

NORTHRIM BANCORP INC  
Form 10-Q  
May 07, 2012  
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**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 March 31, 2012 March 31, 2012

**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)

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<b>Alaska</b> (State or other jurisdiction of incorporation or organization)	<b>92-0175752</b> (I.R.S. Employer Identification Number)
<b>3111 C Street</b>  <b>Anchorage, Alaska</b> (Address of principal executive offices)	<b>99503</b> (Zip Code)
<b>(907) 562-0062</b>  (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

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  (do not check if a smaller reporting company) 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 outstanding at May 7, 2012 was 6,468,690.

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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 the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**ITEM 1. FINANCIAL STATEMENTS**

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NORTHRIM BANCORP, INC.

Consolidated Balance Sheets

March 31, 2012, December 31, 2011 and March 31, 2011

	March 31, 2012 <i>(Unaudited)</i>	December 31, 2011	March 31, 2011 <i>(Unaudited)</i>
	<i>(In Thousands, Except Share Data)</i>		
<b>ASSETS</b>			
Cash and due from banks	\$ 23,085	\$ 30,644	\$ 29,109
Interest bearing deposits in other banks	69,344	60,886	138,707
Investment securities available for sale	216,589	222,083	181,800
Investment securities held to maturity	3,602	3,819	6,068
Total portfolio investments	220,191	225,902	187,868
Investment in Federal Home Loan Bank stock	2,003	2,003	2,003
Loans held for sale	12,266	27,822	
Loans	664,258	645,562	654,341
Allowance for loan losses	(16,288)	(16,503)	(15,139)
Net loans	660,236	656,881	639,202
Purchased receivables, net	22,345	30,209	13,611
Accrued interest receivable	3,157	2,898	3,184
Other real estate owned	6,657	5,183	10,343
Premises and equipment, net	27,870	27,993	28,827
Goodwill and intangible assets	8,357	8,421	8,626
Other assets	33,117	34,238	34,183
Total assets	\$ 1,076,362	\$ 1,085,258	\$ 1,095,663
<b>LIABILITIES</b>			
Deposits:			
Demand	\$ 302,104	\$ 324,039	\$ 340,943
Interest-bearing demand	141,437	141,572	133,031
Savings	82,570	79,610	76,058
Alaska CDs	104,811	102,384	96,919
Money market	162,854	154,987	151,594
Certificates of deposit less than \$100,000	44,127	45,468	51,931
Certificates of deposit greater than \$100,000	63,503	63,188	82,748
Total deposits	901,406	911,248	933,224
Securities sold under repurchase agreements	15,467	16,348	11,595
Borrowings	4,590	4,626	5,421
Junior subordinated debentures	18,558	18,558	18,558
Other liabilities	8,191	9,043	8,091
Total liabilities	948,212	959,823	976,889

SHAREHOLDERS EQUITY

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Preferred stock, \$1 par value, 2,500,000 shares authorized, none issued or outstanding			
Common stock, \$1 par value, 10,000,000 shares authorized, 6,468,690, 6,466,763 and 6,429,476 shares issued and outstanding at March 31, 2012, December 31, 2011, and March 31, 2011, respectively	6,469	6,467	6,429
Additional paid-in capital	53,267	53,164	52,807
Retained earnings	67,193	65,469	59,012
Accumulated other comprehensive income	1,165	283	498
Total Northrim BanCorp shareholders' equity	128,094	125,383	118,746
Noncontrolling interest	56	52	28
Total shareholders' equity	128,150	125,435	118,774
Total liabilities and shareholders' equity	\$ 1,076,362	\$ 1,085,258	\$ 1,095,663

See notes to the consolidated financial statements

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## NORTHRIM BANCORP, INC.

## Consolidated Statements of Income

For the Three Months Ended March 31, 2012 and 2011

	Three Months Ended	
	2012	March 31, 2011
	<i>(Unaudited)</i>	
	<i>(In Thousands,</i>	
	<i>Except Per Share Data)</i>	
Interest Income		
Interest and fees on loans	\$ 10,225	\$ 10,686
Interest on investment securities-available for sale	749	872
Interest on investment securities-held to maturity	38	61
Interest on deposits in other banks	40	33
Total Interest Income	11,052	11,652
Interest Expense		
Interest expense on deposits, borrowings and junior subordinated debentures	698	977
Net Interest Income	10,354	10,675
Provision for loan losses	89	549
Net Interest Income After Provision for Loan Losses	10,265	10,126
Other Operating Income		
Purchased receivable income	712	626
Service charges on deposit accounts	568	524
Employee benefit plan income	540	500
Electronic banking income	483	449
Equity in earnings (loss) from RML	301	(52)
Rental income	198	196
Gain on sale of securities	27	263
Other income	378	272
Total Other Operating Income	3,207	2,778
Other Operating Expense		
Salaries and other personnel expense	5,706	5,316
Occupancy	996	910
Marketing expense	437	437
Professional and outside services	418	337
Equipment expense	294	304
Software expense	251	240
Amortization of low income housing tax investments	228	216
Internet banking expense	172	153
Insurance expense	118	436
OREO (income) expense, net rental income and gains on sale	97	(139)
Intangible asset amortization expense	64	70

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Other operating expense	977	1,046
Total Other Operating Expense	9,758	9,326
Income Before Provision for Income Taxes	3,714	3,578
Provision for income taxes	1,026	1,034
Net Income	2,688	2,544
Less: Net income attributable to the noncontrolling interest	112	89
Net Income Attributable to Northrim BanCorp	\$ 2,576	\$ 2,455
Earnings Per Share, Basic	\$ 0.40	\$ 0.38
Earnings Per Share, Diluted	\$ 0.39	\$ 0.37
Weighted Average Shares Outstanding, Basic	6,467,540	6,428,730
Weighted Average Shares Outstanding, Diluted	6,567,654	6,548,480

See notes to the consolidated financial statements



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## NORTHRIM BANCORP, INC.

## Consolidated Statements of Comprehensive Income

For the Three Months Ended March 31, 2012 and 2011

Three months ending March 31, 2011:	
Net income	\$ 2,544
Other comprehensive income, net of tax:	
Change in unrealized holding loss on available for sale securities	(\$ 150)
Other comprehensive income	(150)
Comprehensive income	2,394
Less: comprehensive income attributable to the noncontrolling interest	(89)
Comprehensive income attributable to Northrim BanCorp	\$ 2,305
Three months ending March 31, 2012:	
Net income	\$ 2,688
Other comprehensive income, net of tax:	
Change in unrealized holding gain on available for sale securities	\$ 882
Other comprehensive income	882
Comprehensive income	3,570
Less: comprehensive income attributable to the noncontrolling interest	(112)
Comprehensive income attributable to Northrim BanCorp	\$ 3,458

See notes to the consolidated financial statements

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## NORTHRIM BANCORP, INC.

## Consolidated Statements of Changes in

## Shareholders' Equity

For the Three Months Ended March 31, 2012 and 2011

	Common Stock Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings <i>(Unaudited)</i> <i>(In Thousands)</i>	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
<b>Three months ending March 31, 2011:</b>							
Balance as of January 1, 2011	6,427	\$ 6,427	\$ 52,658	\$ 57,339	\$ 648	\$ 50	\$ 117,122
Cash dividend declared				(782)			(782)
Stock option expense			134				134
Exercise of stock options	2	2	(2)				
Excess tax benefits from share-based payment arrangements			17				17
Distributions to noncontrolling interest						(111)	(111)
Change in unrealized holding gain (loss) on available for sale securities, net of tax					(150)		(150)
Net income attributable to the noncontrolling interest						89	89
Net income attributable to Northrim BanCorp				2,455			2,455
<b>Balance as of March 31, 2011</b>	<b>6,429</b>	<b>\$ 6,429</b>	<b>\$ 52,807</b>	<b>\$ 59,012</b>	<b>\$ 498</b>	<b>\$ 28</b>	<b>\$ 118,774</b>
<b>Three months ending March 31, 2012:</b>							
Balance as of January 1, 2012	6,467	\$ 6,467	\$ 53,164	\$ 65,469	\$ 283	\$ 52	\$ 125,435
Cash dividend declared				(852)			(852)
Stock option expense			113				113
Exercise of stock options	2	2	(10)				(8)
Distributions to noncontrolling interest						(108)	(108)
Change in unrealized holding gain (loss) on available for sale securities, net of tax					882		882
Net income attributable to the noncontrolling interest						112	112
Net income attributable to Northrim BanCorp				2,576			2,576
<b>Balance as of March 31, 2012</b>	<b>6,469</b>	<b>\$ 6,469</b>	<b>\$ 53,267</b>	<b>\$ 67,193</b>	<b>\$ 1,165</b>	<b>\$ 56</b>	<b>128,150</b>

See notes to the consolidated financial statements

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## NORTHRIM BANCORP, INC.

## Consolidated Statement of Cash Flows

For the Three Months Ended March 31, 2012 and 2011

	Three Months Ended March 31,	
	2012	2011
	<i>(Unaudited)</i>	
	<i>(In Thousands)</i>	
<b>Operating Activities:</b>		
Net income	\$ 2,688	\$ 2,544
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</b>		
Security gains, net	(27)	(263)
Depreciation and amortization of premises and equipment	405	436
Amortization of software	47	51
Intangible asset amortization	64	70
Amortization of investment security premium, net of discount accretion	91	69
Deferred tax (benefit) liability	161	(505)
Stock-based compensation	113	134
Excess tax benefits from share-based payment arrangements		(17)
Deferral of loan fees and costs, net	272	(210)
Provision for loan losses	89	549
Purchases of loans held for sale	(39,620)	
Proceeds from the sale of loans held for sale	55,176	5,558
Gain on sale of other real estate owned	(19)	(72)
Equity in undistributed earnings from mortgage affiliate	(8)	301
<b>Net changes in assets and liabilities:</b>		
(Increase) decrease in accrued interest receivable	(259)	217
Decrease in other assets	272	1,364
(Decrease) in other liabilities	(859)	(449)
<b>Net Cash Provided by Operating Activities</b>	<b>18,586</b>	<b>9,777</b>
<b>Investing Activities:</b>		
<b>Investment in securities:</b>		
Purchases of investment securities-available-for-sale	(7,101)	(31,839)
Proceeds from sales/maturities of securities-available-for-sale	13,736	63,991
Proceeds from calls/maturities of securities-held-to-maturity	510	55
Investment in purchased receivables	7,864	2,918
Loan advances, net of paydowns	(20,771)	16,891
Proceeds from sale of other real estate owned	50	1,140
Investment in other real estate owned	(17)	(14)
Loan to Elliott Cove, net of repayments	33	75
Purchases of premises and equipment	(282)	(215)
<b>Net Cash (Used) Provided by Investing Activities</b>	<b>(5,978)</b>	<b>53,002</b>
<b>Financing Activities:</b>		
(Decrease) increase in deposits	(9,842)	41,088
(Decrease) in securities sold under repurchase agreements	(881)	(1,279)
(Decrease) increase in borrowings	(36)	35
Distributions to noncontrolling interest	(108)	(111)
Excess tax benefits from share-based payment arrangements		17

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Cash dividends paid	(842)	(746)
Net Cash (Used) Provided by Financing Activities	(11,709)	39,004
Net Increase in Cash and Cash Equivalents	899	101,783
Cash and Cash Equivalents at Beginning of Period	79,530	66,033
Cash and Cash Equivalents at End of Period	\$ 80,429	\$ 167,816
Supplemental Information:		
Income taxes paid	\$ 2	\$ 4
Interest paid	\$ 700	\$ 1,015
Transfer of loans to other real estate owned	\$ 1,499	\$ 974
Loans made to facilitate sales of other real estate owned	\$ 50	\$ 417
Cash dividends declared but not paid	\$ 10	\$ 10

See notes to the consolidated financial statements

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

March 31, 2012 and 2011

**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 March 31, 2012, are not necessarily indicative of the results anticipated for the year ending December 31, 2012. 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, 2011.

**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, 2011.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). Some of the amendments contained in ASU 2011-04 clarify FASB's intent about the application of existing fair value measurement requirements, and other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This ASU was effective for the Company's financial statements for annual and interim periods beginning on or after December 15, 2011, 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.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 amends Topic 220, *Comprehensive Income*, to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor does it change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05* (ASU 2011-12). This ASU defers only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. ASU 2011-12 was issued in order to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, the Company will continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before the issuance of ASU 2011-05. ASU 2011-12 was effective for the Company's financial statements for annual and interim periods beginning after December 31, 2011, 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.

**Table of Contents****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, bankers' acceptances, commercial paper, securities purchased under agreement to resell, federal funds sold, and securities with maturities of less than 90 days at acquisition.

**4. Investment Securities**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(In Thousands)</i>				
<b>March 31, 2012:</b>				
Securities available for sale				
U.S. Treasury and government sponsored entities	\$ 146,653	\$ 541	\$ 18	\$ 147,176
Municipal securities	17,053	694		17,747
U.S. Agency mortgage-backed securities	50	2		52
Corporate bonds	48,839	802	114	49,527
Preferred stock	2,019	68		2,087
<b>Total securities available for sale</b>	<b>\$ 214,614</b>	<b>\$ 2,107</b>	<b>\$ 132</b>	<b>\$ 216,589</b>
Securities held to maturity				
Municipal securities	\$ 3,602	\$ 246	\$	\$ 3,848
<b>Total securities held to maturity</b>	<b>\$ 3,602</b>	<b>\$ 246</b>	<b>\$</b>	<b>\$ 3,848</b>
<b>December 31, 2011:</b>				
Securities available for sale				
U.S. Treasury and government sponsored entities	\$ 160,529	\$ 625	\$ 50	\$ 161,104
Municipal securities	16,260	675		16,935
U.S. Agency mortgage-backed securities	52	2		54
Corporate bonds	43,767	343	1,119	42,991
Preferred stock	996	3		999
<b>Total securities available for sale</b>	<b>\$ 221,604</b>	<b>\$ 1,648</b>	<b>\$ 1,169</b>	<b>\$ 222,083</b>
Securities held to maturity				
Municipal securities	\$ 3,819	\$ 259	\$	\$ 4,077
<b>Total securities held to maturity</b>	<b>\$ 3,819</b>	<b>\$ 259</b>	<b>\$</b>	<b>\$ 4,077</b>
<b>March 31, 2011:</b>				
Securities available for sale				
U.S. Treasury and government sponsored entities	\$ 145,745	\$ 343	\$ 407	\$ 145,681
Municipal securities	12,080	177		12,257
U.S. Agency mortgage-backed securities	66	3		69
Corporate bonds	23,061	740	8	23,793
<b>Total securities available for sale</b>	<b>\$ 180,952</b>	<b>\$ 1,263</b>	<b>\$ 415</b>	<b>\$ 181,800</b>

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Securities held to maturity				
Municipal securities	\$ 6,068	\$ 173	\$	\$ 6,241
Total securities held to maturity	\$ 6,068	\$ 173	\$	\$ 6,241

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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. There were five and nine securities with unrealized losses as of March 31, 2012 and 2011, respectively, that have been in a loss position for less than twelve months. There were no securities with unrealized losses as of March 31, 2012 and 2011 that have been in an unrealized loss position for more than twelve months. 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 March 31, 2012, \$32.7 million in securities, or 15%, of the investment portfolio was pledged, as compared to \$32.1 million, or 14%, at December 31, 2011, and \$21.5 million, or 11%, at March 31, 2011. We held no securities of any single issuer (other than government sponsored entities) that exceeded 10% of our shareholders' equity at March 31, 2012, December 31, 2011 or March 31, 2011.

The amortized cost and fair values of debt securities at March 31, 2012, 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.

	Amortized Cost	Fair Value (In Thousands)	Weighted Average Yield
<b>US Treasury and government sponsored entities</b>			
Within 1 year	\$ 46,114	\$ 46,232	0.91%
1-5 years	100,539	100,944	0.76%
Total	\$ 146,653	\$ 147,176	0.81%
<b>U.S. Agency mortgage-backed securities</b>			
5-10 years	\$ 50	\$ 52	4.45%
Total	\$ 50	\$ 52	4.45%
<b>Corporate bonds</b>			
Within 1 year	\$ 3,157	\$ 3,212	2.88%
1-5 years	\$ 45,682	\$ 46,315	2.34%
Total	\$ 48,839	\$ 49,527	2.37%
<b>Preferred stock</b>			
Over 10 years	\$ 2,019	\$ 2,087	5.76%
Total	\$ 2,019	\$ 2,087	5.76%
<b>Municipal securities</b>			
Within 1 year	\$ 1,503	\$ 1,515	2.50%
1-5 years	8,102	8,295	2.05%
5-10 years	7,906	8,411	4.51%
Over 10 years	3,144	3,374	4.79%
Total	\$ 20,655	\$ 21,595	3.44%



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The proceeds and resulting gains and losses, computed using specific identification, from sales of investment securities for the three months ending March 31, 2012 and 2011, respectively, are as follows:

March 31,	Proceeds	Gross Gains	Gross Losses
	<i>(In Thousands)</i>		
<b>2012:</b>			
Available for sale securities	\$ 13,736	\$ 27	\$
<b>2011:</b>			
Available for sale securities	\$ 6,987	\$ 263	\$

A summary of interest income for the three months ending March 31, 2012 and 2011 on available for sale investment securities is as follows:

March 31,	2012	2011
	<i>(In Thousands)</i>	
US Treasury and government sponsored entities	\$ 307	\$ 457
U.S. Agency mortgage-backed securities	1	1
Other	300	310
 Total taxable interest income	 \$ 608	 \$ 768
 Municipal securities	 \$ 141	 \$ 104
 Total tax-exempt interest income	 141	 104
 Total	 \$ 749	 \$ 872

For the periods ending March 31, 2012, December 31, 2011 and March 31, 2011, we held Federal Home Loan Bank of Seattle ( FHLB ) stock with a book value approximately equal to its market value in the amount of \$2.0 million for each period. The Company evaluated its investment in FHLB stock for other-than-temporary impairment as of March 31, 2012, consistent with its accounting policy. Based on the Company's evaluation of the underlying investment, including the long-term nature of the investment, the liquidity position of the FHLB of Seattle, the actions being taken by the FHLB of Seattle to address its regulatory capital situation, 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. Even though the Company did not recognize an other-than-temporary impairment loss during the three-month period ending March 31, 2012, continued deterioration in the FHLB of Seattle's financial position may result in future impairment losses.

**5. Loans Held for Sale**

The Company has purchased residential loans from our mortgage affiliate, Residential Mortgage Holding Company LLC ( RML ), from time to time since 1999. The Company then sells these loans in the secondary market. The Company purchased \$39.6 million and sold \$55.2 million in loans in the three-month period ending March 31, 2012. The Company sold \$5.6 million loans and did not purchase any loans in the three-month period ending March 31, 2011.

**Table of Contents****6. Loans**

The composition of the loan portfolio by segment, excluding loans held for resale, is presented below:

	March 31, 2012		December 31, 2011		March 31, 2011	
	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total
	<i>(In Thousands)</i>					
Commercial	\$ 246,147	37.1%	\$ 252,689	39.1%	\$ 241,540	36.9%
Real estate construction	36,592	5.5%	40,182	6.2%	62,082	9.5%
Real estate term	345,675	52.0%	315,860	48.9%	311,080	47.5%
Home equity lines and other consumer	39,119	5.9%	39,834	6.2%	42,600	6.5%
<b>Subtotal</b>	<b>\$ 667,533</b>		<b>\$ 648,565</b>		<b>\$ 657,302</b>	
Less: Unearned origination fee, net of origination costs	(3,275)	-0.5%	(3,003)	-0.5%	(2,961)	-0.5%
<b>Total loans</b>	<b>\$ 664,258</b>		<b>\$ 645,562</b>		<b>\$ 654,341</b>	

At March 31, 2012, approximately 22% of the portfolio was scheduled to mature over the next 12 months, and 20% was scheduled to mature between April 1, 2013, and March 31, 2017.

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends in past due and nonaccrual loans, gross and net charge offs, and movement in loan balances within the risk classifications. The Company utilizes a risk grading matrix to assign a risk classification to each of its loans. Loans are graded on a scale of 1 to 8. A description of the general characteristics of the 8 risk classifications are as follows:

**Risk Code 1 – Excellent:** Loans in this grade are those where the borrower has substantial financial capacity, above average profit margins, and excellent liquidity. Cash flow has been consistent and is well in excess of debt servicing requirements. Loans in this grade may be secured by cash and/or negotiable securities having a readily ascertainable market value and may also be fully guaranteed by the U.S. Government, and other approved government and financial institutions. Loans in this grade have borrowers with exceptional credit ratings and would compare to AA ratings as established by Standard & Poor's.

**Risk Code 2 – Good:** Loans in this grade are those to borrowers who have demonstrated satisfactory asset quality, earnings history, liquidity and other adequate margins of creditor protection. Borrowers exhibit positive fundamentals in terms of working capital, cash flow sufficient to service the debt, and debt to worth ratios. Borrowers for loans in this grade are capable of absorbing normal economic or other setbacks without difficulty. The borrower may exhibit some weaknesses or varying historical profitability. Management is considered adequate in all cases. Borrowing facilities may be unsecured or secured by customary acceptable collateral with well-defined market values. Additional support for the loan is available from secondary repayment sources and/or adequate guarantors.

**Risk Code 3 – Satisfactory:** Loans in this grade represent moderate credit risk due to some instability in borrower capacity and financial condition. These loans generally require average loan officer attention. Characteristics of assets in this classification may include: marginal debt service coverage, newly established ventures, limited or unstable earnings history, some difficulty in absorbing normal setbacks, and atypical maturities, collateral or other exceptions to established loan policies. In all cases, such weaknesses are offset by well secured collateral positions and/or acceptable guarantors.

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Risk Code 4 Watch List: Loans in this grade are acceptable, but additional attention is needed. This is an interim classification reserved for loans that are intrinsically creditworthy but which require specific attention. Loans may have documentation deficiencies that are deemed correctable, may be contrary to current lending policies, or may have insufficient credit or financial information. Loans in this grade may also be characterized by borrower failure to comply with loan covenants or to provide other required information. If such conditions are not resolved within 90 days from the date of the assignment of Risk Code 4, the loan may warrant further downgrade.

Risk Code 5 Special Mention: Loans in this grade have had a deterioration of financial condition or collateral value, but are still reasonably secured by collateral or net worth of the borrower. Although the Company is presently protected from loss, potential weaknesses are apparent which, if not corrected, could cause future problems. Loans in this classification warrant more than the ordinary amount of attention but have not yet reached the point of concern for loss. Loans in this category have deteriorated sufficiently that they would have difficulty in refinancing. Loans in this classification may show one or more of the following characteristics: inadequate loan documentation, deteriorating financial condition or control over collateral, economic or market conditions which may adversely impact the borrower in the future, unreliable or insufficient credit or collateral information, adverse trends in operations that are not yet jeopardizing repayment, or adverse trends in secondary repayment sources.

Risk Code 6 Substandard: Loans in this grade are no longer adequately protected due to declining net worth of the borrower, lack of earning capacity, or insufficient collateral. The possibility for loss of some portion of the loan principal cannot be ruled out. Loans in this grade exhibit well-defined weaknesses that bring normal repayment into doubt. Some of these weaknesses may include: unprofitable or poor earnings trends of the borrower or property, declining liquidity, excessive debt, significant unfavorable industry comparisons, secondary repayment sources are not available, or there is a possibility of a protracted work-out.

Risk Code 7 Doubtful: Loans in this grade exhibit the same weaknesses as those classified Substandard, but the traits are more pronounced. Collection in full is improbable, however the extent of the loss may be indeterminable due to pending factors which may yet occur that could salvage the loan, such as possible pledge of additional collateral, sale of assets, merger, acquisition or refinancing. Borrowers in this grade may be on the verge of insolvency or bankruptcy, and stringent action is required on the part of the loan officer.

Risk Code 8 Loss: Loans in this grade are those that are largely non-collectible or those in which ultimate recovery is too distant in the future to warrant continuance as a bankable asset. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer charging the loan off even though recovery may be affected in the future.

A risk rating is assigned for each loan at origination. The risk ratings for commercial, real estate construction, and real estate term loans may change throughout the life of the loan as a multitude of risk factors change. The risk rating for consumer loans may change as loans become delinquent. Delinquent loans are those that are thirty days or more past due.

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The loan portfolio, segmented by risk class for the periods indicated, is shown below:

	Commercial	Real estate construction	Real estate term <i>(In Thousands)</i>	Home equity lines and other consumer	Total
<b>March 31, 2012:</b>					
Risk Code 1 - Excellent	\$ 820	\$	\$	\$ 459	\$ 1,279
Risk Code 2 - Good	62,501		64,669	832	128,002
Risk Code 3 - Satisfactory	163,110	30,542	266,930	35,390	495,972
Risk Code 4 - Watch	6,943		1,405	1,265	9,613
Risk Code 5 - Special Mention	8,921	370	3,600	255	13,146
Risk Code 6 - Substandard	3,421	5,680	8,771	918	18,790
Risk Code 7 - Doubtful	431		300		731
<b>Subtotal</b>	<b>\$ 246,147</b>	<b>\$ 36,592</b>	<b>\$ 345,675</b>	<b>\$ 39,119</b>	<b>\$ 667,533</b>
Less: Unearned origination fees, net of origination costs					(3,275)
					<b>\$ 664,258</b>
<b>December 31, 2011:</b>					
Risk Code 1 - Excellent	\$ 540	\$	\$	\$ 575	\$ 1,115
Risk Code 2 - Good	65,315		55,617	849	121,781
Risk Code 3 - Satisfactory	164,767	29,063	247,330	35,914	477,074
Risk Code 4 - Watch	8,033	3,579	1,102	1,497	14,211
Risk Code 5 - Special Mention	9,671		3,339	364	13,374
Risk Code 6 - Substandard	3,694	7,540	8,026	635	19,895
Risk Code 7 - Doubtful	669		446		1,115
<b>Subtotal</b>	<b>\$ 252,689</b>	<b>\$ 40,182</b>	<b>\$ 315,860</b>	<b>\$ 39,834</b>	<b>\$ 648,565</b>
Less: Unearned origination fees, net of origination costs					(3,003)
					<b>\$ 645,562</b>
<b>March 31, 2011:</b>					
Risk Code 1 - Excellent	\$ 891	\$	\$	\$ 701	\$ 1,592
Risk Code 2 - Good	79,425	326	65,430	943	146,124
Risk Code 3 - Satisfactory	127,985	47,862	229,595	37,764	443,206
Risk Code 4 - Watch	11,549	3,229	2,429	2,108	19,315
Risk Code 5 - Special Mention	15,180		3,199	560	18,939
Risk Code 6 - Substandard	5,932	10,665	10,427	524	27,548
Risk Code 7 - Doubtful	578				578
<b>Subtotal</b>	<b>\$ 241,540</b>	<b>\$ 62,082</b>	<b>\$ 311,080</b>	<b>\$ 42,600</b>	<b>\$ 657,302</b>
Less: Unearned origination fees, net of origination costs					(2,961)
					<b>\$ 654,341</b>

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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 ( 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 directly applied 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.

Nonaccrual loans totaled \$6.8 million, \$7.4 million and \$10.3 million at March 31, 2012, December 31, 2011, and March 31, 2011, respectively. Nonaccrual loans at the periods indicated, by major loan type are presented below:

	March 31, 2012	December 31, 2011 <i>(In Thousands)</i>	March 31, 2011
Commercial	\$ 2,797	\$ 3,360	\$ 4,514
Real estate construction	921	2,355	2,184
Real estate term	2,939	1,477	3,239
Home equity lines and other consumer	164	169	385
<b>Total</b>	<b>\$ 6,821</b>	<b>\$ 7,361</b>	<b>\$ 10,322</b>

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There were no past due loans greater than 90 days and still accruing at March 31, 2012, December 31, 2011 and March 31, 2011, respectively. Past due loans and nonaccrual loans at the periods indicated are presented below by loan class:

	30-59 Days Past Due Still Accruing	60-89 Days Past Due Still Accruing	Greater Than 90 Days Still Accruing	Nonaccrual <i>(In Thousands)</i>	Total Past Due	Current	Total Financing Receivables
<b>March 31, 2012:</b>							
Risk Code 1 - Excellent	\$	\$	\$	\$	\$	\$ 1,279	\$ 1,279
Risk Code 2 - Good						128,002	128,002
Risk Code 3 - Satisfactory	896				896	495,076	495,972
Risk Code 4 - Watch	169				169	9,444	9,613
Risk Code 5 - Special Mention				159	159	12,987	13,146
Risk Code 6 - Substandard	390	450		5,931	6,771	12,019	18,790
Risk Code 7 - Doubtful				731	731		731
<b>Subtotal</b>	<b>\$ 1,455</b>	<b>\$ 450</b>	<b>\$</b>	<b>\$ 6,821</b>	<b>\$ 8,726</b>	<b>\$ 658,807</b>	<b>\$ 667,533</b>
Less: Unearned origination fees, net of origination costs							(3,275)
							<b>\$ 664,258</b>
<b>December 31, 2011:</b>							
Risk Code 1 - Excellent	\$	\$	\$	\$	\$	\$ 1,115	\$ 1,115
Risk Code 2 - Good						121,781	121,781
Risk Code 3 - Satisfactory						477,074	477,074
Risk Code 4 - Watch	387	170			557	13,654	14,211
Risk Code 5 - Special Mention	86			170	256	13,118	13,374
Risk Code 6 - Substandard		21		6,076	6,097	13,798	19,895
Risk Code 7 - Doubtful	2			1,115	1,117	(2)	1,115
<b>Subtotal</b>	<b>\$ 475</b>	<b>\$ 191</b>	<b>\$</b>	<b>\$ 7,361</b>	<b>\$ 8,027</b>	<b>\$ 640,538</b>	<b>\$ 648,565</b>
Less: Unearned origination fees, net of origination costs							(3,003)
							<b>\$ 645,562</b>
<b>March 31, 2011:</b>							
Risk Code 1 - Excellent	\$	\$	\$	\$	\$	\$ 1,592	\$ 1,592
Risk Code 2 - Good						146,124	146,124
Risk Code 3 - Satisfactory	813				813	442,393	443,206
Risk Code 4 - Watch						19,315	19,315
Risk Code 5 - Special Mention	1,151	13			1,164	17,775	18,939
Risk Code 6 - Substandard	1,498	24		9,744	11,266	16,282	27,548
Risk Code 7 - Doubtful				578	578		578
<b>Subtotal</b>	<b>\$ 3,462</b>	<b>\$ 37</b>	<b>\$</b>	<b>\$ 10,322</b>	<b>\$ 13,821</b>	<b>\$ 643,481</b>	<b>\$ 657,302</b>
Less: Unearned origination fees, net of origination costs							(2,961)
							<b>\$ 654,341</b>

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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 March 31, 2012, December 31, 2011 and March 31, 2011, the recorded investment in loans that are considered to be impaired was \$12.3 million, \$9.5 million, and \$14.1 million, respectively. The following table presents information about impaired loans as of the periods indicated:

	Recorded Investment	Unpaid Principal Balance	Related Allowance <i>(In Thousands)</i>	Average Recorded Investment	Interest Income Recognized
<b>March 31, 2012:</b>					
With no related allowance recorded					
Commercial - risk code 5 special mention	\$ 448	\$ 448	\$	\$ 471	\$ 6
Commercial - risk code 6 substandard	2,261	2,905		2,328	13
Commercial - risk code 8 loss		224		112	
Real estate term - risk code 5 special mention	690	768		669	7
Real estate term - risk code 6 substandard	6,334	6,614		6,578	81
Real estate term - risk code 7 doubtful	300	446		373	
Home equity lines and other consumer - risk code 5 special mention	95	95		96	1
Home equity lines and other consumer - risk code 6 substandard	169	169		173	2
	\$ 10,297	\$ 11,669	\$	\$ 10,800	\$ 110
With an allowance recorded					
Commercial - risk code 6 substandard	\$ 641	\$ 641	\$ 78	\$ 646	\$
Commercial - risk code 7 doubtful	431	431	358	438	
Real estate construction - risk code 6 substandard	921	921	342	964	
Total	\$ 1,993	\$ 1,993	\$ 778	\$ 2,048	\$
<b>December 31, 2011:</b>					
With no related allowance recorded					
Commercial - Risk Code 5 Special Mention	\$ 327	\$ 327	\$	\$ 430	\$ 23
Commercial - Risk Code 6 Substandard	2,166	2,810		2,380	5
Real estate construction - Risk Code 6 Substandard	1,349	1,527		1,463	
Real estate term - Risk Code 5 Special Mention	170	248		193	
Real estate term - Risk Code 6 Substandard	2,455	2,545		2,371	102
Home equity lines and other consumer - Risk Code 5 Special Mention	97	97		49	5
Home equity lines and other consumer - Risk Code 6 Substandard	52	52		53	
	\$ 6,616	\$ 7,606	\$	\$ 6,939	\$ 135
With an allowance recorded					
Commercial - Risk Code 6 Substandard	\$ 511	\$ 511	\$ 44	\$ 687	\$
Commercial - Risk Code 7 Doubtful	669	669	576	707	
Real estate construction - Risk Code 6 Substandard	1,006	1,006	494	1,024	
Real estate term - Risk Code 6 Substandard	204	204	5	215	



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Real estate term - Risk Code 7 Doubtful	446	446	62	447	
Total	\$ 2,836	\$ 2,836	\$ 1,181	\$ 3,080	\$
Commercial - Risk Code 5 Special Mention	\$ 327	\$ 327	\$	\$ 430	\$ 23
Commercial - Risk Code 6 Substandard	2,677	3,321	44	3,067	5
Commercial - Risk Code 7 Doubtful	669	669	576	707	
Real estate construction - Risk Code 6 Substandard	2,355	2,533	494	2,487	
Real estate term - Risk Code 5 Special Mention	170	248		193	
Real estate term - Risk Code 6 Substandard	2,659	2,749	5	2,586	102
Real estate term - Risk Code 7 Doubtful	446	446	62	447	
Home equity lines and other consumer - Risk Code 5 Special Mention	97	97		49	5
Home equity lines and other consumer - Risk Code 6 Substandard	52	52		53	
	\$ 9,452	\$ 10,442	\$ 1,181	\$ 10,019	\$ 135

March 31, 2011:

With no related allowance recorded

Commercial - Risk Code 6 Substandard	\$ 3,663	\$ 4,261	\$	\$ 3,703	\$ 14
Real estate construction - Risk Code 6 Substandard	1,599	1,678		1,616	
Real estate term - Risk Code 6 Substandard	5,886	5,886		5,848	57
Home equity lines and other consumer - Risk Code 6 Substandard	215	215		202	1
	\$ 11,363	\$ 12,040	\$	\$ 11,369	\$ 72

With an allowance recorded

Commercial - risk code 6 Substandard	\$ 885	\$ 885	\$ 415	\$ 891	\$ 1
Real estate construction - risk code 6 Substandard	1,568	1,613	57	1,573	
Real estate term - risk code 6 Substandard	251	251	62	253	
Home equity lines and other consumer - risk code 6 Substandard	50	50	11	50	
Total	\$ 2,754	\$ 2,799	\$ 545	\$ 2,767	\$ 1

Commercial - risk code 6 Substandard	\$ 4,548	\$ 5,146	\$ 415	\$ 4,594	\$ 15
Real estate construction - risk code 6 Substandard	3,167	3,291	57	3,189	
Real estate term - risk code 6 Substandard	6,137	6,137	62	6,101	57
Home equity lines and other consumer - risk code 6 Substandard	265	265	11	252	1
	\$ 14,117	\$ 14,839	\$ 545	\$ 14,136	\$ 73

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

Loans classified as troubled debt restructurings totaled \$9.2 million, \$4.5 million, and \$2.8 million at March 31, 2012, December 31, 2011, and March 31, 2011, respectively. A troubled debt restructuring is a loan to a borrower that is experiencing financial difficulty that has been modified from its original terms and conditions in such a way that the Company is granting the borrower a concession of some kind. The Company has granted a variety of concessions to borrowers in the form of loan modifications. The modifications granted can generally be described in the following categories:

**Rate Modification:** A modification in which the interest rate is changed.

**Term Modification:** A modification in which the maturity date, timing of payments, or frequency of payments is changed.

**Payment Modification:** A modification in which the dollar amount of the payment is changed, or in which a loan is converted to interest only payments for a period of time are included in this category.

**Combination Modification:** Any other type of modification, including the use of multiple categories above.

The following table presents newly restructured loans that occurred during the three months ended March 31, 2012:

	Accrual Status	March 31, 2012 Nonaccrual Status <i>(In Thousands)</i>	Total Modifications
<b>New Troubled Debt Restructurings</b>			
Commercial risk code 6 - substandard	\$ 86	\$	\$ 86
Real estate construction risk code 6 - substandard		922	922
Real estate term risk code 6 - substandard	1,886	2,259	4,145
<b>Subtotal</b>	<b>\$ 1,972</b>	<b>\$ 3,181</b>	<b>\$ 5,153</b>
Existing Troubled Debt Restructurings	2,933	1,119	4,052
<b>Total</b>	<b>\$ 4,905</b>	<b>\$ 4,300</b>	<b>\$ 9,205</b>

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The following table presents newly restructured loans that occurred during the three months ended March 31, 2012 by concession (terms modified):

	Number of Contracts	Rate Modification	Term Modification	March 31, 2012 Payment Modification <i>(In Thousands)</i>	Combination Modification	Total Modifications
<b>Pre-Modification Outstanding Recorded Investment:</b>						
Commercial risk code 6 - substandard	1	\$	\$ 86	\$	\$	\$ 86
Real estate construction risk code 6 - substandard	1		1,015			1,015
Real estate term risk code 6 - substandard	3			2,589	1,886	4,475
<b>Total</b>	<b>5</b>	<b>\$</b>	<b>\$ 1,101</b>	<b>\$ 2,589</b>	<b>\$ 1,886</b>	<b>\$ 5,576</b>
<b>Post-Modification Outstanding Recorded Investment:</b>						
Commercial risk code 6 - substandard	1	\$	\$ 86	\$	\$	\$ 86
Real estate construction risk code 6 - substandard	1		922			922
Real estate term risk code 6 - substandard	3			2,259	1,886	4,145

Total