**$0.69**	**$0.59**	**$0.67**	**$0.74**	**$0.77**
CORE GAAP EPS	**$1.94**	**$1.79**	**$1.80**	**$0.38**	**$0.51**	**$0.44**	**$0.46**	**$0.38**	**$0.44**	**$0.48**	**$0.50**
KEY Ratios:											
Net Interest Margin	4.41%	4.32%	4.30%	4.32%	4.34%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%
Return on Avg Assets	1.24%	1.09%	1.03%	0.99%	1.26%	1.05%	1.05%	0.90%	1.01%	1.08%	1.11%
Return on Avg Equity	10.29%	8.93%	8.30%	8.06%	10.37%	8.59%	8.70%	7.21%	8.11%	8.78%	9.04%
Pre-Tax Pre-Provision ROA	**1.63%**	**1.55%**	**1.50%**	**1.36%**	**1.80%**	**1.52%**	**1.53%**	**1.35%**	**1.51%**	**1.61%**	**1.64%**
Efficiency Ratio	68.65%	68.05%	68.79%	70.75%	63.60%	67.93%	67.47%	71.38%	68.66%	66.85%	65.90%
Overhead Ratio	3.64%	3.37%	3.38%	3.48%	3.28%	3.38%	3.33%	3.48%	3.42%	3.35%	3.27%
TCE/TA	11.12%	11.54%	11.86%	11.37%	11.40%	11.47%	11.54%	11.65%	11.70%	11.77%	11.86%
TCE/RWA	13.39%	13.46%	13.60%	13.17%	13.37%	13.38%	13.46%	13.49%	13.48%	13.50%	13.60%
Period-End Balances: ($ in Millions)											
Earning Assets	$1,039	$1,082	$1,134	$1,050	$1,050	$1,061	$1,082	$1,066	$1,079	$1,106	$1,134
Total Assets	$1,160	$1,188	$1,227	$1,151	$1,165	$1,176	$1,188	$1,191	$1,203	$1,215	$1,227
Risk-Weighted Assets	$957	$1,012	$1,063	$987	$987	$1,002	$1,012	$1,022	$1,037	$1,053	$1,063
Gross Loans	$716	$752	$799	$733	$734	$745	$752	$756	$771	$787	$799
Total Deposits	$970	$978	$1,018	$955	$959	$969	$978	$988	$998	$1,008	$1,018
Intangibles	$8	$8	$8	$8	$8	$8	$8	$8	$8	$8	$8
Total Common Equity	$136	$144	$153	$138	$140	$142	$144	$146	$148	$150	$153

Source: FIG Partners Research, SNL Financial LC

Compliance

FIG Partners LLC Distribution of Ratings

	Buy/Outperform	Hold/Market-Perform	Sell/Underperform
% Rated	31.1%	66.0%	2.9%
IB Client % in Category	21.9%	22.1%	0.0%

Equity Rating System as of July 1, 2003

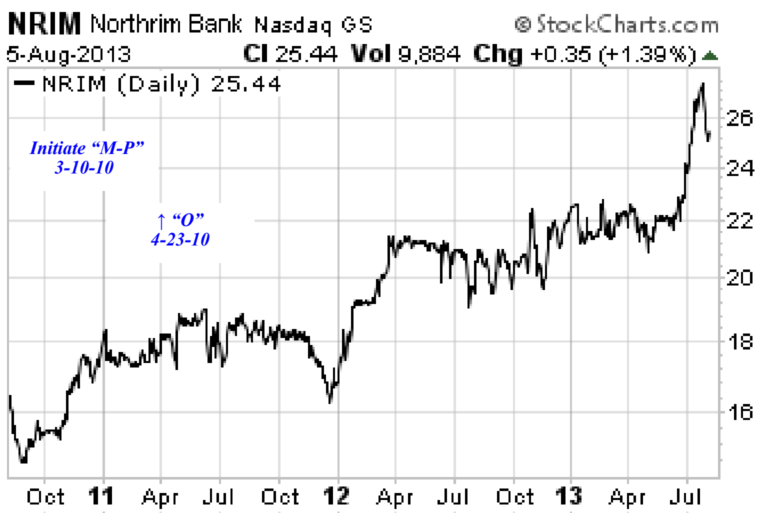
Buy/Outperform "O" FIG expects that total return of the subject stock will outperform the industry benchmark (BIX) over the next 12 months

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.

Ratings Changes for Northrim BanCorp. (NRIM)



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

- Neither the research analyst nor any member of the analyst's household has any financial interest 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 been a manager or co-manager of a public offering of any securities of the recommended issuer within the last three years
- FIG has received investment banking compensation from the subject company in the last three years
- 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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