



RDC – November 18, 2010

Joe Beedle

Alaska's Future Economy

*based upon* INVESTMENT CLIMATE



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What is the One Thing?  
*Sustainable Investment*

  
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Do we want an investment climate (economy) that benefits all stakeholders? Does return for future generations require balance?

Do we want maximum taxation or maximum 'royalty – return'? As 'owner state' should we focus on owner royalties first followed by reasonable taxes? Achieve the last barrel of oil possible or risk it over short term taxes?

  
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# Northrim Bank

- \$1 Billion in Assets, 275 employees
- Bank plus subs/affiliates total 500 employees
- Investment Services with \$1.7B under advisement
- RML \$1.4B in Mortgage Loans '09
- Employer Health Insurance Plans NBG
- Of 8,000 banks in U.S. 7,500 are smaller
- Community Business Bank
- 3 Seattle offices: Wealth Management, Lending
- No TARP, No Government Assistance, highly capitalized
- We celebrate our 20th anniversary in two weeks
- More strategically involved than banks our size



## Northrim Affiliates



ELLIOTT COVE  
Capital Management

**Northrim**  
**BENEFITS**  
Group

An affiliate of Northrim Bank



PACIFIC PORTFOLIO



**Northrim Funding Services**

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# Investment Creates an Economy

- ✓ “Speaking from experience” – banks reflects economy
- ✓ Northrim is a an actively traded publicly held company
- ✓ Only three such companies HQ in Alaska
- ✓ With 50%+ stock owned by institutional investors
- ✓ They track management, but also economic climate
- ✓ Alaska is an enigma/disconnect – requires ‘story’
- ✓ I travel to money centers Nationally twice yr meet investment analysts – they ask tough questions
- ✓ Confidence, optimism...but future uncertainty?



## Alaska's Financial Strengths

- State has \$11 billion in savings
- Permanent Fund has \$35 billion
  - PFD 2009 actual is \$1,305 per person
- Contributes to one of nation's highest household incomes
  - Median Household 2009 Income (\$ in 000s)

Anchorage	\$83.8
Alaska	\$76.3
U.S.	\$64.0



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# Alaska's Economy



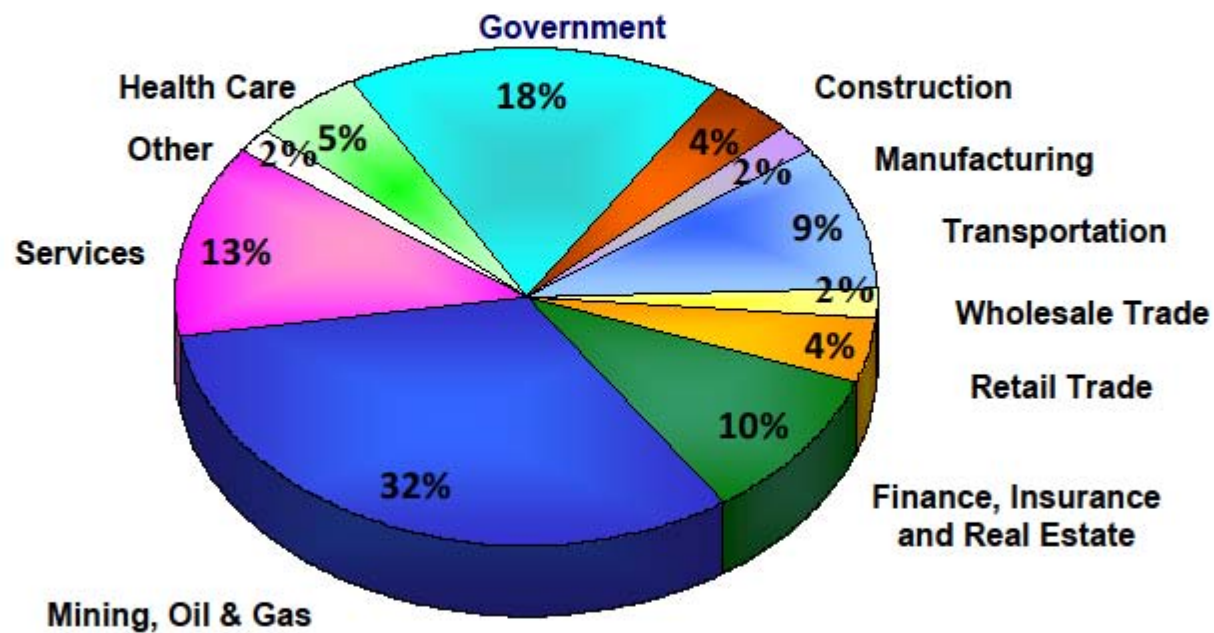
- Job growth for 21 consecutive years
  - 2009 employment down 0.3%
  - 1H10 employment up 1%
- Employment 321,000 payroll
- 2009 Per capita income down 3%
- Alaska now ranks 9th in U.S. per capita income

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# Alaska Gross State Product

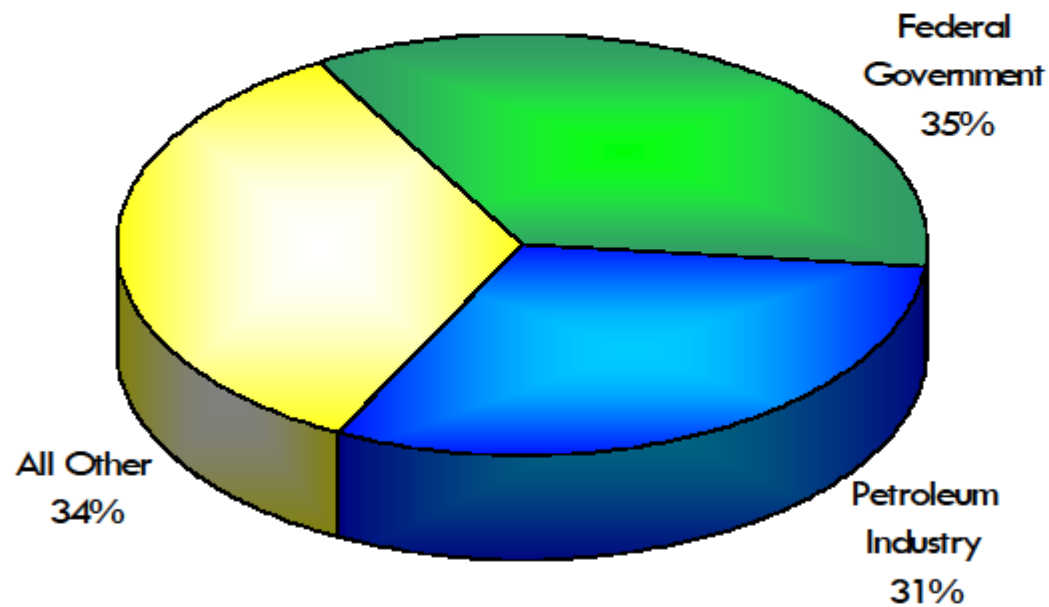


Source: U.S. Department of Commerce, Bureau of Economic Analysis  
Other consists of Agriculture, forestry, fishing, and Utilities – 2008 data

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# Alaska Employment Sources



Source: U.S. Department of Commerce, Bureau of Economic Analysis 2004-2008  
Other consists of seafood, tourism, mining, timber, international air cargo and other personal assets primarily from federal retirement benefits.

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# Investing in Alaska - OCS

- Outer Continental Shelf
- Chukchi Sea
  - Leases cost \$3 billion
  - Environmental challenges
  - 60 miles offshore = Fed
- Beaufort Sea
  - Lease investment \$1 Billion
  - Near Shore – State
  - Directional drilling
- Bering Sea
  - Longer Term
  - Not close to TAPS



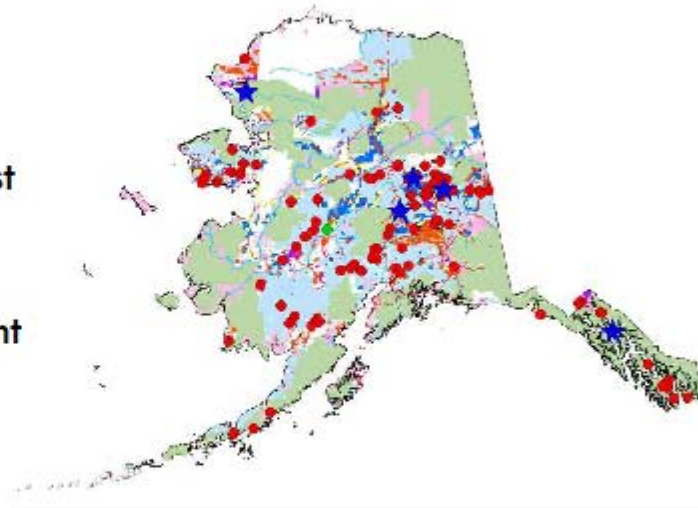
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# Other Alaska Natural Resources

## Mining

- \$2.8 Billion in 2009
- Red Dog mine is world's largest zinc producer
- Other world-class gold and copper deposits in development



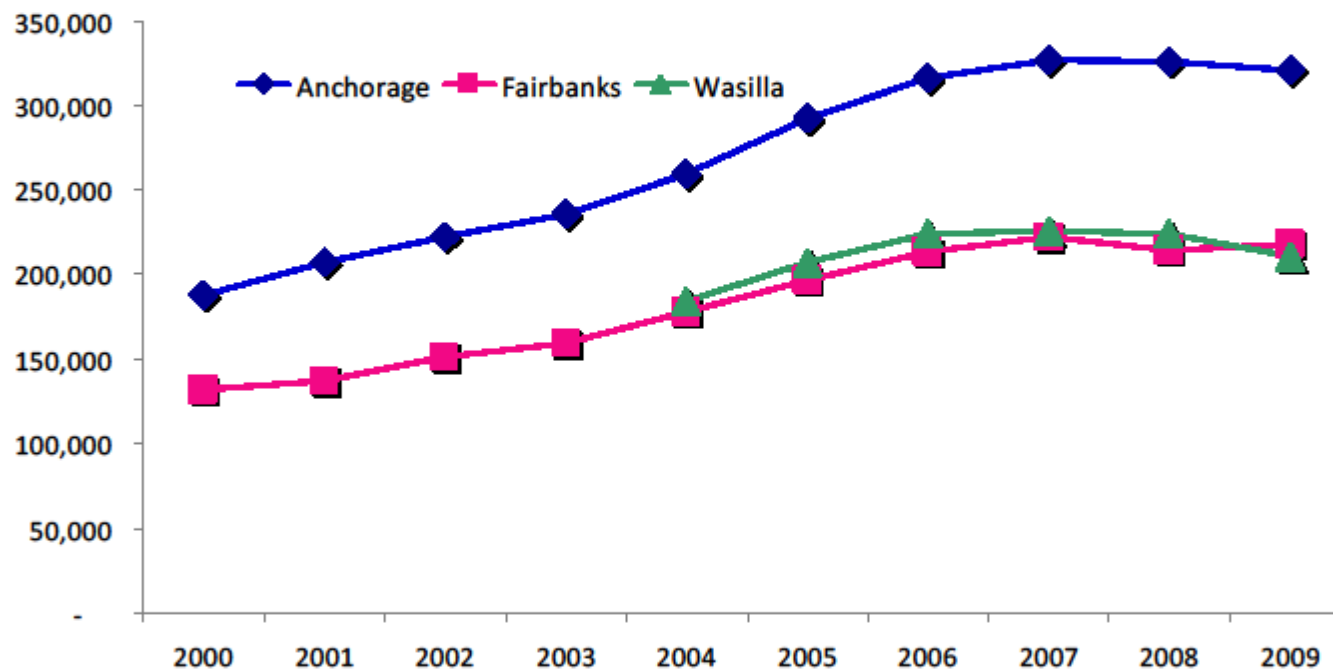
## Fisheries

- More than half U.S. harvest
- \$1.6 billion exported in 2009
- Another \$1.6 billion to US markets

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# Residential Average Sales Price



Sources: Alaska Multiple Listing Service and the Greater Fairbanks Board of Realtors  
Wasilla data includes condos

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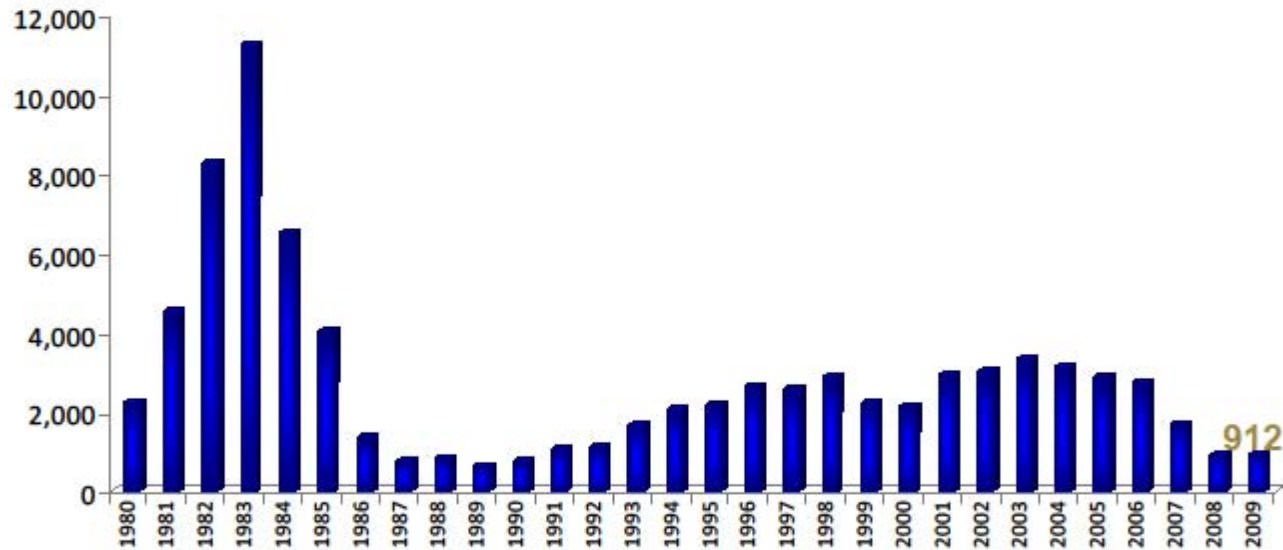
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# Alaska Building Permits

Number of new, privately owned housing 1-5 units authorized



Source : U.S. Census Bureau

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# Foreclosure and Delinquency Rates

## 1-4 Unit Residential Properties

	<i>National Rank</i>	<i>Alaska</i>	<i>U.S.</i>
Delinquencies, total 1Q 2010	<b>3<sup>rd</sup> best</b>	<b>4.6%</b>	<b>9.4%</b>
Foreclosures, started 1Q 2010	<b>2<sup>nd</sup> best</b>	<b>0.5%</b>	<b>1.2%</b>
Foreclosures, total in progress	<b>2<sup>nd</sup> best</b>	<b>1.3%</b>	<b>4.6%</b>
Subprime delinquencies	<b>1<sup>st</sup> best</b>	<b>11.3%</b>	<b>27.8%</b>
Subprime foreclosures	<b>1<sup>st</sup> best</b>	<b>4.1%</b>	<b>15.4%</b>

Source: Mortgage Bankers Association of America  
Seasonally adjusted rates based on 1st quarter 2010 data.

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# Alaska CRE Vacancies

December 2009

- Class A 7.0%
- Class B 8.7%
- Warehouse 5.0%
- Multifamily 4.5%
- Retail 5.0%

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## Why Northrim ?

- Alaska is unique
  - Strategic Location
  - Land Ownership
  - Economy
- Improving Asset Quality
- Earnings Growth
- Strong Liquidity and Capital



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# Uncertain Times?

- ✓ Global, National U.S. 25 yr, AK 21 yrs, Prosperity
- ✓ Today, “new normal” is uncertainty – rocky at best
- ✓ Wait and see attitude, velocity \$/turn is low
- ✓ Government intervention, paper value loss, fear, taxes
- ✓ HOW DO WE TURN THIS AROUND?
- ✓ Balance U.S. budget? Value Added Tax answer?
- ✓ Is “Productivity/Efficiency” an Alaska answer/advantage?
- ✓ Sure we are just ‘OK’ today, but 2012 beyond is not good
- ✓ Flat is good only in relative terms – we are flat or declining
- ✓ Fed Spend, Oil Flow, “Other 3<sup>rd</sup> stool leg, all troubling!
- ✓ Loan Demand/balances down 10% - where investment?



# What was climate when TAPS built?



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# Whale of opportunity



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# Big Splash



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# High Water Mark '88-89



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# Everyone Fed Very Well



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# Even the Lice on Whales Back



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# Even the Lice on Whales Back



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# The harvest was shared by all



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# Infrastructure benefited



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# Everyone benefited



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# Alaska made a killing



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# A Feeding Frenzy?



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# Sunrise or sunset?



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# Want More Whales – How Likely is That?



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# Would bigger - sink the ship?



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Could we/they be heading for a dive?



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# Do we need balance/symmetry?



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Or will the Whales will flip us off



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# Worse than Venezuela?



- Nationalized O&G Industry
- 30% of GDP is O&G
- Consistent drop in GDP
- 10%, 8%, 5%
- Is it good to be compared with cornerstone narcissist and very dysfunctional government?
- Can greed create disconnects – scare investment?



Have we become sleepy – unaware of seasonal/cyclical change?



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Did we focus on the little things?



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# Did we get too buzzed up?



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# We recently reflected on Tourism



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# To try and find balance

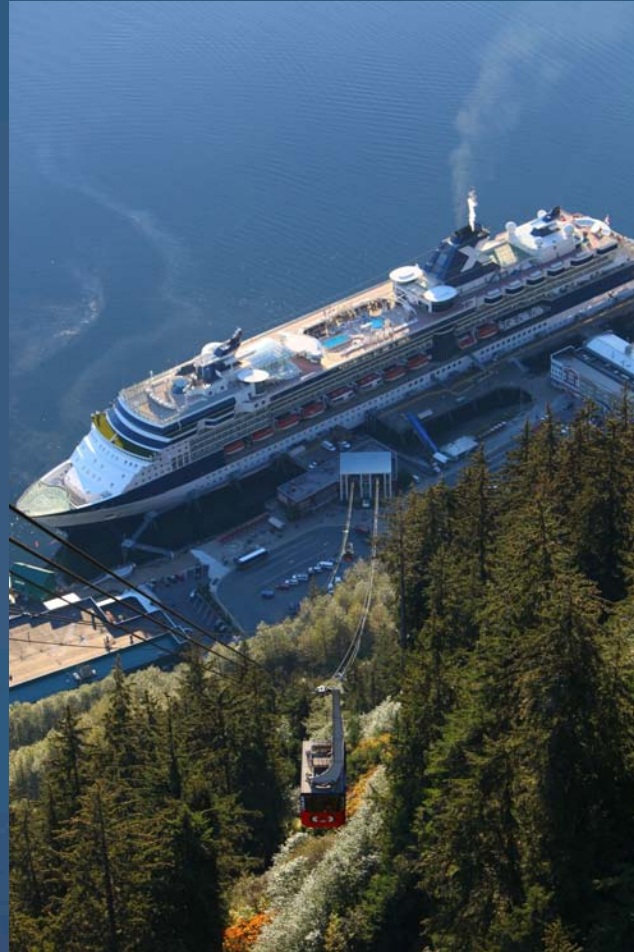


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# Tourism was on down elevator



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# The industry was repositioning to another climate



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# Critical eyes looked at the situation



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# Feathers were ruffled



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# The industry put the light on taxes



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# The ice began to melt



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# We had an economic warming event



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# The bears



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# The Bears



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# The bears



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# Turned into Bulls



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# Turned into bulls



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# The wolves were kept at bay



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# The ships are returning



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# Even under the mountain of Kensington



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# Balance was restored



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# Back to Business – Economics

## Economic Factors of Production

- ✓ How does Alaska rate? In general (report card)?
- ✓ Hard # Specifics – Land, Labor, Capital, Technology
- ✓ Land – Natural Resources requires development – think TAPS, monetize resources, create commerce/jobs, Permanent Fund, from our “Royalties” & rents. Significant Natural Resources, underutilized?
- ✓ Labor (Human Cap) costs/environment a disadvantage?
- ✓ Capital, we need it from outside, how to attract?
- ✓ Technology – in oil & mining does is it high cost?



# Capital and Risks?

- Physical assets used in production – capital intensive!
- Financial Capital – Debt & Equity
- National Capital was/is Over-leveraged
- Bubble burst – financial meltdown
- Tremendous up front Risk capital in resource industry
- Monetizing resources requires capital to find, develop, prove, secure transport, refine, market, sell, post a return
- Not State's risk – producers risk
- Time Value Money – Present Value when time is extended is lost value/capital, non-earning asset



# Threats/Volatilities?

- Fiscal Stability
- Tax Stability/What next – VAT?
- Regulatory Stability
- Price Stability
- “Stress Testing” by Denying Use or delaying exploration and development will cause problems – capital will exit
- Disincentives to invest, risk/rewards may be better balanced elsewhere – capital is mobile/fleeting and has a memory



# Unusual Uncertainty

- New Uncertain Environment
- More variability - rapid cycles
- More uncontrollable issues
- More emotion – ‘pan’ recent election
- Geopolitical Dilemma
- Radical Environmentalism
- An ignorant citizenry that does not have time or inclination to learn complicated issues
- Elected officials that are influenced by immediate gratification at peril to long term investments



# Government

- U.S. government not helpful - troubled
- State Administration appears ready to help
- State House less apt to make changes necessary to taxation, but more likely than the Senate – need advocacy/cover now
- China/Australia decisive – developing/prospering
- Japan opposite – shrinking
- Alaska more like Japan - disconnected



# Seasonal or Cyclical Climate Change

- The investment climate has changed
- The leaves have fallen
- No new shoots
- Resource Economic Climate Change is not short term – it takes a long time to turn around
- This forecast should be a wake-up call for action





# What can we do?

- Speaking to the choir here!
- Can/will you enlist others, get engaged?
- Native Corp's proved power twice (mine water issue and U.S. Senate Race)
- Need alignment and unified voice
- Input for Administration, provide support, then lobby legislature
- Battle in legislature – they don't think long term



# What is one thing?

- Investment Climate?
- Is investment climate good?
- What can we do to make it better?
- If taxes can be addressed in short order can we do it?
- Change Oil Tax Base rate 20-22% from 25%, Brackets changed, Progressivity moderated, Other incentives for long marginal plays
- Our largest industry is crying out loud – who listening?



# Back-off Taxes – Achieve More Oil



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