

NRIM-Northrim BanCorp, Inc.

Lower Expenses & Nil Provision Drive Core EPS Beat

- **Reported EPS = \$0.58 / Core EPS = \$0.58 / FIG Est. = \$0.42 / Consensus = \$0.42**
- **Loans increased 5% LQA in a seasonally weak quarter; NIM increased 2 bps to 4.33%**
- **Community Bank Earned \$0.50 w/Mortgage Unit adding \$0.08 up from Core EPS of \$0.44 and \$0.09 last Qtr.**
- **Provisioning was Nil reflecting a modest drop in NPLs; NCOs rose to 45 bps vs. minimal levels in prior Quarters**

NRIM reported 1Q18 EPS of \$0.58 beating our estimate by sixteen cents. The beat stemmed from lower expenses (+\$0.09) and Nil provision vs. our forecast for \$500k (+0.06) and a slightly lower tax rate (+\$0.01). The Community Bank segment contributed \$3.5 Mil. or \$0.50 to 1Q18 Core EPS with the Mortgage unit accounting for the remaining \$0.08. This compares to \$0.44 and \$0.09, respectively, last quarter (adjusted for a one-time OREO charge at the Community Bank).

Loans increased \$12 Mil. or 5% LQA in what is typically a seasonally weak quarter. Strong growth in the CRE book portfolio (+\$36 Mil. or 30% LQA) and modest growth in C&I more than offset runoff in the other portfolios. Deposits increased 1% LQA funding ~22% of loan growth resulting in a 100bps lift in the Loan-to-Deposit ratio to 77%.

NIM increased 2 bps LQ to 4.33% as higher loan yields and reduced levels of liquidity more than offset a negative mix shift among Loans and Securities. Average Loans declined \$25 Mil. to 70.5% of AEA from 71.5% while Average Securities increased to 23.2% from 20.9%. Cost of Deposits was unchanged at 12 bps.

Community Bank unit revenues decreased \$500k or 3% LQ to \$16.6 Mil. due primarily to a drop in Net Interest Income. NII fell 2.5% as a 1% drop in AEA and two less days in the quarter more than offset a higher NIM. Fees declined \$165k or 6%. Bank Unit Expenses declined \$720k or 5.5% LQ as OREO (-\$550k) and Marketing Expense (-\$200k) normalized from 4Q17's elevated levels. We had modeled flattish expenses given our outlook for normal first quarter seasonality.

NPAs (ex/TDR) declined \$2.6 Mil. or 9% LQ to \$26 Mil. or 2.7% of Loans & OREO. **At 1Q18 NRIM had \$64 Mil. (7% loans) of direct exposure to the oil /gas industry; \$4.1 Mil. of which was classified as substandard.** At 1Q18, \$29 Mil. or 83% of classified loans stem from 6 relationships; 3 commercial businesses, 2 medical businesses & 1 oilfield service business. NCOs increased to 45 bps due primarily to loans in the health care sector.

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: \$35.20

"Market-Perform" // Price Target: \$36

Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	\$241.9
Avg. Volume	9,444
Annual Dividend	\$0.88
Dividend Yield	2.50%
Tangible Book/Share	\$26.01
Price/Tangible Book	135%
Price/2018 EPS	16.2x
Price/2019 EPS	15.1x
Total Assets (\$M)	\$1,525
TCE/TA	11.85%
ROAA (2018)	0.99%
ROAE (2018)	7.70%

EPS Estimates

	2016	2017	2018	2019
Q1	\$0.49	\$0.52	\$0.42	
Q2	\$0.66	\$0.57	\$0.55	
Q3	\$0.67	\$0.43	\$0.61	
Q4	\$0.51	\$0.48	\$0.60	
FY	\$2.33	\$2.00	\$2.18	\$2.34

Industry Type	Bank
Headquarters	Anchorage, AK
Offices	14
Date Established	2002
CEO	Joseph M. Schierhorn
CFO	Jed W. Ballard

Source (all data): FIG Partners Research, S&P Global Mkt Intelligence



NRIM Stock Price Trends Since Late 2015



Source: FIG Partners Research, www.stockcharts.com

*Linked Quarter Trends*

NRIM (Anchorage, AK--\$242 Mil. Mkt. Cap, \$1.5 Bil. Assets, \$35.20, 2.5% Yld)					
	4Q-2017	Δ	1Q-2018	Consensus	Variance Per Share
EPS	\$0.03	-	\$0.58	\$0.42	\$0.16
Operating/Core EPS*	\$0.53	-	\$0.58		
FIG Estimate		-	\$0.42		
Net Interest Income	14.7	(2.8%)	14.3	14.2	\$0.01
Loan Loss Provision	0.00	NA	0.00	0.5	\$0.07
Core Non-Interest Income (ex. sec.)	8.0	(6.1%)	7.5	7.3	\$0.02
Core Non-Interest Expense	17.7	(4.8%)	16.8	17.4	\$0.09
Net Charge-Offs	0.002	50,500.0%	1.012		
NCOs % of Avg Loans (bps)	0.00	41bps	41		
Tangible Book Per Share	\$25.70	1.2%	\$26.01	\$25.90	\$0.11
Net Interest Margin	4.31%	2bps	4.33%		
Gross Loans (\$Mil.)	955.7	1.3%	968.0		
TCE Ratio (TCE/TA)	11.75%	10bps	11.85%		
NPAs to Loans/REO	2.98%	(31)bps	2.68%		

*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	44.9%	55.1%	0.0%
IB Client % in Category	22.8%	17.1%	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.
- 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.
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