

Operator (Jen): Good morning and welcome to the Northrim Bank investor call. Our host for today's call is Kari Skinner. At this time, all participants are in a listen-only mode.

Later, we will conduct a question and answer session. I would now like to turn the call over to your host, Kari Skinner, you may begin.

Kari Skinner: Thank you. Good morning and welcome to Northrim BanCorp's conference call to discuss the acquisition of Sallyport Commercial Finance. I'm joined today by Northrim's President and Chief Executive Officer Mike Huston, Sallyport's Co-Founder and President Nick Hart, and Northrim's Executive Vice President and Chief Financial Officer Jed Ballard.

We filed an acquisition press release and an investor presentation last Friday, both of which are available on the investor relations section of our website. I'd ask that everyone please refer to the disclaimer regarding forward-looking statements in the press release, investor presentation and in our SEC filings. Now I will hand it over to Mike to make a few comments about Northrim and the acquisition, Mike?

Mike Huston: Thanks, Kari. Good morning. I am Mike Huston, president and CEO of Northrim Bank, and I want to thank you for joining our call today to discuss Northrim and our acquisition of Sallyport Commercial Finance. Since we don't normally host public calls, I thought I'd spend a few minutes talking about Northrim before we discuss the acquisition.

Northrim Bank was founded in 1990 with a focus on providing superior, customer-first service to businesses and consumers in Alaska. Since our founding at a portable trailer in a parking lot, which is where our Chairman Joe Schierhorn started his career with Northrim, we have grown to \$3 billion in assets by being responsive, flexible, collaborative, and owning our customers' challenges.

We have a network of 20 branches in the state, with nine in the Anchorage area where we are headquartered. It's a little difficult to appreciate the geographic scale of our operations, so we've included a map on slide 12 of the acquisition presentation. Six of our branches are only accessible by boat or plane. And it's more than 1,300 miles from our Nome branch on the Bering Sea, to our Ketchikan branch in Southeast Alaska. For context, that's about the same distance from Philadelphia to Houston where Sallyport is headquartered. So Alaska is not your typical community banking environment, but no one ever described Alaska as typical.

While Alaska's sheer size and low population density can present challenges for a community bank, it also presents incredible opportunities for Northrim and we believe our results are a testament to that.

There are five community banks headquartered in the state and just two national competitors, Wells Fargo and KeyBank. Wells and Key have about 50% of the deposits in Alaska, which is down from 59% five years ago, and we enjoy competing against them. The economy in Alaska is extremely capital intensive and receives billions of outside investment annually, much of it from the federal government for infrastructure and the military.

People tend to associate Alaska with resource development and mining, but the economy has become much more diversified over the last couple of decades. Tourism continues to grow and provide economic benefits to the state. Our international airport here in Anchorage is critical for global logistics, and ranks fourth in the world based on cargo tonnage.

Over half a billion dollars of capital projects are planned or underway at the facility. And the Coast Guard is investing \$600 million over five years to enhance facilities in Kodiak, Juneau and Sitka. While Northrim doesn't lend directly to these large projects – energy loans represent only 4% of our total loans – we've had a lot of success lending to and attracting deposits from the local businesses that support these projects.

Our differentiated service has allowed us to increase our deposit market share by more than 50% over the last six years. And I know that all banks talk about differentiated service, but we really do think that is a defining characteristic at Northrim. As an example, despite being the third-largest bank in Alaska during the COVID pandemic of 2020 Northrim was the largest PPP lender in the state. Our customers and communities haven't forgotten that and we continue to see benefits from those efforts.

Our growth in deposit market share has really been relationship based with loans also increasing significantly. This growth, combined with third quarter loan yields of 6.91% and a cost of funds of 1.64%, supported our third quarter net interest margin, which increased five basis points to 4.29%.

As a result of our profitability, as well as our share repurchase program over the last few years, we have grown tangible book value per share at a 10-year compound annual growth rate of 8% and increased our dividends by 350%. With respect to our outlook, we're very optimistic and believe we are well-positioned to achieve earnings growth both in the fourth quarter and in 2025.

Even without the accretive impact of the Sallyport acquisition, credit quality remains excellent and our loan pipeline points to continued strong growth. Now I'd like to talk about Sallyport and why we're so excited to have Nick and his incredibly talented team join Northrim. As a core value, we look for opportunities for growth for our customers and our institution.

And have previously invested in related financial enterprises as part of this growth and diversification strategy. We've known and worked with Sallyport for

six years, and over that time, we've come to appreciate the innovative, relationship-based service they provide, the same approach we leveraged in our success.

Northrim Funding Services, a division of the bank we formed in 2004, is a factoring business based in Bellevue, Washington with most of its business concentrated in the Pacific Northwest. While Sallyport is primarily focused on the quality of the receivable, Northrim Funding considers the viability of the borrower's business, which is secondarily supported by the credit quality of the borrower's receivables.

In addition to being a consistent contributor to Northrim's financial performance, Northrim Funding Services has also given us a unique perspective on the opportunities and the risks in the receivables financing business. This familiarity will help us be an effective partner with Sallyport as they continue to expand their business.

We intend to operate Northrim Funding Services and Sallyport as separate operating units of the bank but will realize synergies over time as we adopt best practices of both entities. We believe that Sallyport will enhance shareholder value by providing Northrim with counter-cyclical, diversified fee income and assets that have high risk-adjusted returns, while allowing us to maintain our focus on our valuable and growing Alaska community banking franchise.

Now I'll turn it over to Nick Hart.

Nick Hart:

Thanks, Mike. Good morning, everyone. My name is Nick Hart and I'm the co-founder and president of Sallyport Commercial Finance. We're incredibly excited to be joining the Northrim team and working closely with them to continue Sallyport's track record of profitable growth. We've had a close working relationship with Northrim for six years.

And I've been very impressed with Northrim's ability to develop solutions and deliver on commitments to support growth and opportunity for customers. Since its founding in 2014, Sallyport has become a leading provider of factoring, asset-based lending and alternative working capital solutions to small and medium-sized enterprises.

We factored more than \$5.5 billion of debts across the US and Canada, while driving consistent growth of the client-based revenue and profitability. Our underwriting and risk management processes have proved effective over multiple economic cycles and supported a risk-adjust spread that has been consistently in the mid to high 20s.

We believe that the combination of Sallyport and Northrim will allow us to expand market share with the liquidity and lower-cost funding that Northrim can offer. We also look forward to offering Northrim deposit, treasury

management, corporate credit cards to our clients, and leveraging Northrim's back-office support to improve Sallyport's efficiency and focus on our core operations.

Now I'll hand it over to Jed to discuss some of the details of the transaction, Jed.

Jed Ballard:

Thanks, Nick. As disclosed in Friday's press release, Northrim acquired Sallyport for \$53.9 million in an all-cash transaction that closed on October 31st. \$6 million of the purchase price has been deferred and will be paid out in equal installments over three years, subject to senior management's continued employment. Due to Sallyport's business and size relative to Northrim, regulatory approval was not required to close the transaction.

Sallyport will operate as a wholly owned subsidiary of Northrim Bank, similar to our wholly owned subsidiary, Residential Mortgage. As with Residential Mortgage and Northrim Funding Services, we expect to provide Sallyport with back-office, administrative support including accounting, HR and IT, which we expect to generate modest cost savings over time. However, the main objective of this approach is to allow Sallyport to focus on growth of their business, as Nick had mentioned.

Purchase earning assets totaled approximately \$75 million, and included both purchase receivables and asset-based loans, with purchase receivables accounting for around 70% of the total.

Similar to how we present the operations of Northrim Funding Services, income from purchase receivables will flow through fee income, and income from asset-based lending will be included in our net interest income. We expect Sallyport will increase our annual, top-line revenues by approximately \$26 million, and pretax expenses by \$18.5 million, and provide approximately 15% earnings accretion to our estimated 2025 net income, which absent some unforeseen change in our business or the economy, we expect to exceed our 2024 net income. We also expect returns on assets and equity to increase.

We intend to fund the majority of Sallyport's operations with available bank liquidity. Which should improve their overall profitability as they previously were funded their operations through a combination of equity and prime-based lending facility.

With that, operator, please open the line for Q&A.

Operator (Jen):

Thank you. If you would like to ask a question, please press star one on your telephone keypad now. You'll be placed into the queue in the order received.

Please be prepared to ask your question when prompted. Once again, if you have a question, please press star one on your phone now. And our first question today will come from Brett Rabatin with Hovde Group.

Brett Rabatin: Hey, good afternoon, everyone. Wanted to start with just this overall transaction and thinking about the future from here.

Does this potentially foreshadow an entrance into either the Lower 48 and Canada from a full banking perspective?

And then just how you think about excess capital from here being deployed with the community bank versus this initiative?

Mike Huston: Yeah. That's a great question, Brett. In terms of our high-level approach to further expansion into the Lower 48, I'll say that we're really focused right now on the opportunities we have in the Alaska market.

We think that there's still a long runway of continued opportunities for growth here, so we'll look at other opportunities. But this is not necessarily, I wouldn't expect this to be just the start of more acquisitions in the Lower 48.

That's something we'll take a look at over time, and like I said, we're focused on Alaska.

Brett Rabatin: Okay.

Jed Ballard: Yeah. And in terms of the capital, we have been, in terms of use of capital in terms of this investment and diversifying our asset base around, outside of Alaska.

We feel that that's a good use of the capital, and provides good return for the investment we're making.

Brett Rabatin: Okay. And is the payment over three years for a portion of the deal? Is that an earn-out or is that contingent on anything?

Mike Huston: That's primarily dependent upon the continued employment of the two senior executives at Sallyport.

Brett Rabatin: Okay. And then maybe just lastly for me, just any thoughts around the guidance assumptions for '25 and what that might assume for interest rates, mortgage banking for the core bank, et cetera?

Jed Ballard: So when we look at our forecast for 2025, depending on what day of the week it is, which election cycle you're in, we're anticipating today that potentially there's four interest rate drops in 2025, essentially one per quarter.

And with our loan growth over this last quarter and anticipation of growth with our strong pipeline for quarter four, we anticipate our core business increasing even with the drop. Our core revenues increasing even with the drop in interest rates going forward.

Brett Rabatin: Okay. I appreciate all the color.

Operator (Jen): And our next question will come from Brian Martin with Janney Montgomery.

Brian Martin: Hey, good afternoon, guys, or good morning, just congrats on the transaction. Maybe the first one, Jed, just on that last point, it sounds like the core earnings outlook for '25 appears pretty positive from the core banking standpoint.

Just wondering, given your rate outlook, what's embedded in terms of mortgage in that outlook in terms of revenues, how does that look?

Jed Ballard: Yeah. Obviously, the mortgage business has struggled over the last couple years. With our mortgage business in Residential Mortgage, it is a strong part of our overall business. And we have expanded over the last year to utilize some of that back-office function we have in terms of underwriting and loan processing.

When we look at what the Q4 of '24 looks like, anticipating what we did last year in Q4, we're probably going to produce just over \$600 million of mortgages this year. And as we look to 2025, given any major changes in interest rates, assuming we're consistent with 2024, we anticipate we'll probably do around \$600 million of mortgages next year as well.

So in our forecast, there's no significant growth in our mortgage business for next year.

Brian Martin: Okay. Yeah, so the bottom line is you're still very optimistic on the core bank and mortgage continue its current pace. Okay, perfect. And then secondly, maybe can you just give a little color on just the scale pick up you get here with Sallyport versus Northrim Funding Services?

And just really talk about the synergies of the deal, both in terms of where you guys benefit and Sallyport benefits. It certainly looks like you've got some nice deposit opportunity and Sallyport's got some cost of funds benefit.

But just trying to understand the scale difference with what they bring to Northrim Funding Services and then the synergies on this transaction.

Mike Huston: Yeah. Thanks, Brian. I think you just captured a couple of the benefits. The lower cost of funds will enable Sallyport to be a little bit more competitive in a few of their proposals, so we anticipate that that will allow them to win a few more deals without significantly changing their pricing approach. Then on the Northrim Funding side, we have a pretty significant, or at least Sallyport has a significant sales force in a number of locations throughout the US.

So that will drive a few more opportunities that if it doesn't really fit Sallyport, if Sallyport might be a little too expensive for that particular customer, that's where Northrim Funding might be able to provide an alternative. Because the

way Northrim Funding approaches it, they tend to take a little bit less risk, a little bit better customer, and as a result, lower pricing.

So in the lifecycle of a customer, they may be at Sallyport for a while. And whereas in the past, they graduated to a lower cost and then left Sallyport's portfolio, there's some opportunities where some of those customers will then move over to, or certainly could move over to Northrim Funding Services. So we'll be able to maintain that customer relationship for a little bit longer period of time.

Another benefit is we've got some capital that will allow Sallyport to continue to grow to a little bit better extent than what they had previously, so we see a little bit longer-term positives from that.

Brian Martin: Gotcha. And how about just the scale of Northrim Funding versus Sallyport? Just put it in perspective the size of.

Jed Ballard: Yeah. I can speak to that, Brian. So for comparison, Northrim Funding Services provides about \$4.5 to \$5 million of revenue annually. And as I mentioned earlier, Sallyport's anticipated around \$26 million of annual revenue.

What you'll see in our income statement related to that is, as I mentioned, with that allocation between purchase receivables and asset-based lending. About \$18 million or so would be included in purchase receivable income and fee income on the income statement, and around \$8 million would be included in net interest income.

Brian Martin: Gotcha, okay. And you mentioned, Jed, I think that the risk-adjusted yields, or maybe Mike did. Can you talk just where are the yields at on Sallyport's business?

Jed Ballard: Yeah. So those risk-adjusted yields are in that 25% range. In comparison to Northrim Funding Services, that's about 10 basis or 10% higher.

Brian Martin: 10% higher, okay. All right. And how about maybe just can you talk about just the assumptions on, I think you talked about the EPS accretion, which is pretty significant both in the next '25 and '26.

But in terms of the dilution to tangible book and what assumptions you're making there?

Jed Ballard: Yeah. Given the transaction was all cash transaction, the dilution to our tangible book value was around 14%.

But given the profitability of the entity as we move forward, we anticipate earning that back, as you mentioned, over that three and a half year time period.

Mike Huston: So some of those assumptions, we're looking at modest growth in the assets of Sallyport and then, of course, lower funding costs.

But that's we're basically using historical performance of Sallyport with those two primary added issues, assumptions.

Brian Martin: Gotcha. And as far as what you're not capturing as far as the synergies, some of the deposits and whatnot maybe aren't fully embedded in the outlook, just given the uncertainty of that or just how it plays out.

So there's upside too we should think about, as you capture some of the synergies you talked about earlier?

Mike Huston: Yeah, thanks for reminding me. We did not include really anything in the way of additional deposits or a corporate purchase card, those sorts of ancillary products.

We certainly think we'll get the benefits of those, but we wanted to see how that works over the next three to six months before we really bank on it.

Brian Martin: Gotcha. Okay, and as far as the last one for me just on earnings. Is the revenues, you talked about, Jed, and the expenses pretty stable throughout the year?

Is there any lumpiness to think about or just seasonality, whatnot, as far as how we think about modeling it?

Jed Ballard: Yeah, I would say it's relatively smooth throughout the year. There are pickups from quarter to quarter because of the nature of the business that the receivables turn over relatively quickly.

But on average, it's relatively consistent on a quarterly basis.

Brian Martin: Gotcha, okay. And last one for me was just in terms of expectations as far as M&A goes, I know, Mike, you talked about nothing really in the Lower 48. But just in terms of potential bolt-ons like you did here with Sallyport.

Any other thing I guess we should be thinking about that Northrim looks at over the next 12 to 24 months, even whether it be another similar type of transaction or other businesses you would be looking to expand into?

Mike Huston: Yeah. The way I would characterize that is we continue to look at opportunities and where we think it's complementary to what we're currently offering, then we'll look at those opportunities. And as an example, you've seen an expansion of our mortgage origination business, primarily because of some of the relationships that our CEO of that business had developed over the years.

And there were a number of good originators available in the market, so I think those are the types of opportunities we'd likely be looking at. Beyond that, it really just depends on the markets themselves and the opportunities. So like I said, we like the opportunities in Alaska, that's what we're going to be focused on.

And if there were, we'd certainly be, we would be happy to look at any in-state acquisitions. That would probably be a higher priority than anything at a Lower 48.

Brian Martin: Gotcha. Okay, perfect. That's all I had, guys. Thanks and congratulations again.

Mike Huston: Thanks, Brian.

Jed Ballard: Thank you.

Operator (Jen): And once again, if you would like to ask a question, please signal by pressing star one at this time.

And our next question will come from Brian Center with Quasar Capital. And Mr. Center, your line is open.

Brian Center: Hey, good afternoon and good morning, folks. Congratulations to both parties on the acquisition. It sounds like a great opportunity for both parties.

But real quickly, I was feverishly trying to write notes. Did I hear correctly that the assets under management from Sallyport at the time of acquisition was approximately \$75 million?

Jed Ballard: Yes, that's correct.

Brian Center: Okay, great. That's all I had. Thank you, guys.

Jed Ballard: All right, thank you. Bye.

Operator (Jen): And once again, it's star one if you'd like to ask a question.

And it appears there are no further questions at this time. Mr. Huston, I'll turn the conference back to you for any additional or closing remarks.

Mike Huston: Thanks, Jen. Once again, thank you all for joining us today. We look forward to speaking to many of you in the coming days and weeks, and hope you have a great day.

Operator (Jen): This concludes today's conference call. Thank you for attending.