

## NRIM-Northrim BanCorp, Inc.

### *Outsized Provision Masks Loan Stability & NIM Expansion & Leads to EPS Miss*

- **Core EPS of \$0.43 missed our Estimate by fourteen cents**
- **Community Bank Earned \$0.33 w/Mortgage Unit contributing \$0.10 vs. \$0.39 and \$0.12 last Qtr.**
- **Outsized Provision Drove EPS Miss – Specific impairment & Increased Qualitative factors drove increase**
- **Loan trends were stable; NIM expanded 8 bps to 4.34%, Capital remains Strong w/TCE of 11.8%**

NRIM reported 3Q17 EPS of \$0.79. We place core EPS at \$0.43 excluding the sale of the company's interest in Northrim Benefits Group (NBG); fourteen cents below our estimate. An outsized provision expense drove the EPS shortfall. Bank EPS came in \$0.12 below our forecast while the Mortgage unit was two cents below forecast.

Provisioning increased \$2.1 Mil. LQ to \$2.5 Mil. driven by 1) a \$1.1 Mil. specific impairment on one \$2.9 Mil. commercial credit in the medical industry and 2) an increase in qualitative factors given due to the softening in the Alaska economy, specifically due to continued job losses. Provisioning covered NCOs by ~2.5x which along with flat-ish loan balances helped boost the reserve 15 bps to 2.17% of loans.

NPAs (ex TDRs) were mostly unchanged LQ at ~\$26 Mil. or 2.6% of Loans & OREO. **At 3Q17 NRIM had \$60 Mil. (6% loans) of direct exposure to the oil & gas industry; \$4.2 Mil. of which are classified as substandard; with another \$54 Mil. of unfunded commitments, none of which are Classified.**

The Community Bank segment contributed \$2.2 Mil. or \$0.32 to 3Q17 Core EPS with the mortgage unit accounting for the remaining \$0.10. This compares to \$0.39 and \$0.12, respectively, last quarter.

Loans were unchanged LQ dropping \$2 Mil. or 0.20% as expected payoffs/refinances more than offset solid production in the quarter. Deposits increased \$24 Mil. or 8% LQA reducing the Loan/Deposit ratio to 79%. NIM rose 8 bps LQ to 4.34% as a 2 bps reduction in the COF and a positive mix shift in AEA (more Loans/Less Securities) more than offset a 2 bps reduction in loan yields. Average Loans grew 14% LQA (vs. decline in EOP loans) as payoffs occurred late in the quarter. Average Portfolio loans increased to ~73% of AEA from 71%.

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

**NRIM: \$34.50**

"Market-Perform" // Price Target: \$32.00

#### Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	\$236.4
Avg. Volume	21,330
Annual Dividend	\$0.78
Dividend Yield	2.26%
Tangible Book/Share	\$26.00
Price/Tangible Book	133%
Price/2017 EPS	17.0x
Price/2018 EPS	14.8x
Total Assets (\$M)	\$1,523
TCE/TA	11.82%
ROAA (2017)	1.19%
ROAE (2017)	9.26%

#### EPS Estimates

	2015	2016	2017	2018
Q1	\$0.50	\$0.49	\$0.53	
Q2	\$0.69	\$0.66	\$0.57	
Q3	\$0.77	\$0.67	\$0.43	
Q4	\$0.58	\$0.51	\$0.50	
<b>FY</b>	<b>\$2.54</b>	<b>\$2.33</b>	<b>\$2.03</b>	<b>\$1.95</b>

Industry Type	Bank
Headquarters	Anchorage, AK
Offices	14
Date Established	2002
CEO	Joseph M. Schierhorn
CFO	Latosha M. Frye

Source (all data): FIG Partners Research, SNL Financial LC



Classified loans increased 8% LQ to \$33.8 Mil. or 3.4% of Loans. 91% of these loans are attributable to six relationships in the following sectors: two commercial businesses, one CRE property, two medical businesses and one oilfield services commercial business.

Community Bank segment revenues rose ~2% LQ to \$17.7 Mil. due entirely to a jump in Spread as Fees declined. Spread rose 4.4% benefiting from NIM expansion and Avg. balance sheet growth while Fees decreased 7%. Core Operating expenses at the bank unit decreased ~4.7% LQ benefiting from the sale of NBG (ex this expenses declined 1%). Mortgage income decreased 16% LQ to \$0.10/share from \$0.12 last quarter as a 1% drop in revenue was augmented by a 4% increase in expenses. Earn out expense of \$149k was recorded vs. \$0 last quarter.

### NRIM Stock Price Trends Since Fall 2015



Source: FIG Partners Research, www.stockcharts.com



### Linked Quarter Trends

NRIM (Anchorage, AK--\$200 Mil. Mkt. Cap, \$1.5 Bil. Assets, \$28.95, 2.9% Yld)					
	2Q-2017	Δ	3Q-2017	Consensus	Variance Per Share
<b>EPS</b>	<b>\$0.51</b>	-	<b>\$0.79</b>	<b>\$0.57</b>	<b>\$0.22</b>
<b>Operating/Core EPS*</b>	<b>\$0.57</b>	-	<b>\$0.43</b>		
<b>FIG Estimate</b>		-	<b>\$0.57</b>		
Net Interest Income	14.2	4.7%	14.9	14.6	<b>\$0.05</b>
Loan Loss Provision	0.30	733.3%	2.50	0.5	<b>(\$0.29)</b>
Core Non-Interest Income (ex. sec.)	9.7	<b>(3.7%)</b>	9.4	9.2	<b>\$0.02</b>
Core Non-Interest Expense	17.8	<b>(2.1%)</b>	17.5	17.6	<b>\$0.02</b>
Net Charge-Offs	0.132	731.1%	1.097		
NCOs % of Avg Loans (bps)	32	<b>(27)bps</b>	5		<b>(5)</b>
Tangible Book Per Share	\$25.40	2.4%	\$26.00	\$26.17	<b>(\$0.17)</b>
Net Interest Margin	4.26%	8bps	4.34%		
Gross Loans (\$Mil.)	991.2	<b>(0.2%)</b>	989.3		
TCE Ratio (TCE/TA)	11.88%	<b>(8)bps</b>	11.80%		
NPAs to Loans/REO	2.59%	4bps	2.64%		

\*Core EPS exclude various one-time items including gains on sale of securities.

Source: FIG Partners Research, Company Disclosure

### Background and Risks

NRIM, a one-bank holding company and the parent of Anchorage, Alaska-based Northrim Bank, operates with \$1.5 Billion in Assets and 14 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 90% of the state's population.

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.



**FIG Partners LLC Distribution of Ratings**

	Buy / Outperform	Hold / Market- Perform	Sell / Underperform
% Rated	38.1%	61.9%	0.0%
IB Client % in Category	27.1%	14.1%	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.



**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

- The research analyst currently holds shares 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 not been a manager or co-manager of a public offering of any securities of the recommended issuer within the last 12 months.
- FIG has not received investment banking compensation from the subject company in the last 12 months.
- 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.
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