

NORTHRIM BANCORP INC  
Form 10-Q  
August 07, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2013

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-33501

NORTHRIM BANCORP, INC.

(Exact name of registrant as specified in its charter)

Alaska

(State or other jurisdiction of incorporation or organization)

92-0175752

(I.R.S. Employer Identification No.)

3111 C Street

Anchorage, Alaska 99503

(Address of principal executive offices) (Zip Code)

(907) 562-0062

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of the issuer's Common Stock, par value \$1 per share, outstanding at August 6, 2013 was 6,515,414.

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PART I. FINANCIAL INFORMATION

These consolidated financial statements should be read in conjunction with the financial statements, accompanying notes and other relevant information included in Northrim BanCorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012.

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## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED FINANCIAL STATEMENTS

## NORTHRIM BANCORP, INC.

## Consolidated Balance Sheets

(In Thousands, Except Share Data)	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$ 29,216	\$ 40,834
Interest bearing deposits in other banks	78,269	113,979
Investment securities available for sale	222,825	203,918
Investment securities held to maturity	2,746	2,749
Total portfolio investments	225,571	206,667
Investment in Federal Home Loan Bank stock	1,932	1,967
Loans held for sale	15,811	11,705
Loans	718,157	704,213
Allowance for loan losses	(16,528)	(16,408)
Net loans	717,440	699,510
Purchased receivables, net	26,546	19,022
Accrued interest receivable	2,729	2,618
Other real estate owned, net	4,293	4,543
Premises and equipment, net	28,200	27,908
Goodwill and intangible assets, net	8,053	8,170
Other assets	42,601	34,889
Total assets	\$ 1,164,850	\$ 1,160,107
<b>LIABILITIES</b>		
Deposits:		
Demand	\$ 344,978	\$ 361,167
Interest-bearing demand	137,788	146,262
Savings	93,714	87,241
Alaska CDs	105,568	101,165
Money market	185,654	181,598
Certificates of deposit less than \$100,000	36,384	39,343
Certificates of deposit greater than \$100,000	54,846	53,353

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Total deposits	958,932	970,129
Securities sold under repurchase agreements	20,321	19,038
Borrowings	6,629	4,479
Junior subordinated debentures	18,558	18,558
Other liabilities	20,356	11,550
Total liabilities	1,024,796	1,023,754

SHAREHOLDERS' EQUITY

Preferred stock, \$1 par value, 2,500,000 shares authorized, none issued or outstanding		
Common stock, \$1 par value, 10,000,000 shares authorized, 6,515,414 and 6,511,649 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	6,515	6,512
Additional paid-in capital	53,886	53,638
Retained earnings	78,939	74,742
Accumulated other comprehensive income	639	1,368
Total Northrim BanCorp shareholders' equity	139,979	136,260
Noncontrolling interest	75	93
Total shareholders' equity	140,054	136,353
Total liabilities and shareholders' equity	\$ 1,164,850	\$ 1,160,107

See notes to consolidated financial statements

## NORTHRIM BANCORP, INC.

## Consolidated Statements of Income

(In Thousands, Except Per Share Data)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
<b>Interest Income</b>				
Interest and fees on loans	\$ 10,734	\$ 10,305	\$ 21,076	\$ 20,530
Interest on investment securities available for sale	630	718	1,289	1,467
Interest on investment securities held to maturity	30	37	59	75
Interest on deposits in other banks	46	63	108	103
<b>Total Interest Income</b>	<b>11,440</b>	<b>11,123</b>	<b>22,532</b>	<b>22,175</b>
<b>Interest Expense</b>				
Interest expense on deposits, borrowings and junior subordinated debentures	511	627	1,041	1,325
<b>Net Interest Income</b>	<b>10,929</b>	<b>10,496</b>	<b>21,491</b>	<b>20,850</b>
Provision for loan losses	-	89	150	178
<b>Net Interest Income After Provision for Loan Losses</b>	<b>10,929</b>	<b>10,407</b>	<b>21,341</b>	<b>20,672</b>
<b>Other Operating Income</b>				
Purchased receivable income	768	712	1,470	1,424
Employee benefit plan income	632	616	1,201	1,156
Service charges on deposit accounts	539	569	1,064	1,137
Electronic banking income	536	493	1,040	976
Equity in earnings from RML	538	405	780	706
Gain on sale of securities	100	246	318	273
Rental income	27	204	55	402
Other income	562	480	913	858
<b>Total Other Operating Income</b>	<b>3,702</b>	<b>3,725</b>	<b>6,841</b>	<b>6,932</b>
<b>Other Operating Expense</b>				
Salaries and other personnel expense	5,586	5,154	11,321	10,860
Occupancy expense	858	920	1,746	1,916
Marketing expense	445	435	892	872
Professional and outside services	309	287	658	676
Equipment expense	301	342	579	636
Software expense	267	270	532	521
Amortization of low income housing tax investments	247	234	492	462
Internet banking expense	189	185	373	357

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Insurance expense	261	301	405	419
Reserve for (recovery from) purchased receivables	(115)	-	(31)	-
Intangible asset amortization expense	59	65	117	129
OREO expense, net rental income and gains on sale	12	118	6	215
Other operating expense	972	984	1,998	1,990
Total Other Operating Expense	9,391	9,295	19,088	19,053
Income Before Provision for Income Taxes	5,240	4,837	9,094	8,551
Provision for income taxes	1,635	1,551	2,725	2,577
Net Income	3,605	3,286	6,369	5,974
Less: Net income attributable to the noncontrolling interest	109	144	199	256
Net Income Attributable to Northrim BanCorp	\$ 3,496	\$ 3,142	\$ 6,170	\$ 5,718
Earnings Per Share, Basic	\$ 0.54	\$ 0.49	\$ 0.95	\$ 0.88
Earnings Per Share, Diluted	\$ 0.53	\$ 0.48	\$ 0.94	\$ 0.87
Weighted Average Shares Outstanding, Basic	6,515,414	6,469,909	6,513,935	6,468,724
Weighted Average Shares Outstanding, Diluted	6,591,003	6,573,729	6,590,899	6,570,094

See notes to consolidated financial statements



## NORTHRIM BANCORP, INC.

## Consolidated Statements of Comprehensive Income

(In Thousands)	Three Months		Six Months Ended	
	Ended June 30, 2013	2012	June 30, 2013	2012
Net income	\$ 3,605	\$ 3,286	\$ 6,369	\$ 5,974
Other comprehensive income, net of tax:				
Securities available for sale:				
Unrealized gains (losses) arising during the period	\$ (1,070)	\$ (62)	\$ (919)	\$ 1,463
Reclassification of net gains included in net income (net of tax expense of \$41,000 and \$101,000 for the second quarter of 2013 and 2012, respectively, and \$131,000 and \$112,000 for the first six months of 2013 and 2012, respectively)	(59)	(145)	(187)	(161)
Income tax benefit (expense) related to unrealized (losses) gains	440	26	377	(601)
Total other comprehensive income (loss)	(689)	(181)	(729)	701
Comprehensive income	2,916	3,105	5,640	6,675
Less: comprehensive income attributable to the noncontrolling interest	(109)	(144)	(199)	(256)
Total comprehensive income attributable to Northrim BanCorp	\$ 2,807	\$ 2,961	\$ 5,441	\$ 6,419

See notes to consolidated financial statements

## NORTHRIM BANCORP, INC.

## Consolidated Statements of Changes in Shareholders' Equity

(In Thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated	Non- controlling Interest	Total
	Number of Shares	Par Value			Other Comprehensive Income		
Balance as of January 1, 2012	6,467	\$ 6,467	\$ 53,164	\$ 65,469	\$ 283	\$ 52	\$ 125,435
Cash dividend declared	-	-	-	(3,673)	-	-	(3,673)
Stock based compensation expense	-	-	454	-	-	-	454
Exercise of stock options	45	45	(213)	-	-	-	(168)
Excess tax benefits from share-based payment arrangements	-	-	233	-	-	-	233
Distributions to noncontrolling interest	-	-	-	-	-	(471)	(471)
Other comprehensive income	-	-	-	-	1,085	-	1,085
Net income attributable to the noncontrolling interest	-	-	-	-	-	512	512
Net income attributable to Northrim BanCorp	-	-	-	12,946	-	-	12,946
Twelve Months Ended December 31, 2012	6,512	\$ 6,512	\$ 53,638	\$ 74,742	\$ 1,368	\$ 93	\$ 136,353
Cash dividend declared	-	-	-	(1,973)	-	-	(1,973)
Stock based compensation expense	-	-	227	-	-	-	227
Exercise of stock options	3	3	(9)	-	-	-	(6)
Excess tax benefits from share-based payment arrangements	-	-	30	-	-	-	30
Distributions to noncontrolling interest	-	-	-	-	-	(217)	(217)
Other comprehensive income	-	-	-	-	(729)	-	(729)
Net income attributable to the noncontrolling interest	-	-	-	-	-	199	199
Net income attributable to Northrim BanCorp	-	-	-	6,170	-	-	6,170
Six Months Ended June 30, 2013	6,515	\$ 6,515	\$ 53,886	\$ 78,939	\$ 639	\$ 75	\$ 140,054

See notes to consolidated financial statements

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## NORTHRIM BANCORP, INC.

## Consolidated Statements of Cash Flows

(In Thousands)	Six Months Ended June 30,	
	2013	2012
<b>Operating Activities:</b>		
Net income	\$ 6,369	\$ 5,974
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Gain on sale of securities, net	(318)	(273)
Depreciation and amortization of premises and equipment	893	821
Amortization of software	94	98
Intangible asset amortization	117	129
Amortization of investment security premium, net of discount accretion	41	145
Deferred tax liability	(44)	(240)
Stock-based compensation	227	225
Excess tax benefits from share-based payments	(30)	(28)
Deferral of loan fees and costs, net	(16)	253
Provision for loan losses	150	178
Reserve for (recovery from) purchased receivables	(31)	-
Purchases of loans held for sale	(75,680)	(86,576)
Proceeds from the sale of loans held for sale	71,574	91,769
Gain on sale of other real estate owned	(129)	(26)
Impairment on other real estate owned	87	81
Equity in undistributed earnings from mortgage affiliate	17	37
Net changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(111)	97
Proceeds from refund of prepaid FDIC premiums	3,405	-
(Increase) decrease in other assets	65	(784)
Increase (decrease) in other liabilities	(1,842)	(535)
<b>Net Cash Provided by Operating Activities</b>	<b>4,838</b>	<b>11,345</b>
<b>Investing Activities:</b>		
Investment in securities:		
Purchases of investment securities available for sale	(78,197)	(39,603)
Proceeds from sales/maturities of securities available for sale	58,333	73,760
Proceeds from calls/maturities of securities held to maturity	-	215
Purchases of domestic certificates of deposit	(3,500)	(1,500)
Proceeds from maturities of domestic certificates of deposit	3,500	-
Proceeds from redemption of FHLB stock	35	-
(Increase) decrease in purchased receivables, net	(7,493)	6,559
(Increase) in loans, net	(14,323)	(13,231)

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Proceeds from sale of other real estate owned	634	199
Investment in other real estate owned	-	(18)
(Increase) decrease in loan to Elliott Cove, net	(66)	93
Purchases of premises and equipment	(1,185)	(625)
Net Cash (Used) by Investing Activities	(42,262)	25,849
Financing Activities:		
(Decrease) in deposits	(11,197)	(16,475)
Increase (decrease) in securities sold under repurchase agreements	1,283	(1,083)
Increase (decrease) in borrowings	2,150	(73)
Distributions to noncontrolling interest	(217)	(231)
Excess tax benefits from share-based payments	30	28
Cash dividends paid	(1,953)	(1,686)
Net Cash (Used) by Financing Activities	(9,904)	(19,520)
Net Increase (Decrease) in Cash and Cash Equivalents	(47,328)	17,674
Cash and Cash Equivalents at Beginning of Period	141,313	79,530
Cash and Cash Equivalents at End of Period	\$ 93,985	\$ 97,204
Supplemental Information:		
Income taxes paid	\$ 2,196	\$ 3,197
Interest paid	\$ 1,037	\$ 1,327
Transfer of loans to other real estate owned	\$ 365	\$ 1,499
Loans made to facilitate sales of other real estate owned	\$ -	\$ 199
Cash dividends declared but not paid	\$ 20	\$ 19

See notes to consolidated financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by Northrim BanCorp, Inc. (the "Company") in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications have been made to prior year amounts to maintain consistency with the current year with no impact on net income or total shareholders' equity. The Company determined that it operates as a single operating segment. Operating results for the interim period ended June 30, 2013, are not necessarily indicative of the results anticipated for the year ending December 31, 2013. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

### 2. Significant Accounting Policies and Recent Accounting Pronouncements

The Company's significant accounting policies are discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-02, Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). The amendments to the Codification in ASU 2013-02 do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This ASU was effective for the Company's financial statements for annual and interim periods beginning on or after December 15, 2012, and has been applied prospectively. The adoption of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

### 3. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with other banks, banker's acceptances, commercial paper, securities purchased under agreement to resell, federal funds sold, and securities with maturities of less than 90 days at acquisition. As of June 30, 2013, the Company had two certificates of deposit totaling \$13.5 million in another bank. Cash and cash equivalent balances placed with the Federal Reserve of San Francisco is the only concentration representing more than 10% of the Company's equity.

## 4. Investment Securities

The carrying values and approximate fair values of investment securities at the periods indicated are presented below:

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013				
Securities available for sale				
U.S. Treasury and government sponsored entities	\$ 143,127	\$ 173	\$ 463	\$ 142,837
Municipal securities	21,055	382	56	21,381
U.S. Agency mortgage-backed securities	30	-	-	30
Corporate bonds	55,026	1,005	50	55,981
Preferred stock	2,501	95	-	2,596
Total securities available for sale	\$ 221,739	\$ 1,655	\$ 569	\$ 222,825
Securities held to maturity				
Municipal securities	\$ 2,746	\$ 164	\$ -	\$ 2,910
Total securities held to maturity	\$ 2,746	\$ 164	\$ -	\$ 2,910
December 31, 2012				
Securities available for sale				
U.S. Treasury and government sponsored entities	\$ 123,959	\$ 455	\$ -	\$ 124,414
Municipal securities	21,124	613	9	21,728
U.S. Agency mortgage-backed securities	35	1	-	36
Corporate bonds	52,951	1,081	50	53,982
Preferred stock	3,524	234	-	3,758
Total securities available for sale	\$ 201,593	\$ 2,384	\$ 59	\$ 203,918
Securities held to maturity				
Municipal securities	\$ 2,749	\$ 229	\$ -	\$ 2,978
Total securities held to maturity	\$ 2,749	\$ 229	\$ -	\$ 2,978

There were twenty six and six securities with unrealized losses as of June 30, 2013 and December 31, 2012, respectively, that have been in a loss position for less than twelve months. There were no securities with unrealized losses as of June 30, 2013 and December 31, 2012 that have been in an unrealized loss position for more than twelve months. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company does not intend to sell, nor is it required to sell these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

At June 30, 2013, \$40.6 million in securities, or 18%, of the investment portfolio was pledged, as compared to \$42.7 million, or 20%, at December 31, 2012. We held no securities of any single issuer (other than government sponsored entities) that exceeded 10% of our shareholders' equity at June 30, 2013 and December 31, 2012.

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The amortized cost and fair values of debt securities at June 30, 2013, are distributed by contractual maturity as shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Although preferred stock has no stated maturity, it is aggregated in the calculation of weighted average yields presented below in the category of investments that mature in ten years or more.

(In Thousands)	Amortized Cost	Fair Value	Weighted Average Yield
US Treasury and government sponsored entities			
Within 1 year	\$ 45,195	\$ 45,359	0.77 %
1-5 years	97,932	97,478	0.51 %
Total	\$ 143,127	\$ 142,837	0.59 %
U.S. Agency mortgage-backed securities			
1-5 years	\$ 30	\$ 30	4.45 %
Total	\$ 30	\$ 30	4.45 %
Corporate bonds			
Within 1 year	\$ 6,660	\$ 6,704	1.43 %
1-5 years	46,366	47,293	2.25 %
5-10 years	2,000	1,984	0.01
Total	\$ 55,026	\$ 55,981	2.10 %
Preferred stock			
Over 10 years	2,501	2,596	5.19 %
Total	\$ 2,501	\$ 2,596	5.19 %
Municipal securities			
Within 1 year	\$ 4,573	\$ 4,606	2.12 %
1-5 years	10,917	11,084	1.66 %
5-10 years	8,311	8,601	4.80 %
Total	\$ 23,801	\$ 24,291	2.84 %

The proceeds and resulting gains and losses, computed using specific identification, from sales of investment securities for the six months ending June 30, 2013 and 2012, respectively, are as follows:

(In Thousands)	Proceeds	Gross Gains	Gross Losses
2013			
Available for sale securities	\$ 22,013	\$ 318	\$ -
2012			



Available for sale securities \$ 30,424 \$ 273 \$ -

A summary of interest income for the six months ending June 30, 2013 and 2012 on available for sale investment securities is as follows:

(In Thousands)	2013	2012
US Treasury and government sponsored entities	\$ 419	\$ 553
U.S. Agency mortgage-backed securities	1	1
Other	581	630
Total taxable interest income	\$ 1,001	\$ 1,184
Municipal securities	\$ 288	\$ 283
Total tax-exempt interest income	288	283
Total	\$ 1,289	\$ 1,467

For the periods ending June 30, 2013 and December 31, 2012, we held Federal Home Loan Bank of Seattle (“FHLB”) stock with a book value approximately equal to its market value in the amount of \$1.9 and \$2.0 million, respectively. The Company evaluated its investment in FHLB stock for other-than-temporary impairment as of June 30, 2013, consistent with its accounting policy. Based on the Company’s evaluation of the underlying investment, including the fact that the FHLB of Seattle recently began redeeming stock at par, the long-term nature of the investment, the liquidity position of the FHLB of Seattle, and the Company’s intent and ability to hold the investment for a period of time sufficient to recover the par value, the Company did not recognize an other-than-temporary impairment loss.

#### 5. Loans Held for Sale

From time to time, the Company has purchased residential loans from our mortgage affiliate, Residential Mortgage Holding Company LLC (“RML”). The Company then sells these loans in the secondary market. The Company purchased \$75.7 million and sold \$71.6 million in loans during the six-month period ending June 30, 2013. The Company purchased \$86.6 million and sold \$91.8 million in loans during the six-month period ending June 30, 2012.

## 6. Loans

The following table presents total portfolio loans by portfolio segment and class of financing receivable, based on our risk classification criteria:

(In Thousands)	Commercial	Real estate construction one-to-four family	Real estate construction other	Real estate term owner occupied	Real estate term non-owner occupied	Real estate term other	Consumer secured by 1st deeds of trust	Consumer other	Total
June 30, 2013									
AQR Pass	\$ 291,374	\$ 28,015	\$ 17,804	\$ 74,688	\$ 219,643	\$ 31,272	\$ 16,126	\$ 17,606	\$ 696,528
AQR Special Mention	6,146	4,383	1,748	3,215	3,098	-	408	96	19,094
AQR Substandard	1,513	745	-	286	1,380	1,479	194	353	5,950
AQR Doubtful	-	-	-	-	-	-	-	-	-
AQR Loss	-	-	-	-	-	-	-	-	-
Subtotal	\$ 299,033	\$ 33,143	\$ 19,552	\$ 78,189	\$ 224,121	\$ 32,751	\$ 16,728	\$ 18,055	\$ 721,572
Less: Unearned origination fees, net of origination costs									(3,415)
									\$ 718,157
December 31, 2012									
AQR Pass	\$ 265,562	\$ 28,780	\$ 21,061	\$ 73,985	\$ 230,010	\$ 28,304	\$ 16,911	\$ 17,817	\$ 682,430
AQR Special Mention	6,064	1,282	-	2,522	2,546	126	620	238	13,398
AQR Substandard	1,597	2,511	-	1,600	2,087	3,379	183	250	11,607
AQR Doubtful	189	-	-	-	-	-	-	-	189
AQR Loss	20	-	-	-	-	-	-	-	20
Subtotal	\$ 273,432	\$ 32,573	\$ 21,061	\$ 78,107	\$ 234,643	\$ 31,809	\$ 17,714	\$ 18,305	\$ 707,644
Less: Unearned origination fees, net of origination costs									(3,431)
									\$ 704,213

Loans are carried at their principal amount outstanding, net of charge-offs, unamortized fees and direct loan origination costs. Loan balances are charged to the allowance for loan losses (the "Allowance") when management believes that collection of principal is unlikely. Interest income on loans is accrued and recognized on the principal amount outstanding except for loans in a nonaccrual status. All classes of loans are placed on nonaccrual and considered impaired when management believes doubt exists as to the collectability of the interest or principal. Cash payments received on nonaccrual loans are applied directly to the principal balance. Generally, a loan may be returned to accrual status when the delinquent principal and interest are brought current in accordance with the terms of the loan agreement. Additionally, certain ongoing performance criteria, which generally includes a performance period of six months, must be met in order for a loan to be returned to accrual status. Loans are reported as past due when installment payments, interest payments, or maturity payments are past due based on contractual terms.

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Nonaccrual loans totaled \$3.8 million and \$4.5 million at June 30, 2013 and December 31, 2012, respectively. Nonaccrual loans at the periods indicated, by segment are presented below:

(In Thousands)	June 30, 2013	December 31, 2012
Commercial	\$ 717	\$ 1,214
Real estate construction one-to-four family	1,215	1,264
Real estate term non-owner occupied	165	185
Real estate term other	1,322	1,451
Consumer secured by 1st deeds of trust	194	183
Consumer other	220	234
Total	\$ 3,833	\$ 4,531

Past due loans and nonaccrual loans at the periods indicated are presented below by loan class:

(In Thousands)	30-59 Days Past Due Still Accruing	60-89 Days Past Due Still Accruing	Greater Than 90 Days Still Accruing	Nonaccrual	Total Past Due	Current	Total
June 30, 2013							
AQR Pass	\$ 273	\$ 81	\$ -	\$ -	\$ 354	\$ 696,174	\$ 696,528
AQR Special Mention	1,488	193	-	470	2,151	16,943	19,094
AQR Substandard	-	70	-	3,363	3,433	2,517	5,950
AQR Doubtful	-	-	-	-	-	-	-
AQR Loss	-	-	-	-	-	-	-
Subtotal	\$ 1,761	\$ 344	\$ -	\$ 3,833	\$ 5,938	\$ 715,634	\$ 721,572
Less: Unearned origination fees, net of origination costs							(3,415)
							\$ 718,157
December 31, 2012							
AQR Pass	\$ 401	\$ -	\$ -	\$ -	\$ 401	\$ 682,029	\$ 682,430
AQR Special Mention	534	-	-	596	1,130	12,268	13,398
AQR Substandard	-	-	-	3,726	3,726	7,881	11,607
AQR Doubtful	-	-	-	189	189	-	189
AQR Loss	-	-	-	20	20	-	20
Subtotal	\$ 935	\$ -	\$ -	\$ 4,531	\$ 5,466	\$ 702,178	\$ 707,644
Less: Unearned origination fees, net of origination costs							(3,431)
							\$ 704,213

The Company considers a loan to be impaired when it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is determined to be impaired, the impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate, except that if the loan is collateral dependent, the impairment is measured by using the fair value of the loan's collateral. Nonperforming loans greater than \$50,000 are individually evaluated for impairment based upon the borrower's overall financial condition, resources, and payment record, and the prospects for support from any financially responsible guarantors.

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At June 30, 2013 and December 31, 2012, the recorded investment in loans that are considered to be impaired was \$11.2 million and \$13.1 million, respectively. The following table presents information about impaired loans by class as of the periods indicated:

(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
June 30, 2013			
With no related allowance recorded			
Commercial - AQR pass	\$ 183	\$ 183	\$ -
Commercial - AQR special mention	329	329	-
Commercial - AQR substandard	837	882	-
Real estate construction one-to-four family - AQR special mention	470	470	-
Real estate construction other - AQR pass	2,248	2,248	-
Real estate term owner occupied- AQR pass	518	518	-
Real estate term owner occupied- AQR special mention	920	920	-
Real estate term owner occupied- AQR substandard	286	286	-
Real estate term non-owner occupied- AQR special mention	1,189	1,189	-
Real estate term non-owner occupied- AQR substandard	1,366	1,366	-
Real estate term other - AQR substandard	1,479	1,758	-
Consumer secured by 1st deeds of trust - AQR pass	90	90	-
Consumer other - AQR substandard	228	310	-
Subtotal	\$ 10,143	\$ 10,549	\$ -
With an allowance recorded			
Commercial - AQR substandard	\$ 119	\$ 119	\$ 54
Real estate construction one-to-four family - AQR substandard	745	745	215
Consumer secured by 1st deeds of trust - AQR substandard	194	194	18
Subtotal	\$ 1,058	\$ 1,058	\$ 287
Total			
Commercial - AQR pass	\$ 183	\$ 183	\$ -
Commercial - AQR special mention	329	329	-
Commercial - AQR substandard	956	1,001	54
Real estate construction one-to-four family - AQR special mention	470	470	-
Real estate construction one-to-four family - AQR substandard	745	745	215
Real estate construction other - AQR pass	2,248	2,248	-
Real estate term owner-occupied - AQR pass	518	518	-
Real estate term owner-occupied - AQR special mention	920	920	-

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Real estate term owner-occupied - AQR substandard	286	286	-
Real estate term non-owner occupied - AQR special mention	1,189	1,189	-
Real estate term non-owner occupied - AQR substandard	1,366	1,366	-
Real estate term other - AQR substandard	1,479	1,758	-
Consumer secured by 1st deeds of trust - AQR pass	90	90	-
Consumer secured by 1st deeds of trust - AQR substandard	194	194	18
Consumer other - AQR substandard	228	310	-
Total Impaired Loans	\$ 11,201	\$ 11,607	\$ 287

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(In Thousands)	Recorded	Unpaid	Related
December 31, 2012	Investment	Principal	Allowance
With no related allowance recorded			
Commercial - AQR pass	\$ 53	\$ 53	\$ -
Commercial - AQR special mention	332	332	-
Commercial - AQR substandard	981	1,064	-
Real estate construction one-to-four family - AQR special mention	470	470	-
Real estate construction other - AQR pass	2,748	2,748	-
Real estate term owner occupied - AQR special mention	1,083	1,083	-
Real estate term non-owner occupied - AQR special mention	555	555	-
Real estate term non-owner occupied - AQR substandard	1,705	1,705	-
Real estate term other - AQR special mention	126	205	-
Real estate term other - AQR substandard	3,379	3,659	-
Consumer secured by 1st deeds of trust - AQR pass	93	93	-
Consumer other - AQR doubtful	158	240	-
Subtotal	\$ 11,683	\$ 12,207	\$ -
With an allowance recorded			
Commercial - AQR substandard	\$ 427	\$ 427	\$ 284
Commercial - AQR doubtful	189	189	160
Real estate construction one-to-four family - AQR doubtful	794	794	215
Subtotal	\$ 1,410	\$ 1,410	\$ 659
Total			
Commercial - AQR pass	\$ 53	\$ 53	\$ -
Commercial - AQR special mention	332	332	-
Commercial - AQR substandard	1,408	1,491	284
Commercial - AQR doubtful	189	189	160
Real estate construction one-to-four family - AQR special mention	470	470	-
Real estate construction one-to-four family - AQR doubtful	794	794	215
Real estate construction other - AQR pass	2,748	2,748	-
Real estate term owner occupied - AQR special mention	1,083	1,083	-
Real estate term non-owner occupied - AQR special mention	555	555	-
Real estate term non-owner occupied - AQR substandard	1,705	1,705	-
Real estate term other - AQR special mention	126	205	-



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Real estate term other - AQR substandard	3,379	3,659	-
Consumer secured by 1st deeds of trust - AQR pass	93	93	-
Consumer other - AQR doubtful	158	240	-
Total Impaired Loans	\$ 13,093	\$ 13,617	\$ 659

The unpaid principal balance included in the table above represents the recorded investment at the dates indicated, plus amounts charged off for book purposes.

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The following table summarizes our average recorded investment and interest income recognized on impaired loans for the three and six month periods ended June 30, 2013 and 2012, respectively:

Three Months Ended June 30,	2013		2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(In Thousands)				
With no related allowance recorded				
Commercial - AQR pass	\$ 184	\$ 8	\$ 334	\$ -
Commercial - AQR special mention	333	4	273	9
Commercial - AQR substandard	837	7	1,145	-
Commercial - AQR doubtful	-	-	528	-
Real estate construction one-to-four family - AQR special mention	470	-	-	-
Real estate construction other - AQR pass	2,373	-	2,872	67
Real estate term owner occupied- AQR pass	519	29	-	-
Real estate term owner occupied- AQR special mention	942	13	530	11
Real estate term owner occupied- AQR substandard	286	-	-	-
Real estate term non-owner occupied - AQR pass	-	-	1,631	32
Real estate term non-owner occupied- AQR special mention	1,203	49	402	7
Real estate term non-owner occupied- AQR substandard	1,002	5	378	-
Real estate term other - AQR special mention	-	-	153	-
Real estate term other - AQR substandard	1,479	6	2,046	79
Consumer secured by 1st deeds of trust - AQR pass	91	1	95	2
Consumer other - AQR pass	-	-	115	2
Consumer other - AQR substandard	229	2	-	-
Subtotal	\$ 9,948	\$ 124	\$ 10,502	\$ 209
With an allowance recorded				
Commercial - AQR special mention	\$ -	\$ -	\$ 171	\$ -
Commercial - AQR substandard	125	-	101	-
Commercial - AQR doubtful	-	-	217	-
Commercial - AQR loss	-	-	210	-
Real estate construction one-to-four family - AQR substandard	758	-	882	-
Real estate term other - AQR substandard	-	-	2,168	-
Real estate term other - AQR doubtful	-	-	236	-
Consumer secured by 1st deed of trust - AQR pass	-	-	176	-
Consumer secured by 1st deeds of trust - AQR substandard	195	-	52	-
Subtotal	\$ 1,078	\$ -	\$ 4,213	\$ -
Total				
Commercial - AQR pass	\$ 184	\$ 8	\$ 334	\$ -
Commercial - AQR special mention	333	4	444	9
Commercial - AQR substandard	962	7	1,246	-
Commercial - AQR doubtful	-	-	745	-
Commercial - AQR loss	-	-	210	-
Real estate construction one-to-four family - AQR special mention	470	-	-	-
Real estate construction one-to-four family - AQR substandard	758	-	882	-
Real estate construction other - AQR pass	2,373	-	2,872	67

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Real estate term owner-occupied - AQR pass	519	29	-	-
Real estate term owner-occupied - AQR special mention	942	13	530	11
Real estate term owner-occupied - AQR substandard	286	-	-	-
Real estate term non-owner occupied - AQR pass	-	-	1,631	32
Real estate term non-owner occupied - AQR special mention	1,203	49	402	7
Real estate term non-owner occupied - AQR substandard	1,002	5	378	-
Real estate term other - AQR special mention	-	-	153	-
Real estate term other - AQR substandard	1,479	6	4,214	79
Real estate term other - AQR doubtful	-	-	236	-
Consumer secured by 1st deeds of trust - AQR pass	91	1	271	2
Consumer secured by 1st deeds of trust - AQR substandard	195	-	52	-
Consumer other - AQR pass	-	-	115	2
Consumer other - AQR substandard	229	2	-	-
Total Impaired Loans	\$ 11,026	\$ 124	\$ 14,715	\$ 209

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Six Months Ended June 30,

(In Thousands)

With no related allowance recorded

	2013		2012	
	Average	Interest	Average	Interest
	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized
Commercial - AQR pass	\$ 184	\$ 8	\$ 314	\$ 11
Commercial - AQR special mention	296	15	264	11
Commercial - AQR substandard	903	21	1,169	2
Commercial - AQR doubtful	-	-	789	-
Commercial - AQR loss	-	-	112	-
Real estate construction one-to-four family - AQR special mention	470			