

NRIM-Northrim BanCorp, Inc.

Lowering to “Market Perform” on Valuation; Remain Positive on Long Term Prospects.

We are lowering our rating on shares of NRIM to “Market Perform” from “Outperform” due to valuation. Shares have increased 32% since their recent low on January 30, 2015 compared to an 18% increase in the NASDAQ Bank Index over the same period and currently trade at 12.7x our 2016 EPS or 130% of Tangible Book Value. We remain positive on future prospects and expect shares to trend higher from current levels; however, we believe near term upside is likely to be more in line with the market.

Our \$28 Price Target equates to 13x our 2016 EPS or ~125% of one year forward Tangible Book Value (TBV) which represents a slight discount to the West Coast Peer Group Medians of 13.9x and 140%, respectively. In our view, this valuation is appropriate and reflects NRIM’s solid profitability, superior funding base, strong capital and reserve levels; partially mitigated by some “Alaska Discount” which reflects the company’s unique location and its exposure to a state economy that is heavily reliant on one industry.

We continue to believe our EPS outlook could prove conservative; however, we are not inclined to raise our EPS until greater clarity is gained on the energy sector (oil) and its potential impact on future growth and credit quality. **As of 1Q15, 8% of NRIM’s loan portfolio had direct exposure to the oil and gas industry in Alaska with 0% nonperforming.** We continue to believe the risk to material credit losses resulting from the decline in oil prices may be less severe than many investors anticipate. Instead, we believe investors should be more mindful of the potential impact of slowing loan growth. Our loan growth outlook for 2015 and 2016 is 6% and 4% respectively, with credit losses projected to approximate ~22 bps and 30 bps of loans, respectively.

Current loan trends are positive as the major oil companies continue to show commitment to Alaska and this is expected to continue through the low price environment. This reflects the larger size projects undertaken in Alaska. Notably, multi-billion investments from the energy industry currently underway are unable to be stopped at a moment’s notice. This is highlighted as executives from the biggest producer in Alaska (ConocoPhillips) recently noted they expect to hold production flat for the next three years and beyond. Bottom line: Alaska energy investments are based on long term price average; not short term ebbs and flows. Importantly, both the State and Federal EIA project \$70 oil next year.

Please see important disclosures regarding FIG Partners’ equity rating system, distribution of ratings,

NRIM: \$27.33

“Market-Perform”// Price Target: \$28.00

Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	\$187.3
Avg. Volume	19,421
Annual Dividend	\$0.76
Dividend Yield	2.78%
Tangible Book/Share	\$20.92
Price/Tangible Book	131%
Price/2014 EPS	12.7x
Price/2015 EPS	12.3x
Total Assets (\$M)	\$1,448
TCE/TA	10.07%
ROAA (2014)	1.09%
ROAE (2014)	9.18%

EPS Estimates

	2013	2014	2015	2016
Q1	\$0.41	\$0.45	\$0.52	-
Q2	\$0.53	\$0.58	\$0.63	-
Q3	\$0.53	\$0.52	\$0.64	-
Q4	\$0.40	\$0.57	\$0.43	-
FY	\$1.87	2.12*	\$2.22	\$2.15

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

*2014 EPS Estimates Are Core

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



There is no change to our 2015 or 2016 EPS of \$2.22 and \$2.15, respectively. Our forecast calls for Tangible Book Value to grow 8% and 6.5% respectively in 2015 and 2016.

Lowering Rating to “Market Perform” from “Outperform” based on Valuation. No Change to Our Price Target of \$28 which reflects ~13x our 2016 EPS or ~125% of forward Tangible Book Value or a 5% Core Deposit Premium.

FIG Research Rating: "Market-perform"			
Price Target: \$28.00			
Implied Gain/Loss versus Current Price: 11.2%			
2016 EPS	\$2.15	13.0x	\$28.00
Tang. Book 12/16	\$22.31	1.26x	\$28.00

Source: FIG Partners Research & Forward Estimates

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 70% 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;



Company Name	Market Cap. (\$M)	Total Assets (\$000)	Price-to-T.Book	P/E 2016 Est.
Peer Analysis				
NRIM Northrim BanCorp	\$187	\$1,215,006	131	12.7x
FBAK FNB Alaska	\$505	\$3,102,790	105	na
WFCL 1867 Western Finl	\$303	\$2,239,728	99	na
FMCB Farmers & Merchant	\$409	\$2,076,073	169	na
CACB Cascade Bancorp	\$362	\$1,406,219	153	15.6x
CUNB CU Bncp	\$361	\$1,407,816	184	14.1x
PFBC Preferred Bank	\$392	\$1,768,959	160	13.4x
PPBI Pacific Premier	\$364	\$1,714,187	169	10.5x
EXSR Exchange Bank	\$153	\$1,783,403	93	na
BMRC Bank of Marin Bncp	\$297	\$1,805,194	152	15.3x
HEOP Heritage Oaks Bncp	\$300	\$1,203,651	174	14.3x
BSRR Sierra Bancorp	\$230	\$1,410,249	128	na
HTBK Heritage Comm Corp	\$251	\$1,491,632	166	13.9x
AMBZ American Business	\$178	\$1,352,452	143	na
PCBK Pacific Cont Corp	\$260	\$1,449,726	155	12.0x
FFWM Frst Fndtn Inc	\$149	\$1,037,360	143	na
CSHX Cashmere Valley Bk	\$154	\$1,283,278	106	na
RCBC River City Bank	\$172	\$1,234,145	106	na
CVCY Central Valley	\$122	\$1,145,635	122	11.4x
CRPB CA Rep Bncp	\$234	\$857,536	164	na
PROV Provident Finl	\$157	\$1,134,062	110	16.0x
Peer Group Average:			141	13.5x

Source: FIG Partners Research, SNL Financial LC.

Earnings Model

	Annual			2014 Quarterly				2015 Quarterly				2016 Quarterly			
	2014A	2015E	2016E	1Q14A	2Q14A	3Q14A	4Q14A	1Q15A	2Q15E	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
<i>Income Data: (\$ in Millions)</i>															
Net Interest Income	\$52.9	\$55.1	\$55.2	\$11.2	\$13.4	\$13.7	\$14.5	\$13.6	\$13.8	\$14.0	\$13.6	\$13.2	\$13.6	\$14.1	\$14.3
Loan Loss Provision	(\$0.6)	\$2.2	\$2.6	\$0.0	(\$1.1)	\$0.0	\$0.5	\$0.3	\$0.6	\$0.6	\$0.6	\$0.50	\$0.70	\$0.70	\$0.70
Non-Interest Income	\$16.0	\$38.7	\$31.3	\$2.6	\$3.8	\$3.8	\$5.8	\$10.4	\$10.7	\$10.3	\$7.3	\$5.8	\$8.5	\$10.0	\$7.0
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	\$0.0	\$0.0	\$0.0	\$0.0
Gain/Loss on Securities	\$0.5	\$0.1	\$0.0	\$0.1	\$0.3	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
One-Time Items	\$2.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$2.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$48.1	\$68.3	\$61.5	\$10.3	\$12.0	\$12.1	\$13.8	\$18.5	\$17.3	\$16.9	\$15.7	\$14.5	\$15.7	\$16.8	\$14.6
Pre-Tax Income	\$24.7	\$23.3	\$22.5	\$3.7	\$6.7	\$5.5	\$8.8	\$5.4	\$6.6	\$6.8	\$4.6	\$4.0	\$5.7	\$6.7	\$6.0
Taxes	\$6.8	\$7.7	\$7.2	\$1.0	\$2.2	\$1.7	\$2.0	\$1.7	\$2.2	\$2.2	\$1.5	\$1.3	\$1.8	\$2.1	\$1.9
Extraordinary Items	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	\$17.9	\$15.7	\$15.3	\$2.7	\$4.5	\$3.9	\$6.8	\$3.6	\$4.4	\$4.5	\$3.1	\$2.7	\$3.9	\$4.5	\$4.1
Noncontrolling segment income	\$0.5	\$0.3	\$0.4	\$0.0	\$0.1	\$0.2	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Net Income Avail. To Common	\$17.41	\$15.4	\$14.9	\$2.7	\$4.4	\$3.7	\$6.7	\$3.6	\$4.4	\$4.5	\$3.0	\$2.6	\$3.8	\$4.4	\$4.0
Avg. Shares O/S	6.9	6.9	6.9	\$6.6	\$6.9	\$6.9	\$6.9	\$6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Earnings Per Share (EPS)	\$2.54	\$2.22	\$2.15	\$0.40	\$0.63	\$0.53	\$0.97	\$0.52	\$0.63	\$0.64	\$0.43	\$0.38	\$0.55	\$0.64	\$0.58
<i>Per Share Data:</i>															
Reported Book Value	\$23.99	\$25.60	\$27.02	\$22.32	\$22.97	\$23.31	\$23.99	\$24.42	\$24.89	\$25.35	\$25.60	\$25.80	\$26.17	\$26.63	\$27.02
Tangible Book Value	\$20.48	\$22.11	\$23.55	\$21.11	\$21.73	\$22.08	\$20.48	\$20.92	\$21.39	\$21.86	\$22.11	\$22.31	\$22.68	\$23.15	\$23.55
Dividends	\$0.70	\$0.76	\$0.80	\$0.17	\$0.17	\$0.18	\$0.18	\$0.18	\$0.18	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
Pre-Tax, Pre-Provision EPS	\$3.03	\$3.67	\$3.62	\$0.50	\$0.75	\$0.79	\$1.32	\$0.85	\$1.03	\$1.07	\$0.94	\$1.05	\$1.15	\$1.12	\$1.35
CORE GAAP EPS	\$2.22	\$2.21	\$2.15	\$0.39	\$0.60	\$0.53	\$0.70	\$0.50	\$0.63	\$0.64	\$0.43	\$0.38	\$0.55	\$0.64	\$0.58
<i>KEY Ratios:</i>															
Net Interest Margin	4.42%	4.39%	4.37%	4.33%	4.43%	4.43%	4.49%	4.45%	4.36%	4.38%	4.38%	4.42%	4.36%	4.35%	4.36%
Return on Avg Assets	1.34%	1.09%	1.04%	0.92%	1.33%	1.13%	1.89%	1.02%	1.23%	1.24%	0.85%	0.77%	1.08%	1.22%	1.08%
Return on Avg Equity	11.49%	9.18%	8.50%	7.40%	11.43%	9.85%	16.86%	8.71%	10.47%	10.52%	7.06%	6.24%	8.78%	10.00%	8.91%
Return on Tang. Common Eq.	12.53%	10.27%	9.32%	7.80%	11.91%	9.96%	19.15%	10.06%	12.00%	12.02%	8.07%	7.03%	9.90%	11.26%	10.00%
Pre-Tax Pre-Provision ROA	1.55%	1.76%	1.71%	1.13%	1.55%	1.59%	2.55%	1.65%	1.97%	2.03%	1.80%	2.04%	2.19%	2.09%	2.47%
Efficiency Ratio	69.45%	72.56%	70.72%	73.17%	68.56%	67.85%	67.01%	75.29%	69.13%	68.29%	73.34%	74.28%	69.38%	68.22%	66.91%
Overhead Ratio	3.60%	4.73%	4.19%	3.49%	3.56%	3.51%	3.83%	5.17%	4.78%	4.64%	4.34%	4.07%	4.33%	4.54%	3.84%
TCE/TA	9.85%	10.32%	10.64%	11.54%	11.02%	10.69%	9.85%	10.07%	10.19%	10.31%	10.32%	10.39%	10.46%	10.56%	10.64%
TCE/RWA	11.68%	12.09%	12.25%	13.80%	12.62%	12.70%	11.68%	11.90%	11.99%	12.07%	12.09%	12.08%	12.10%	12.16%	12.25%
<i>Period-End Balances: (\$ in Millions)</i>															
Total Assets	\$1,449	\$1,492	\$1,541	\$1,204	\$1,356	\$1,421	\$1,449	\$1,448	\$1,462	\$1,477	\$1,492	\$1,496	\$1,511	\$1,526	\$1,541
Risk-Weighted Assets	\$1,203	\$1,254	\$1,318	\$1,000	\$1,176	\$1,189	\$1,203	\$1,205	\$1,223	\$1,241	\$1,254	\$1,266	\$1,285	\$1,305	\$1,318
Gross Loans HFI	\$925	\$980	\$1,021	\$763	\$927	\$937	\$925	\$961	\$970	\$990	\$980	\$970	\$981	\$1,001	\$1,021
Total Deposits	\$1,180	\$1,227	\$1,264	\$998	\$1,130	\$1,192	\$1,180	\$1,191	\$1,203	\$1,215	\$1,227	\$1,227	\$1,239	\$1,252	\$1,264
Intangibles	\$24	\$24	\$24	\$8	\$8	\$8	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24	\$24
Total Common Equity	\$164	\$175	\$185	\$146	\$157	\$159	\$164	\$167	\$171	\$174	\$175	\$177	\$179	\$183	\$185



FIG Partners LLC Distribution of Ratings

	Buy/Outperform	Hold/Market-Perform	Sell/Underperform
% Rated	45.0%	55.0%	0.0%
IB Client % in Category	31.5%	16.7%	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 owns 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.
- 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
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