

NRIM-Northrim BanCorp, Inc.

Sale of Northrim Benefits Group to Result in \$2.7 Mil. Gain in 3Q17

- Maintain “Market Perform” and \$32 Price Target
- Increase Core 2017 EPS to \$2.55 (+0.37) and lower 2018 to \$1.95 (-0.05)
- NRIM sells stake in Northrim Benefits Group (NBG) resulting in \$2.7 Mil. gain or \$0.39/share in 3Q17
- NBG sale to reduce annual EPS by \$0.05; Notably, the one-time gain covers over 7 Yrs. of NBG EPS

On August 14th, NRIM announced that Northrim Benefits Group (NBG) sold substantially all of its assets to Michigan-based Acrisure, a national insurance brokerage company for \$4.6 Mil., generating a \$2.7 Mil. net gain or \$0.39 per share in 3Q17. NRIM purchased its 50.1% ownership stake in NBG; an insurance brokerage company focused on the sale and servicing of employee benefit plans, back in 2005 to provide additional financial services to its growing customer base.

We view this sale as an incremental positive for NRIM as it frees up management resources and provides them an attractive price for a business unit that was contributing little to bottom line EPS and could be more efficiently leveraged by a larger national insurance company. NBG was a more meaningful contributor to EPS at NRIM early on though this had moderated in recent years as NRIM grew in size. Notably, NBG contributed \$3.8 Mil. (3.8% of revenues) of NRIMs total revenues in 2016 or an estimated \$0.05/share or ~2.5% of 2016 EPS.

We are increasing our Core 2017 EPS to \$2.55 (+\$0.37) and lowering our 2018 EPS to \$1.95 (-\$0.05) to reflect the aforementioned sale which was effective August 1, 2017.

We are maintaining our “Market Perform” rating and Price Target at \$32 which reflects ~13.5x our 2018 EPS plus excess capital, 120% of Tangible Book Value one year out or a 2% Core Deposit Premium. We continue to project solid EPS and profitability in the coming quarters; however, we see few catalysts for the shares to significantly outperform the Bank sector indices in the near term given weakness in the Alaskan economy. This supports our Market Perform rating. Our EPS forecast corresponds to an ROAA of ~0.95% in 2018.

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: \$27.70

“Market-Perform” // Price Target: \$32

Summary Statistics

Exchange	NASDAQ
Market Cap (\$M)	\$191.4
Avg. Volume	9,896
Annual Dividend	\$0.78
Dividend Yield	2.82%
Tangible Book/Share	\$25.38
Price/Tangible Book	109%
Price/2017 EPS	10.9x
Price/2018 EPS	11.9x
Total Assets (\$M)	\$1,493
TCE/TA	11.87%
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	\$0.95	
Q4	\$0.58	\$0.51	\$0.50	
FY	\$2.54	\$2.33	\$2.55	\$1.95

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

Earnings Model

	Annual			2016 Quarterly				2017 Quarterly				2018 Quarterly			
	2016A	2017E	2018E	1Q16A	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E
<i>Income Data: (\$ in Millions)</i>															
Net Interest Income	\$56.4	\$57.2	\$58.5	\$14.2	\$14.1	\$14.2	\$13.9	\$13.8	\$14.2	\$14.6	\$14.5	\$14.0	\$14.5	\$14.9	\$15.1
Loan Loss Provision	\$2.3	\$1.7	\$3.0	\$0.7	\$0.2	\$0.7	\$0.7	\$0.4	\$0.3	\$0.5	\$0.5	\$0.6	\$0.7	\$0.9	\$0.8
Non-Interest Income	\$43.3	\$35.6	\$32.8	\$9.1	\$11.9	\$11.9	\$10.4	\$8.9	\$9.7	\$9.2	\$7.8	\$7.3	\$8.9	\$8.8	\$7.8
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	(\$0.0)	\$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
One-Time Items	(\$3.0)	(\$0.4)	\$0.0	\$0.0	(\$0.4)	(\$2.6)	\$0.0	\$0.2	(\$0.6)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$73.3	\$69.2	\$69.1	\$17.4	\$19.0	\$18.6	\$18.4	\$16.8	\$17.8	\$17.6	\$17.0	\$17.0	\$17.6	\$17.5	\$17.0
Pre-Tax Income	\$21.0	\$21.5	\$19.2	\$5.2	\$6.4	\$4.3	\$5.2	\$5.7	\$5.196	\$5.7	\$4.9	\$3.7	\$5.1	\$5.3	\$5.0
Taxes	\$6.1	\$6.3	\$5.5	\$1.7	\$1.9	\$1.0	\$1.5	\$1.8	\$1.5	\$1.6	\$1.4	\$1.1	\$1.5	\$1.5	\$1.4
Extraordinary Items	\$0.0	\$2.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$2.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	\$15.0	\$17.9	\$13.7	\$3.5	\$4.5	\$3.3	\$3.7	\$3.9	\$3.7	\$6.8	\$3.5	\$2.7	\$3.6	\$3.8	\$3.6
Noncontrolling segment income	\$0.579	\$0.349	\$0.0	\$0.1	\$0.2	\$0.2	\$0.1	\$0.097	\$0.152	\$0.100	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Net Income Avail. To Common	\$14.4	\$17.5	\$13.7	\$3.4	\$4.4	\$3.1	\$3.6	\$3.8	\$3.6	\$6.7	\$3.5	\$2.7	\$3.6	\$3.8	\$3.6
Avg. Shares O/S	7.0	7.0	7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0
Earnings Per Share (EPS)	\$2.07	\$2.51	\$1.95	\$0.48	\$0.63	\$0.44	\$0.51	\$0.55	\$0.51	\$0.95	\$0.50	\$0.38	\$0.52	\$0.54	\$0.51
<i>Per Share Data:</i>															
Reported Book Value	\$27.07	\$28.81	\$29.95	\$26.23	\$26.75	\$26.99	\$27.07	\$27.42	\$27.75	\$28.52	\$28.81	\$28.99	\$29.30	\$29.64	\$29.95
Tangible Book Value	\$24.70	\$26.46	\$27.60	\$22.78	\$23.30	\$24.61	\$24.70	\$25.06	\$25.40	\$26.17	\$26.46	\$26.64	\$26.95	\$27.29	\$27.60
Dividends	\$0.78	\$0.84	\$0.84	\$0.19	\$0.19	\$0.20	\$0.20	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21
Pre-Tax, Pre-Provision EPS	\$3.77	\$3.37	\$3.16	\$0.85	\$0.96	\$0.71	\$0.85	\$0.90	\$0.80	\$0.88	\$0.77	\$0.62	\$0.84	\$0.89	\$0.83
CORE GAAP EPS	\$2.30	\$2.55	\$1.95	\$0.49	\$0.66	\$0.67	\$0.49	\$0.53	\$0.57	\$0.95	\$0.50	\$0.38	\$0.52	\$0.54	\$0.51
<i>KEY Ratios:</i>															
Net Interest Margin	4.20%	4.27%	4.34%	4.29%	4.27%	4.17%	4.07%	4.22%	4.26%	4.30%	4.30%	4.32%	4.33%	4.34%	4.34%
Return on Avg Assets	1.00%	1.19%	0.90%	0.94%	1.21%	0.86%	0.97%	1.05%	0.99%	1.80%	0.92%	0.72%	0.96%	1.00%	0.92%
Return on Avg Equity	8.25%	9.26%	6.74%	7.86%	9.70%	7.18%	8.24%	8.39%	7.73%	13.92%	7.00%	5.33%	7.21%	7.49%	6.91%
Return on Tang. Common Eq.	8.51%	9.64%	7.20%	8.68%	10.91%	7.36%	8.47%	8.88%	8.22%	14.79%	7.62%	5.83%	7.84%	8.12%	4.00%
Pre-Tax Pre-Provision ROA	1.75%	1.57%	1.46%	1.59%	1.80%	1.29%	1.56%	1.69%	1.48%	1.64%	1.42%	1.17%	1.56%	1.62%	1.49%
Efficiency Ratio	73.46%	74.49%	75.64%	73.75%	72.63%	70.40%	74.92%	73.25%	73.63%	73.20%	75.11%	78.73%	74.39%	73.06%	73.81%
Overhead Ratio	4.87%	4.60%	4.55%	4.67%	5.11%	4.87%	4.82%	4.51%	4.73%	4.66%	4.50%	4.57%	4.67%	4.58%	4.39%
TCE/TA	11.28%	12.13%	12.25%	10.61%	10.72%	11.12%	11.28%	11.57%	11.88%	12.12%	12.13%	12.18%	12.20%	12.24%	12.25%
<i>Period-End Balances: (\$ in Millions)</i>															
Earning Assets	\$1,369	\$1,346	\$1,386	\$1,364	\$1,366	\$1,385	\$1,369	\$1,360	\$1,346	\$1,346	\$1,346	\$1,329	\$1,346	\$1,366	\$1,386
Total Assets	\$1,527	\$1,523	\$1,573	\$1,500	\$1,518	\$1,540	\$1,527	\$1,513	\$1,493	\$1,508	\$1,523	\$1,527	\$1,542	\$1,558	\$1,573
Risk-Weighted Assets	\$1,297	\$1,321	\$1,388	\$1,274	\$1,280	\$1,310	\$1,297	\$1,258	\$1,288	\$1,308	\$1,321	\$1,334	\$1,354	\$1,374	\$1,388
Gross Loans HFI	\$975	\$996	\$1,016	\$971	\$967	\$997	\$975	\$961	\$991	\$991	\$996	\$986	\$996	\$1,011	\$1,016
Total Deposits	\$1,268	\$1,247	\$1,278	\$1,247	\$1,256	\$1,278	\$1,268	\$1,247	\$1,234	\$1,247	\$1,247	\$1,247	\$1,253	\$1,265	\$1,278
Intangibles	\$16	\$16	\$16	\$24	\$24	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16
Total Common Equity	\$187	\$199	\$207	\$180	\$184	\$186	\$187	\$189	\$192	\$197	\$199	\$200	\$202	\$205	\$207



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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