

NRIM-Northrim BanCorp, Inc.

Lower Expenses Drive 4 Cent Core EPS Beat –Loan Demand Rebounds & is up Modestly YTD

NRIM reported 3Q16 EPS of \$0.44. Excluding a \$0.23 non-cash accounting charge, we place Core EPS at \$0.67; four cents better than our estimate. The \$0.04 positive variance reflects lower expenses (\$0.04) and higher fee income (\$0.02) which more than offset lower Net Interest Income (\$0.02). The Community Bank segment contributed \$3.8 Mil. or \$0.52 to 3Q16 EPS with the mortgage unit; ex the aforementioned one-time accounting charge, accounting for the remaining \$0.15. This compares to \$0.47 and \$0.16, respectively, last quarter.

Loans increased \$30 Mil. or 12% LQA with strength noted in CRE (\$14 Mil. 2.9%) and C&D (\$13 Mil.; 13.4%). Growth in CRE stems from C&D projects which were completed and converted to CRE term loans. Management expects another \$10 Mil. in C&D payoffs by year-end. NIM decreased 10 bps LQ to 4.17% due primarily to a drop in loan yields and to a lesser extent a slight uptick in liquidity as COF was unchanged. Yields on loans HFI declined 10 bps to 5.44% while yield on loan HFS declined 26 bps to 3.51%. Additional NIM pressure is expected in the near term as the mix of earning assets continues to shift more towards securities than loans given expected weakness of the Alaskan economy. Revenues at the core bank segment increased 1.8% LQ as a 7% increase in fee income was augmented by a 0.50% increase in Net Interest Income. Operating expenses at the bank unit decreased 7.0% over the same period resulting in positive operating leverage and 600 bps decrease in Efficiency ratio to 66.6%.

Mortgage income (ex accounting correction) declined 9.5% LQ to \$1.0 Mil. or \$0.15 per share as a 1.2% decline in mortgage revenue was augmented by a 1.8% increase in expenses. Core earn out expense (ex accounting correction) decreased \$37k to \$650k and is included in mortgage segment.

Credit deteriorated with NPAs increasing ~\$3.7 Mil. to 2.86% of Loans & OREO. This increase was driven by the restructuring of one \$4.2 Mil. oil sector relationship that included a concession for interest only payment terms for one year. Net recoveries of \$442k or 18 bps of average loans were noted. Provisioning increased to \$652k due to a \$332k specific impairment allocated to one \$5.9 Mil residential land development project that was moved to nonaccrual in 2Q16 as well as loan growth in the quarter. Coverage of loans increased 5 bps to 1.95%.

At 3Q16 NRIM had \$52 Mil. (5.2% loans) of direct exposure to the oil and gas industry; \$4.2 Mil. of which was downgraded to substandard last quarter; with another \$44 Mil. of unfunded commitments to companies with direct exposure none of which are Classified.

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: \$24.55

"Market-Perform" // Price Target: \$28

Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	\$169.0
Avg. Volume	10,234
Annual Dividend	\$0.78
Dividend Yield	3.18%
Tangible Book/Share	\$23.26
Price/Tangible Book	106%
Price/2016 EPS	11.4x
Price/2017 EPS	10.5x
Total Assets (\$M)	\$1,518
TCE/TA	10.61%
ROAA (2014)	1.09%
ROAE (2014)	8.88%

EPS Estimates

	2014	2015	2016	2017
Q1	\$0.45	\$0.50	\$0.49	-
Q2	\$0.58	\$0.69	\$0.66	-
Q3	\$0.52	\$0.77	\$0.67	-
Q4	\$0.57	\$0.58	\$0.53	-
FY	\$2.12	\$2.54	\$2.34	\$2.15

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

*EPS Estimates Are Core

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

**NRIM (Anchorage, AK--\$172 Mil. Mkt. Cap, \$1.5 Bil. Assets, \$25.06, 3.2% Yld)**

	2Q-2016	Δ	3Q-2016
EPS	\$0.63	-	\$0.44
Operating/Core EPS*	\$0.63	-	\$0.67
FIG Estimate		-	\$0.63
Street Estimate	-	-	\$0.63
Net Interest Income	14.1	1.0%	14.2
Loan Loss Provision	0.20	226.0%	0.65
Core Non-Interest Income (ex. sec.)	11.9	0.7%	11.9
Core Non-Interest Expense	18.9	(1.4%)	18.6
Net Charge-Offs	-0.002	22,000.0%	-0.442
NCOs % of Avg Loans (bps)	0	(18)bps	-18
NCOs % of Provision (bps)	-1	(67)bps	-68
Tangible Book Per Share	\$23.30	5.6%	\$24.61
Net Interest Margin	4.27%	(10)bps	4.17%
Gross Loans (\$Mil.)	967.0	3.1%	997.1
TCE Ratio (TCE/TA)	10.72%	40bps	11.12%
NPAs to Loans/REO	2.57%	29bps	2.86%

*Core EPS exclude various one-time items including gains on sale of securities.
Source: FIG Partners Research, Company Disclosure

Linked Quarter Trends

Operating EPS of \$0.67 were 4 cent better than expected as lower expenses and higher fee income more than offset lower net interest income and higher provisioning.

The Community Bank segment contributed \$0.52 to core 3Q16 EPS with the mortgage unit accounting for the remaining \$0.15. This compares to \$0.42 & \$0.16, respectively in 2Q16.

Profitability remained healthy with 3Q16 core ROAA & ROTCE of 1.25% and 11.2%, respectively.

Loans increased 12% annualized though YTD growth is ~3% as demand has slowed moderately with the Alaska Economy.

NIM contracted 10 bps LQ to 4.17% due primarily to a drop in loan yields.

Improved performance at the community bank segment was driven by lower expenses and slightly higher fee income.

Mortgage income (ex one time earn out expense) declined modestly due to slightly lower revenues and higher expenses.

Credit quality deteriorated modestly due to an uptick in TDRs.

TCE increased 40 bps to 11.1% while TBV jumped 5.6% due to decline in goodwill stemming from the accounting adjustment.

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	37.6%	61.6%	0.8%
IB Client % in Category	31.9%	14.3%	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.
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- 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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