NORTHRIM BANCORP INC
Form 10-Q
August 06, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2010

o **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 Number)**
3111 C Street **Anchorage, Alaska** **(Address of principal executive offices)**	**99503** **(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 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 þ No o

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 o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No þ

The number of shares of the issuer s Common Stock outstanding at August 6, 2010 was 6,389,420.

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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, 2009.

ITEM 1. FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS
NORTHRIM BANCORP, INC.
Consolidated Balance Sheets
June 30, 2010, December 31, 2009 and June 30, 2009

	June 30, 2010	December 31, 2009	June 30, 2009
	(Unaudited)		*(Unaudited)*
	(In Thousands, Except Share Data)		
ASSETS			
Cash and due from banks	$ 22,316	$ 19,395	$ 23,509
Overnight investments	82,749	47,326	43,142
Investment securities available for sale	168,029	178,159	124,566
Investment securities held to maturity	7,018	7,285	10,128
Investment in Federal Home Loan Bank stock	2,003	2,003	2,003
Total investment securities	177,050	187,447	136,697
Loans held for sale	8,210		3,426
Loans	628,373	655,039	684,897
Allowance for loan losses	(14,427)	(13,108)	(13,187)
Net loans	622,156	641,931	675,136
Purchased receivables, net	10,754	7,261	9,822
Accrued interest receivable	3,749	3,986	3,860
Premises and equipment, net	27,932	28,523	29,171
Goodwill and intangible assets	8,843	8,996	9,156
Other real estate owned	12,973	17,355	11,576
Other assets	38,642	40,809	33,624
Total assets	$ 1,007,164	$ 1,003,029	$ 975,693
LIABILITIES			
Deposits:			
Demand	$ 272,743	$ 276,532	$ 253,118
Interest-bearing demand	120,826	134,899	112,385
Savings	71,167	66,647	61,331
Alaska CDs	113,692	104,840	104,906
Money market	126,841	125,339	119,944
Certificates of deposit less than $100,000	58,815	64,652	70,773
Certificates of deposit greater than $100,000	87,401	80,199	96,684
Total deposits	851,485	853,108	819,141
Securities sold under repurchase agreements	8,871	6,733	4,633

Other borrowings	5,532	5,587	16,225
Junior subordinated debentures	18,558	18,558	18,558
Other liabilities	8,694	8,023	9,089
Total liabilities	893,140	892,009	867,646
SHAREHOLDERS EQUITY			
Common stock, $1 par value, 10,000,000 shares authorized, 6,386,925, 6,371,455, and 6,338,138 shares issued and outstanding at June 30, 2010, December 31, 2009, and June 30, 2009, respectively	6,387	6,371	6,338
Additional paid-in capital	52,484	52,139	51,760
Retained earnings	53,868	51,121	48,511
Accumulated other comprehensive income	1,242	1,341	1,406
Total Northrim BanCorp shareholders equity	113,981	110,972	108,015
Noncontrolling interest	43	48	32
Total shareholders equity	114,024	111,020	108,047
Total liabilities and shareholders equity	$ 1,007,164	$ 1,003,029	$ 975,693

See notes to the consolidated financial statements

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NORTHRIM BANCORP, INC.
Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2010 and 2009

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(Unaudited)		*(Unaudited)*	
	(In Thousands, Except Per Share Data)			
Interest Income				
Interest and fees on loans	$ 11,212	$ 12,396	$ 22,634	$ 24,454
Interest on investment securities:				
Securities available for sale	1,245	937	2,499	2,000
Securities held to maturity	70	106	145	197
Interest on overnight investments	42	15	65	33
Interest on domestic certificate of deposit		1		58
Total Interest Income	12,569	13,455	25,343	26,742
Interest Expense				
Interest expense on deposits, borrowings and junior subordianted debentures	1,466	1,789	2,936	3,900
Net Interest Income	11,103	11,666	22,407	22,842
Provision for loan losses	1,375	2,117	2,750	3,492
Net Interest Income After Provision for Loan Losses	9,728	9,549	19,657	19,350
Other Operating Income				
Service charges on deposit accounts	762	775	1,462	1,478
Purchased receivable income	595	474	909	1,232
Employee benefit plan income	530	447	951	813
Electronic banking income	435	351	835	661
OREO sale and rental income	383	124	653	240
Equity in earnings from RML	182	764	109	1,612
Gain on sale of securities	132	196	413	196
Equity in earnings (loss) from Elliott Cove	(2)	(28)	3	(93)
Other income	588	547	1,133	1,093
Total Other Operating Income	3,605	3,650	6,468	7,232
Other Operating Expense				
Salaries and other personnel expense	5,402	5,708	11,022	11,159

Occupancy		897		897		1,816		1,812
Marketing expense		439		316		878		634
Insurance expense		422		959		980		1,764
Purchased receivable losses		406				407		(16)
OREO expense net, including impairment		343		448		715		844
Professional and outside services		323		414		565		959
Equipment expense		244		257		517		520
Intangible asset amortization expense		77		83		153		165
Other operating expense		1,618		1,450		3,282		3,211
Total Other Operating Expense		10,171		10,532		20,335		21,052
Income Before Provision for Income Taxes		3,162		2,667		5,790		5,530
Provision for income taxes		912		681		1,614		1,508
Net Income		2,250		1,986		4,176		4,022
Less: Net income attributable to the noncontrolling interest		110		109		136		190
Net Income Attributable to Northrim BanCorp	$	2,140	$	1,877	$	4,040	$	3,832
Earnings Per Share, Basic	$	0.34	$	0.29	$	0.63	$	0.60
Earnings Per Share, Diluted	$	0.33	$	0.29	$	0.62	$	0.60
Weighted Average Shares Outstanding, Basic		6,386,925		6,396,341		6,386,343		6,394,965
Weighted Average Shares Outstanding, Diluted		6,473,622		6,402,502		6,470,966		6,398,045

See notes to the consolidated financial statements

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NORTHRIM BANCORP, INC.
Consolidated Statements of Changes in
Shareholders Equity and Comprehensive Income
For the Six Months Ended June 30, 2010 and 2009

	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
				(Unaudited) *(In Thousands)*			
Six months ending June 30, 2009:							
Balance as of January 1, 2009	6,331	$ 6,331	$ 51,458	$ 45,958	$ 901	$ 36	$ 104,684
Cash dividend declared				(1,279)			(1,279)
Stock option expense			299				299
Exercise of stock options	7	7	(4)				3
Excess tax benefits from share-based payment arrangements			7				7
Distributions to noncontrolling interest						(194)	(194)
Comprehensive income:							
Change in unrealized holding gain (loss) on available for sale investment securities, net of related income tax effect					505		505
Net income attributable to the noncontrolling interest						190	190
Net income attributable to Northrim BanCorp				3,832			3,832
Total Comprehensive Income							4,527
	6,338	$ 6,338	$ 51,760	$ 48,511	$ 1,406	$ 32	$ 108,047

Balance as of June 30, 2009							
Six months ending June 30, 2010:							
Balance as of January 1, 2010	6,371	$ 6,371	$ 52,139	$ 51,121	$ 1,341	$ 48	$ 111,020
Cash dividend declared				(1,293)			(1,293)
Stock option expense			258				258
Exercise of stock options	16	16	(15)				1
Excess tax benefits from share-based payment arrangements			102				102
Distributions to noncontrolling interest						(141)	(141)
Comprehensive income:							
Change in unrealized holding gain (loss) on available for sale investment securities, net of related income tax effect					(99)		(99)
Net income attributable to the noncontrolling interest						136	136
Net income attributable to Northrim BanCorp				4,040			4,040
Total Comprehensive Income							4,077
Balance as of June 30, 2010	6,387	$ 6,387	$ 52,484	$ 53,868	$ 1,242	$ 43	$ 114,024

See notes to the consolidated financial statements

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NORTHRIM BANCORP, INC.
Consolidated Statement of Cash Flows
For the Six Months Ended June 30, 2010 and 2009

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(Unaudited) *(In Thousands)*	
Operating Activities:		
Net income	$ 4,176	$ 4,022
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Security (gains), net	(413)	(196)
Depreciation and amortization of premises and equipment	769	827
Amortization of software	84	81
Intangible asset amortization	153	165
Amortization of investment security premium, net of discount accretion	98	217
Deferred tax liability (benefit)	2,156	(744)
Stock-based compensation	258	299
Excess tax benefits from share-based payment arrangements	(102)	(7)
Deferral of loan fees and costs, net	(300)	(155)
Provision for loan losses	2,750	3,492
Purchased receivable loss (recovery)	407	(16)
Purchases of loans held for sale	(8,210)	(75,160)
Proceeds from the sale of loans held for sale		71,670
Gain on sale of loans held for sale		64
Gain\ on sale of other real estate owned	(281)	(223)
Impairment on other real estate owned	176	495
Earnings in excess of proceeds from RML	109	585
Equity in (income) loss from Elliott Cove	(3)	93
Decrease in accrued interest receivable	237	952
(Increase) decrease in other assets	58	(1,226)
Decrease (increase) of other liabilities	315	(703)
Net Cash Provided by Operating Activities	2,437	4,532
Investing Activities:		
Investment in securities:		
Purchases of investment securities-available-for-sale	(91,037)	(34,110)
Purchases of investment securities-held-to-maturity	(517)	(1,217)
Proceeds from sales/maturities of securities-available-for-sale	101,318	51,390
Proceeds from calls/maturities of securities-held-to-maturity	780	520
Purchases of domestic certificates of deposit		14,500
Investment in Federal Home Loan Bank stock, net		(5,000)
Investment in purchased receivables, net of repayments	(3,900)	9,269
Loan paydowns, net of new advances	24,604	20,448

Proceeds from sale of other real estate owned	5,888	4,832
Investment in other real estate owned	(27)	(1,172)
Loan to Elliott Cove, net of repayments	(68)	(54)
Purchases of premises and equipment	(178)	(265)
Purchases of software	(100)	(37)
Net Cash Provided by Investing Activities	36,763	59,104
Financing Activities:		
Decrease in deposits	(1,623)	(24,111)
Increase (decrease) in securities sold under repurchase agreements	2,138	(3,003)
Increase (decrease) in borrowings	(55)	(6,245)
Distributions to noncontrolling interest	(141)	(194)
Proceeds from issuance of common stock	1	3
Excess tax benefits from share-based payment arrangements	102	7
Cash dividends paid	(1,278)	(1,272)
Net Cash Used by Financing Activities	(856)	(34,815)
Net Increase in Cash and Cash Equivalents	38,344	28,821
Cash and Cash quivalents at Beginning of Period	66,721	37,830
Cash and Cash Equivalents at End of Period	$ 105,065	$ 66,651
Supplemental Information:		
Income taxes paid	$ 7	$ 1,441
Interest paid	$ 2,934	$ 4,251
Transfer of loans to other real estate owned	$ 931	$ 2,891
Loans made to facilitate sales of other real estate owned	$ 1,883	$
Cash dividends declared but not paid	$ 15	$ 12

See notes to the consolidated financial statements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

June 30, 2010 and 2009

1. Basis of Presentation

The accompanying unaudited 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, 2010, are not necessarily indicative of the results anticipated for the year ending December 31, 2010. These financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

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, 2009.

In January 2010, the FASB issued ASU 2010-06, an update to ASC 820-10, *Fair Value Measurements*. This update adds a new requirement to disclose transfers in and out of Level 1 and Level 2, along with the reasons for the transfers, and requires a gross presentation of purchases and sales of Level 3 activities. Additionally, the update clarifies that entities provide fair value measurement disclosures for each class of assets and liabilities and that entities provide enhanced disclosures around Level 2 valuation techniques and inputs. The Company adopted the disclosure requirements for Level 1 and Level 2 transfers and the expanded fair value measurement and valuation disclosures effective January 1, 2010. The disclosure requirements for level 3 activities are effective for the Company on January 1, 2011. The adoption of the disclosure requirements for Level 1 and Level 2 transfers and the expanded qualitative disclosures had no impact on the Company s financial position, results of operations, and earnings per share. The Company does not expect the adoption of the Level 3 disclosure requirements to have an impact on its financial position, results of operations, and earnings per share.

In April 2010, the FASB issued ASU 2010-18, an update to ASC 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*. This update affects loans accounted for within pools under ASC 310-30. As a result of the amendments of ASU 2010-18, modifications of loans accounted for in these pools do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU 2010-18 is effective for the Company s financial statements for annual and interim periods ending after July 15, 2010 and must be adopted prospectively. The Company does not expect that adoption will impact its financial position, results of operations, and earnings per share.

In July 2010, the FASB issued ASU 2010-20, an update to ASC 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*. This update is intended to provide financial statement users with greater transparency about an entity s allowance for credit losses and the credit quality of its financing receivables. The update requires expanded disclosures that will facilitate financial statement users evaluation of the nature of credit risk inherent in the entity s portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses and the changes and reasons for those changes in the allowance for credit losses. ASU 2010-20 is effective for the Company s financial statements for annual and interim periods ending after December 15, 2010 and must be adopted prospectively. The Company does not expect that adoption will impact its financial position, results of operations, and earnings per share.

3. Investment Securities

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The carrying values and approximate fair values of investment securities at June 30, 2010 and June 30, 2009, respectively, are presented below. 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 four securities with unrealized losses as of June 30, 2010 and 2009, respectively, that had been in a loss position for less than twelve months. There were no securities with unrealized losses as of June 30, 2010 and 2009 that had been in a 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.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
2010:				
Securities available for sale				
U.S. Treasury & government sponsored entities	$ 126,042	$ 827	$ 65	$ 126,804
Municpal Securities	6,174	195		6,369
U.S. Agency Mortgage-backed Securities	79	2		81
Corporate bonds	33,625	1,187	37	34,775
Total	$ 165,920	$ 2,211	$ 102	$ 168,029
Securities held to maturity				
Municipal securities	$ 7,018	$ 243	$	$ 7,261
Federal Home Loan Bank stock	$ 2,003	$	$	$ 2,003
2009:				
Securities available for sale				
U.S. Treasury & government sponsored entities	$ 90,466	$ 1,261	$ 1	$ 91,726
Municpal Securities	5,045		66	4,979
U.S. Agency Mortgage-backed Securities	94	1		95
Corporate bonds	26,574	1,195	3	27,766
Total	$ 122,179	$ 2,457	$ 70	$ 124,566
Securities Held to Maturity				
Municipal Securities	$ 10,128	$ 179	$	$ 10,307
Federal Home Loan Bank Stock	$ 2,003	$	$	$ 2,003

The amortized cost and fair values of debt securities at June 30, 2010, 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.

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	Amortized Cost	Fair Value	Weighted Average Yield
		(In Thousands)	
US Treasury and government sponsored entities			
Within 1 year	$ 32,054	$ 32,465	2.50%
1-5 years	93,988	94,339	1.93%
Total	$ 126,042	$ 126,804	2.08%
U.S. Agency Mortgage-backed securities			
5-10 years	$ 79	$ 81	4.45%
Total	$ 79	$ 81	4.45%
Corporate bonds			
Within 1 year	$ 10,092	$ 10,360	5.18%
1-5 years	18,275	19,103	3.50%
5-10 years	5,257	5,312	2.52%
Total	$ 33,625	$ 34,775	3.85%
Municipal securities			
Within 1 year	$ 1,770	$ 1,790	3.85%
1-5 years	4,028	4,209	3.83%
5-10 years	5,214	5,370	4.59%
Over 10 years	2,180	2,261	4.75%
Total	$ 13,192	$ 13,630	4.28%

The proceeds and resulting gains and losses, computed using specific identification, from sales of investment securities for the six months ending June 30, 2010 and June 30, 2009, respectively, are as follows:

June 30,	Proceeds	Gross Gains	Gross Losses
		(In Thousands)	
2010:			
Available for sale securities	$ 19,363	$ 413	$
Held to maturity securities	$	$	$
2009:			
Available for sale securities	$ 5,429	$ 201	$ 5

Held to maturity securities	$	$	$

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A summary of interest income for the six months ending June 30, 2010 and 2009 on available for sale investment securities is as follows:

June 30,	2010	2009
	(In Thousands)	
US Treasury and government sponsored entities	$ 1,652	$ 1,200
U.S. Agency Mortgage-backed Securities	2	36
Other	701	644
Total taxable interest income	$ 2,355	$ 1,880
Municipal Securities	144	120
Total tax-exempt interest income	144	120
Total	$ 2,499	$ 2,000

For the periods ending June 30, 2010, December 31, 2009 and June 30, 2009, we held Federal Home Loan Bank of Seattle (FHLB) stock with a book value approximately equal to its market value in the amounts of $2.0 million for each period. The Company evaluated its investment in FHLB stock for other-than-temporary impairment as of June 30, 2010, 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 six-month period ending June 30, 2010, continued deterioration in the FHLB of Seattle s financial position may result in future impairment losses.

The Company has never had any investment in the common or preferred stock of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, which are commonly known as Fannie Mae and Freddie Mac, respectively. Additionally, we held no securities of any single issuer (other than government sponsored entities) that exceeded 10% of our shareholders equity at June 30, 2010, December 31, 2009 or June 30, 2009.

4. Lending Activities

At June 30, 2010, 29% of the portfolio was scheduled to mature over the next 12 months, and 30% was scheduled to mature between July 1, 2011, and June 30, 2015. The following table sets forth the Company s loan portfolio composition by loan type for the dates indicated:

	June 30, 2010		December 31, 2009		June 30, 2009	
	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total
			(In Thousands)			
Commercial	$ 244,291	38%	$ 248,195	38%	$ 266,227	39%
Construction/development	49,122	8%	62,573	10%	79,464	12%

Commercial real estate	290,122	46%	301,816	46%	294,249	43%
Home equity lines and other consumer	47,202	7%	45,168	7%	47,266	7%
Loans in process	134	0%	85	0%	248	0%
Unearned loan fees, net	(2,498)	0%	(2,798)	0%	(2,557)	0%
Sub total	628,373		655,039		684,897	
Loans held for sale	8,210	1%		0%	3,426	0%
Total loans	$ 636,583	100%	$ 655,039	100%	$ 688,323	100%

Loans held for sale: The Company has purchased residential loans from our mortgage affiliate, RML, from time to time since 1998. During 2009, the Company renewed its agreement with RML in anticipation of higher than normal refinance activity in the Anchorage market. The Company then sold

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these loans in the secondary market. The Company purchased $8.2 million and did not sell any loans in the six-month period ending June 30, 2010. The Company purchased $75.1 million and sold $71.7 million in loans in the six-month period ending June 30, 2009.

5. Allowance for Loan Losses, Nonperforming Assets and Loans Measured for Impairment

The Company recorded a provision for loan losses in the amount of $1.4 and $2.8 million for the three and six-month periods ending June 30, 2010 based upon its analysis of its loan portfolio. The following table details activity in the Allowance for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
Balance at beginning of period	$ 14,046	$ 13,364	$ 13,108	$ 12,900
Charge-offs:				
Commercial	842	1,137	1,634	1,148
Construction/development		207	79	1,070
Commercial real estate	120	998	120	1,058
Home equity lines and other consumer	174	57	253	141
Total charge-offs	1,136	2,399	2,086	3,417
Recoveries:				
Commercial	114	97	618	167
Construction/development	4		4	
Commercial real estate	11		11	9
Home equity lines and other consumer	13	8	22	36
Total recoveries	142	105	655	212
Net, (recoveries) charge-offs	994	2,294	1,431	3,205
Provision for loan losses	1,375	2,117	2,750	3,492
Balance at end of period	$ 14,427	$ 13,187	$ 14,427	$ 13,187

At June 30, 2010, the allowance for loan losses was $14.4 million as compared to $13.2 million, at June 30, 2009. The increase in the allowance for loan losses at June 30, 2010 as compared to June 30, 2009 was the result of a $2.8 million provision and $1.4 million in net charge-offs. The Company s ratio of nonperforming loans compared to portfolio loans at June 30, 2010 was 2.45% as compared to 2.92% as of June 30, 2009. The Company s ratio of allowance for loan losses compared to portfolio loans at June 30, 2010 was 2.30% as compared to 1.93% as of June 30, 2009. While the Company s ratio of nonperforming loans compared to portfolio loans has decreased as of June 30, 2010, the Company believes that a higher reserve is appropriate to address the impact of the current economic environment on our loan portfolio.

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Nonperforming assets consist of nonaccrual loans, accruing loans of 90 days or more past due, restructured loans, and other real estate owned (OREO). The following table sets forth information with respect to nonperforming assets:

	June 30, 2010	December 31, 2009	June 30, 2009
		(In Thousands)	
Nonaccrual loans	$ 14,413	$ 12,738	$ 18,111
Accruing loans past due 90 days or more	1,000	1,000	1,893
Restructured loans		3,754	
Total nonperforming loans	15,413	17,492	20,004
Other real estate owned	12,973	17,355	11,576
Total nonperforming assets	$ 28,386	$ 34,847	$ 31,580
Allowance for loan losses	$ 14,427	$ 13,108	$ 13,187
Nonperforming loans to gross loans	2.45%	2.67%	2.92%
Nonperforming assets to total assets	2.82%	3.47%	3.24%
Allowance to gross loans	2.30%	2.00%	1.93%
Allowance to nonperforming loans	93.60%	74.94%	65.92%

6. Goodwill and Other Intangibles

The Company performs goodwill impairment testing in accordance with the policy described in Note 1 of the Company s Annual Report on Form 10-K for the year ended December 31, 2009. There was no indication of impairment as of June 30, 2010. The Company continues to monitor the Company s goodwill for potential impairment on an ongoing basis. No assurance can be given that there will not be an impairment charge to earnings during 2010 for goodwill impairment, if, for example, our stock price declines and continues to trade at a significant discount to its book value, although there are many factors that we analyze in determining the impairment of goodwill.

7. Variable Interest Entities

The Company has analyzed all of its affiliate relationships in accordance with Accounting Standards Codification 810-10-50-12 and 50-13 and determined that Elliott Cove is a variable interest entity (VIE). However, the Company does not have a controlling interest in Elliott Cove. The Company owns a 48% equity interest in Elliott Cove, an investment advisory services company, through its wholly owned subsidiary, Northrim Investment Services Company (NISC). The Company determined that Elliott Cove is a VIE based on the fact that the Company provides Elliott Cove with a line of credit that has a committed amount of $750,000 and an outstanding balance of $746,000 as of June 30, 2010. As such, it appears that Elliott Cove cannot finance its activities without additional subordinated financial support and is therefore considered a VIE under GAAP. However, the Company does not have a controlling interest in Elliott Cove because it does not have the power to direct Elliott Cove s activities, nor does it have an obligation to absorb losses or receive benefits from earnings that are disproportionate to its ownership. The Company does not have any arrangements or guarantees to Elliott Cove outside of the line of credit, and it does not have any exposure to additional losses outside of its share in Elliott Cove s net income. The line of credit to Elliott Cove is included in other assets in the Company s Consolidated Balance Sheets.

8. Deposit Activities

Total deposits at June 30, 2010, December 31, 2009 and June 30, 2009 were $851.5 million, $853.1 million and $819.1 million, respectively. The only deposit category with stated maturity dates is certificates of deposit. At June 30, 2010, the Company had $146.2 million in certificates of deposit as compared to certificates of deposit of

$144.9 million and $167.5 million, for the periods ending December 31, 2009 and June 30, 2009, respectively. At June 30, 2010, $107.6 million, or 74%, of the Company s certificates of deposits are scheduled to mature over the next 12 months as compared to

$100.1 million, or 69%, of total certificates of deposit, at December 31, 2009, and $136.3 million, or 81%, of total certificates of deposit at June 30, 2009.

9. Stock Incentive Plan

The Company set aside 330,750 shares of authorized stock for the 2004 Stock Incentive Plan (2004 Plan) under which it may grant stock options and restricted stock units. During the second quarter ended June 30, 2010, the Company s shareholders approved the 2010 Stock Option Plan (2010 Plan) under which it may grant 325,000 shares of stock in the form of stock options and restricted stock units. The Company s policy is to issue new shares to cover awards. The total number of stock options and restricted stock units outstanding under the 2004 and 2010 Plans and previous stock incentive plans at June 30, 2010 was 407,298, which includes 322,448 shares granted under the 2004 Plan leaving 348,232 shares available for future awards. Under the 2004 Plan, certain key employees have been granted the option to purchase set amounts of common stock at the market price on the day the option was granted. Optionees, at their own discretion, may cover the cost of exercise through the exchange, at the fair market value, of already owned shares of the Company s stock. Options are granted for a 10-year period and vest on a pro rata basis over the initial three years from grant. In addition to stock options, the Company has granted restricted stock units to certain key employees under the 2004 Plan. These restricted stock grants cliff vest at the end of a three-year time period.

The Company recognized expenses of $94,000 and $90,000 on the fair value of restricted stock units and $35,000 and $60,000 on the fair value of stock options for a total of $129,000 and $150,000 in stock-based compensation expense for the three-month periods ending June 30, 2010 and 2009, respectively. For the six-month periods ending June 30, 2010 and 2009, the Company recognized expense of $189,000 and $178,000, respectively, on the fair value of restricted stock units and $69,000 and $121,000, respectively, on the fair value of stock options for a total of $258,000 and $299,000, respectively, in stock-based compensation expense.

There were no exercises of stock options and no restricted stock units vested in the three months ended June 30, 2010. Proceeds from the exercise of stock options for the three months ended June 30, 2009 were $71,000. The Company withheld shares valued at $68,000 to pay for stock option exercises or income taxes that resulted from the exercise of stock options or the vesting of restricted stock units for the three-month period ending June 30, 2009. The Company recognized tax deductions of $15,000 related to the exercise of these stock options and $41,000 related to the vesting of restricted stock units during the quarter ended June 30, 2009.

Proceeds from the exercise of stock options for the six months ended June 30, 2010 and 2009 were $497,000 and $71,000, respectively. The Company withheld shares valued at $496,000 and $72,000 to pay for stock option exercises or income taxes that resulted from the exercise of stock options or the vesting of restricted stock units for the six-month periods ending June 30, 2010 and 2009, respectively. The Company recognized tax deductions of $102,000 and $15,000, respectively, related to the exercise of stock options during the six months ended June 30, 2010 and 2009, respectively. The Company recognized tax deductions of $41,000 related to the vesting of restricted stock units during the six months ended June 30, 2009. There were no restricted stock units that vested during the six months ended June 30, 2010.

10. Fair Value of Assets and Liabilities

The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company s estimation of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following methods and assumptions were used to estimate fair value disclosures. All financial instruments are held for other than trading purposes.

Cash, Due from Banks and Overnight Investments: Due to the short term nature of these instruments, the carrying amounts reported in the balance sheet represent their fair values.

Investment Securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Investments in Federal Home Loan Bank stock are recorded at cost, which also represents fair value.

Loans Held for Sale: Due to the short term nature of these instruments, the carrying amounts reported in the balance sheet represent their fair values.

Loans: Fair value adjustments for loans are mainly related to credit risk, interest rate risk, required equity return, and liquidity risk. Credit risk is primarily addressed in the financial statements through the allowance for loan losses (see Note 5). Loans are valued using a discounted cash flow methodology and are pooled based on type of interest rate (fixed or adjustable) and maturity. A discount rate was developed based on the relative risk of the cash flows, taking into account the maturity of the loans and liquidity risk. Impaired loans are carried at fair value. Specific valuation allowances are included in the allowance for loan losses. The carrying amount of accrued interest receivable approximates its fair value.

Purchased Receivables: Fair values for purchased receivables are based on their carrying amounts due to their short duration and repricing frequency.

Deposit Liabilities: The fair values of demand and savings deposits are equal to the carrying amount at the reporting date. The carrying amount for variable-rate time deposits approximate their fair value. Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies currently offered interest rates to a schedule of aggregate expected monthly maturities of time deposits. The carrying amount of accrued interest payable approximates its fair value.

Borrowings: Due to the short term nature of these instruments, the carrying amount of short-term borrowings reported in the balance sheet approximate the fair value. Fair values for fixed-rate long-term borrowings are estimated using a discounted cash flow calculation that applies currently offered interest rates to a schedule of aggregate expected monthly payments.

Junior Subordinated Debentures: Fair value adjustments for junior subordinated debentures are based on the current discounted cash flows to maturity. Management utilized a market approach to determine the appropriate discount rate for junior subordinated debentures.

Assets subject to nonrecurring adjustment to fair value: The Company is also required to measure certain assets such as equity method investments, goodwill, intangible assets or OREO at fair value on a nonrecurring basis in accordance with GAAP. Any nonrecurring adjustments to fair value usually result from the write down of individual assets.

Commitments to Extend Credit and Standby Letters of Credit: The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counterparties at the reporting date.

Limitations: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimated fair values as of June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 105,065	$ 105,065	$ 66,721	$ 66,721
Investment securities	174,941	177,294	187,447	187,678
Net loans	622,156	579,084	641,931	616,476
Purchased receivables	10,754	10,754	7,261	7,261
Accrued interest receivable	3,749	3,749	3,986	3,986
Financial liabilities:				
Deposits	$ 851,485	$ 850,340	$ 853,108	$ 841,629
Accrued interest payable	396	396	394	394
Borrowings	14,403	13,715	12,320	11,674
Junior subordinated debentures	18,558	11,589	18,558	10,111
Unrecognized financial instruments:				
Commitments to extend credit[1]	182,176	$ 1,822	166,704	$ 1,667
Standby letters of credit[1]	17,612	176	16,913	169

(1) Carrying amounts reflect the notional amount of credit exposure under these financial instruments.

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The following table sets forth the balances as of June 30, 2010 and 2009 of assets and liabilities measured at fair value on a recurring basis:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)	
2010:				
Available for sale securities				
U.S. Treasury & government sponsored	$ 126,804		$ 126,804	
Municipal Securities	6,369		6,369	
U.S. Agency Mortgage-backed Securities	81		81	
Corporate bonds	34,775		34,775	
Total	$ 168,029		$ 168,029	
2009:				
Available for sale securities				
U.S. Treasury & government sponsored	$ 91,726		$ 91,726	
Municipal Securities	4,979		4,979	
U.S. Agency Mortgage-backed Securities	95		95	
Corporate bonds	27,766		27,766	
Total	$ 124,566		$ 124,566	

As of and for the six months ending June 30, 2010 and 2009, no impairment or valuation adjustment was recognized for assets recognized at fair value on a nonrecurring basis, except for certain assets as shown in the following table:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total (gains) losses
			(In Thousands)		

2010:				
Loans measured for impairment[1]	$ 5,081	$ 4,237	$ 844	$ (864)
Other real estate owned[2]	498		498	176
Total	$ 5,579	$ 4,237	$ 1,342	$ (688)
2009:				
Loans measured for impairment[1]	$ 14,481	$ 6,007	$ 8,474	$ 660
Other real estate owned[2]	3,134		3,134	495
Total	$ 17,615	$ 6,007	$ 11,608	$ 1,155

[1] Relates to certain impaired collateral dependant loans. The impairment was measured based on the fair value of collateral, in accordance with GAAP.

[2] Relates to certain impaired other real estate owned. This impairment arose from an adjustment to the Company s estimate of the fair market value of these properties based on changes in estimated costs to complete the projects and changes in market conditions.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the unaudited financial statements of Northrim BanCorp, Inc. (the Company) and the notes thereto presented elsewhere in this report and with the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Note Regarding Forward Looking-Statements

This quarterly report on Form 10-Q includes forward-looking statements, which are not historical facts. These forward-looking statements describe management s expectations about future events and developments such as future operating results, growth in loans and deposits, continued success of the Company s style of banking, and the strength of the local economy. All statements other than statements of historical fact, including statements regarding industry prospects and future results of operations or financial position, made in this report are forward-looking. We use words such as anticipate, believe, expect, intend and similar expressions in part to help identify forward-looking statemen Forward-looking statements reflect management s current plans and expectations and are inherently uncertain. Our actual results may differ significantly from management s expectations, and those variations may be both material and adverse. Forward-looking statements are subject to various risks and uncertainties that may cause our actual results to differ materially and adversely from our expectations as indicated in the forward-looking statements. These risks and uncertainties include: the general condition of, and changes in, the Alaska economy; factors that impact our net interest margin; and our ability to maintain asset quality. Further, actual results may be affected by competition on price and other factors with other financial institutions; customer acceptance of new products and services; the regulatory environment in which we operate; and general trends in the local, regional and national banking industry and economy. Many of these risks, as well as other risks that may have a material adverse impact on our operations and business, are identified in Item 1A Risk Factors of this report, and in our other filings with the SEC. However, you should be aware that these factors are not an exhaustive list, and you should not assume these are the only factors that may cause our actual results to differ from our expectations. In addition, you should note that we do not intend to update any of the forward-looking statements or the uncertainties that may adversely impact those statements, other than as required by law.

Critical Accounting Policies

The preparation of the consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that our estimates and assumptions are reasonable; however, actual results may differ significantly from these estimates and assumptions which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and on our results of operations for the reporting periods.

The accounting policies that involve significant estimates and assumptions by management, which have a material impact on the carrying value of certain assets and liabilities, are considered critical accounting policies. The Company s critical accounting policies include those that address the accounting for the allowance for loan losses, the valuation of goodwill and other intangible assets, and the valuation of other real estate owned. The Company has not made any significant changes in its critical accounting policies or its estimates and assumptions from those disclosed in its Form 10-K as of December 31, 2009. These critical accounting policies are further described in Management s Discussion and Analysis and in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in the Company s Form 10-K as of December 31, 2009. Management has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

There were new accounting pronouncements that became effective for the Company on January 1, 2010. See Note 2 of the Notes to the Consolidated Financial Statements in this Form 10-Q for a summary of the pronouncements and discussion of the impact of their adoption on the Company s consolidated financial statements.

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Economic Conditions

Throughout this economic cycle, Alaska has faired far better than some other parts of country, and the Company is benefiting from strong natural resources and tourism sectors, as well as government operations. There are now two competing proposals for a gas pipeline from the oil and gas fields in northern Alaska to the lower 48 states. If either of these proposals proceeds, the projected infrastructure investment is expected to be substantial and may bring many jobs to the state. However, discussions for this project have been ongoing for years, and the project is still a long way from breaking ground.

Both the U.S. and Alaska continue to have higher than average historical delinquency rates. At the end of the first quarter of 2010, 4.6% of all residential mortgage loans were delinquent in Alaska up from 3.8% at the end of 2008. This delinquency rate was a 0.2% decline from the fourth quarter of 2009. Nationally, delinquencies were 9.4% at the end of the first quarter of 2010, up from 8.6% at the end of 2008 and down 1.0% from the end of 2009. Total foreclosures in Alaska at March 31, 2009 were 1.3%, down from 1.4% at the end of 2009 and up from 0.9% at the end of 2008. Nationally, total foreclosures have grown to 4.6% at March 31, 2010 from 3.3% at December 31, 2008.

Highlights and Summary of Performance Second Quarter of 2010

Northrim, already well-capitalized, continued to strengthen its capital ratios with Tier 1 Capital to risk adjusted assets at 14.77% as compared to 14.31% in the immediate prior quarter and 13.50% a year ago. These ratios do not reflect any government investment in Northrim as the company elected not to participate in the Capital Purchase Program sponsored by the U. S. Treasury in 2008.

Northrim s tangible common equity to tangible assets at quarter end was 10.53%, up from 10.23% a year earlier. Tangible common equity to tangible assets is a non-GAAP ratio that represents total equity less goodwill and intangible assets divided by total assets less goodwill and intangible assets. The GAAP measure of equity to assets is total equity divided by total assets. Total equity to total assets was 11.32% at June 30, 2010 as compared to 11.07% at June 30, 2009.

Book value was $17.85 per share and tangible book value was $16.46 per share, up from $17.04 and $15.60 respectively a year earlier.

Nonperforming assets declined in the quarter to $28.4 million or 2.82% of total assets at June 30, 2010, compared to $31.6 million, or 3.20% of total assets at March 31, 2010.

The allowance for loan losses totals 2.30% of gross loans at June 30, 2010, compared to 2.17% at March 31, 2010, and 1.93% a year ago. The allowance for loan losses to nonperforming loans also improved to 93.60% at June 30, 2010 from 65.92% a year ago.

Residential construction loans declined to $49.1 million or 8% of portfolio loans at June 30, 2010, from $79.5 million, or 12% of portfolio loans, a year ago.

Other operating income that includes revenues from finance charges, electronic banking, and financial services affiliates contributed 25% of total second quarter revenues and 22% of year-to-date revenues.

The Company reported net income and diluted earnings per share of $2.1 million and $0.33, respectively, for the quarter ending June 30, 2010 compared to net income and diluted earnings per share of $1.9 million and $0.29, respectively, for the quarter ending June 30, 2009. The slight increase in net income from the prior year was primarily attributable to decreases in the provision for loan losses and other operating expenses, net of decreases in net interest income and other operating income and an increase in the provision for income taxes.

Northrim s total assets grew 3% to $1.01 billion at June 30, 2010 from $976 million at June 30, 2009, with an increase in portfolio investments offsetting continuing maturities in the construction loan portfolio and lower levels of commercial loans. The loan portfolio receded 8% in the second quarter to $628 million from $685 million a year ago. The loan portfolio continues to show about 86% of the customers are located in the greater Anchorage area and 14%

are in the Fairbanks area.

The loan portfolio remains diversified with commercial loans accounting for 38% of the portfolio and commercial real estate accounting for 46% of the portfolio at June 30, 2010. Construction

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and land development loans, which account for 8% of the loan portfolio at June 30, are down 38% to $49.1 million from $79.5 million a year ago, reflecting the maturing of projects funded in past years, the reduction in new projects started in the past two years, and continuing successful collection efforts.

Credit Quality and Nonperforming Assets

Nonperforming assets at June 30, 2010, declined by $3.2 million year-over-year and from the preceding quarter. The risk profile of the portfolio improved as a result of the following developments:

Loans measured for impairment decreased to $25.1 million at June 30, 2010, compared to $44.0 million at March 31, 2010, and $67.1 million in the second quarter a year ago.

Nonperforming loans totaled $15.4 million, or 2.45% of total portfolio loans, compared to $20.0 million, or 2.92% of total portfolio loans a year ago.

All construction and development projects in Other Real Estate Owned (OREO) are substantially complete and are being marketed.

The $5.3 million condominium conversion project in Anchorage that moved into OREO last quarter continues to generate rental income producing an average yield of approximately 5%. Of the 68 original units, 32 condos have been sold and 36 are rented, providing positive cash flow for the project.

Net charge-offs in the second quarter of 2010, totaled $994,000, or 0.16% of average loans, compared to net charge-offs of $2.3 million, or 33% of average loans during the second quarter of 2009. Year-to-date net charge-offs totaled $1.4 million, or 0.45%, annualized, of average loans, down from $3.2 million, 0.91%, annualized, of average loans in the first half of 2009.

Restructured loans remained at zero at June 30, 2010 as compared to $3.8 million and zero at December 31, 2009 and June 30, 2009, respectively.

Sales of OREO continued during the second quarter, with 25 properties sold for an aggregate of $3.9 million, generating a $211,000 net gain over current carrying value. Year-to-date OREO sales generated $5.9 million in gross proceeds, $281,000 in gain on sale of 36 properties total.

The coverage ratio of the allowance to nonperforming loans increased to 93.60% at June 30, 2010, compared to 65.92% in the second quarter a year ago.

At June 30, 2010, management had identified potential problem loans of $13.7 million as compared to potential problem loans of $17 million at December 31, 2009 and $16.2 million at June 30, 2009. Potential problem loans are loans which are currently performing and are not included in nonaccrual loans, accruing loans 90 days or more past due, or troubled debt restructurings (TDRs) that have developed negative indications that the borrower may not be able to comply with present payment terms and which may later be included in nonaccrual, past due, or TDRs. The $3.3 million decrease in potential problem loans at June 30, 2010 from December 31, 2009 is primarily due to the transfer of one $3.3 million residential land development loan to nonaccrual status.

At June 30, 2010, December 31, 2009 and June 30, 2009 the Company held OREO of $13.0 million, $17.4 million and $11.6 million, respectively. As of June 30, 2010, OREO consists of $8.1 million in condominiums, $4.1 million in residential lots in various stages of development, $322,000 in commercial property and $471,000 in single family residences. During the second quarter of 2010, additions to OREO included the Company s share of a condominium project that totaled $189,000. During the second quarter of 2010, the Company received approximately $3.9 million in proceeds for the sale of OREO which included $3.6 million from the sale of condominiums and $266,000 from the sale of residential lots.

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The following summarizes OREO activity for the three and six-month periods ending June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
Balance, beginning of the period	$ 16,065	$ 13,735	$ 17,355	$ 12,617
Transfers from loans, net	187	125	931	2,891
Investment in other real estate owned	23	626	27	1,172
Proceeds from the sale of other real estate owned	(3,907)	(2,728)	(5,888)	(4,832)
Gain on sale of other real estate owned, net	211	115	281	223
Deferred gain on sale of other real estate owned	394		443	
Impairment on other real estate owned		(297)	(176)	(495)
Balance at end of period	$ 12,973	$ 11,576	$ 12,973	$ 11,576

RESULTS OF OPERATIONS

Income Statement

Net Income

Net income attributable to Northrim BanCorp for the three and six-month periods ending June 30, 2010, increased $263,000 and $208,000, respectively, as compared to the same periods in 2009. These increases were primarily due to decreased loan loss provisions and other operating expenses, net of decreased net interest income and other operating income and increased provisions for income taxes. The provision for loan losses decreased $742,000 for both the three and six-month periods ending June 30, 2010. Net interest income decreased $563,000 for the quarter and $435,000 for the six months ended June 30, 2010, mainly due to a decrease in interest revenue from lower loan balances. Other operating expenses were down slightly for both periods primarily due to decreased insurance and audit costs, net of increased purchased receivable losses. Other operating income was down slightly for the quarter and more significantly for the six-month period ending June 30, 2010 due to decreased earnings from RML which was partially offset by increased OREO sale and rental income, electronic banking revenue and earnings from other affiliates.

Net Interest Income / Net Interest Margin

Net interest income for the three and six-month periods ending June 30, 2010 decreased $563,000 and $435,000, respectively, as compared to the same periods in 2009 because of larger reductions in interest income, accompanied by a smaller decrease in the costs on the Company s interest-bearing liabilities. The Company s net interest income as a percentage of average interest-earning assets on a tax equivalent basis decreased by 42 basis points and 14 basis points, respectively, to 5.06% and 5.20%, for the three and six-month periods ending June 30, 2010 as compared to the same periods in 2009.

Average loans, the largest category of interest-earning assets, decreased by $62.4 million and $59.7 million in the three and six-month periods ending June 30, 2010 as compared to the same periods in 2009. Average commercial, construction, home equity lines and other consumer loans and real estate loans for sale all decreased in both periods while commercial real estate loans increased during these same periods. The overall decline in the loan portfolio resulted from a combination of refinance and loan payoff activity and a decrease in construction loan originations.

Average investments increased $87.3 million and $65.6 million in the three and six-month periods ending June 30, 2010 as compared to the same periods in 2009. This increase arose as loan totals decreased and total deposits increased.

Average interest-bearing liabilities remained relatively flat with an increase of $7.0 million during the second quarter of 2010 and decreased $24.4 million for the six-month period ending June 30, 2010 as compared to the same period in 2009. The decrease for the six-month periods arose from the payoff of the

compared to the same period in 2009. The decrease for the six-month periods arose from the payoff of the Company s long term borrowings from FHLB of $9.9 million in the third quarter of 2009 as well as a shift in customer deposits from interest-bearing to noninterest-bearing demand deposits. Lastly, the Company had average public certificates of deposits from the Alaska Permanent Fund Corporation of $46.8 million in the first six months of 2009 and had no public deposits in 2010. The Alaska Permanent Fund Corporation may invest in certificates of deposit at Alaska banks in an aggregate amount with respect to each bank, not to exceed its capital and at specified rates and terms. The depository bank must collateralize the deposits either with pledged securities or a letter of credit.

The average cost of interest-bearing liabilities decreased 22 basis points and 26 basis points for the three and six-month periods ending June 30, 2010 compared to the same periods in 2009 due mainly to declining market rates and the payoff of the Company s FHLB borrowings.

Components of Net Interest Margin

The following table compares average balances and rates as well as net tax equivalent margin on earning assets for the three and six months ending June 30, 2010 and 2009:

	Three Months Ended June 30,										
	Average Balances		Change		Interest income/ expense		Change		Average Yields/Costs Tax Equivalent		
	2010	2009	$	%	2010	2009	$	%	2010	2009	Change
					(In Thousands)						
Commercial	$ 244,647	$ 277,519	($32,872)	-12%	$ 4,314	$ 4,895	($581)	-12%	7.07%	7.08%	-0.01%
Construction/development	53,668	82,831	(29,163)	-35%	1,119	1,654	(535)	-32%	8.36%	8.01%	0.35%
Commercial real estate	291,079	280,661	10,418	4%	4,993	4,904	89	2%	6.88%	7.01%	-0.13%
Home equity lines and other consumer	47,350	48,143	(793)	-2%	783	818	(35)	-4%	6.54%	6.81%	-0.27%
Real estate loans for sale	264	10,504	(10,240)	-97%	3	125	(122)	-98%	4.76%	4.77%	-0.01%
Other loans[1]	(1,198)	(1,416)	218	-15%							
Total loans[2, 3]	635,810	698,242	(62,432)	-9%	11,212	12,396	(1,184)	-10%	7.07%	7.13%	-0.06%
Short-term investments	66,988	25,185	41,803	166%	42	16	26	163%	0.25%	0.25%	0.00%
Long-term investments	182,261	136,734	45,527	33%	1,315	1,043	272	26%	3.01%	3.39%	-0.38%
Total investments	249,249	161,919	87,330	54%	1,357	1,059	298	28%	2.27%	2.91%	-0.64%
Interest-earning assets	885,059	860,161	24,898	3%	12,569	13,455	(886)	-7%	5.72%	6.33%	-0.61%
Nonearning assets	108,401	105,317	3,084	3%							
Total	$ 993,460	$ 965,478	$ 27,982	3%							
Interest-bearing deposits	$ 578,875	$ 566,712	$ 12,163	2%	$ 1,264	$ 1,424	($160)	-11%	0.88%	1.01%	-0.13%
Borrowings	33,520	38,723	(5,203)	-13%	202	365	(163)	-45%	2.36%	4.21%	-1.85%
Total interest-bearing liabilities	612,395	605,435	6,960	1%	1,466	1,789	(323)	-18%	0.96%	1.18%	-0.22%

Demand deposits and other noninterest-bearing liabilities	266,922	251,795	15,127	6%								
Equity	114,143	108,248	5,895	5%								
Total	$ 993,460	$ 965,478	$ 27,982	3%								
Net interest income					$ 11,103	$ 11,666	($563)	-5%				
Net tax equivalent margin on earning assets									5.06%	5.48%	-0.42%	

[1] Other loans is made up of deferred loan fees, net of loans in process.

[2] Loan fees recognized during the period and included in the yield calculation totalled $637,000 and $669,000 in the second quarter of 2010 and 2009, respectively.

[3] Average nonaccrual loans included in the computation of the average loans were $14 million and $19.7 million in the second quarter of 2010 and 2009, respectively.

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	Six Months Ended June 30,										
	Average Balances		Change		Interest income/ expense		Interest income/ Change		Average Yields/Costs Tax Equivalent		
	2010	2009	$	%	2010	2009	$	%	2010	2009	Change
	(In Thousands)										
Commercial	$ 244,362	$ 278,923	($34,561)	-12%	$ 8,676	$ 9,565	($889)	-9%	7.16%	6.92%	0.24%
Construction/development	56,819	89,904	(33,085)	-37%	2,316	3,376	(1,060)	-31%	8.22%	7.57%	0.65%
Commercial real estate	294,487	276,030	18,457	7%	10,044	9,623	421	4%	6.88%	7.03%	-0.15%
Home equity lines and other consumer	47,944	49,346	(1,402)	-3%	1,595	1,667	(72)	-4%	6.67%	6.81%	-0.14%
Real estate loans for sale	133	9,308	(9,175)	-99%	3	223	(220)	-99%	4.76%	4.83%	-0.07%
Other loans[1]	(1,541)	(1,616)	75	-5%							
Total loans[2, 3]	642,204	701,895	(59,691)	-9%	22,634	24,454	(1,820)	-7%	7.11%	7.03%	0.08%
Short-term investments	52,021	30,881	21,140	68%	65	91	(26)	-29%	0.25%	0.59%	-0.34%
Long-term investments	180,257	135,755	44,502	33%	2,644	2,197	447	20%	3.06%	3.49%	-0.43%
Total investments	232,278	166,636	65,642	39%	2,709	2,288	421	18%	2.45%	2.98%	-0.53%
Interest-earning assets	874,482	868,531	5,951	1%	25,343	26,742	(1,399)	-5%	5.87%	6.26%	-0.39%
Nonearning assets	108,820	109,185	(365)	0%							
Total	$ 983,302	$ 977,716	$ 5,586	1%							
Interest-bearing deposits	$ 578,189	$ 597,941	($19,752)	-3%	$ 2,540	$ 3,144	($604)	-19%	0.89%	1.06%	-0.17%
Borrowings	32,993	37,637	(4,644)	-12%	396	756	(360)	-48%	2.38%	4.00%	-1.62%
Total interest-bearing liabilities	611,182	635,578	(24,396)	-4%	2,936	3,900	(964)	-25%	0.97%	1.23%	-0.26%
Demand deposits and other noninterest-bearing liabilities	258,748	234,763	23,985	10%							
Equity	113,372	107,375	5,997	6%							
Total	$ 983,302	$ 977,716	$ 5,586	1%							
Net interest income					$ 22,407	$ 22,842	($435)	-2%			
									5.20%	5.34%	-0.14%

Net tax equivalent margin on earning assets

[1] Other loans is made up of deferred loan fees, net of loans in process.

[2] Loan fees recognized during the period and included in the yield calculation totalled $1.3 million and $1.4 milllion in the six months ending June 30, 2010 and 2009, respectively

[2] Average nonaccrual loans included in the computation of the average loans were $13.3 million and $19.8 million in the six months ending June 30, 2010 and 2009, respectively.

Analysis of Changes in Interest Income and Expense

The following tables set forth the changes in consolidated net interest income attributable to changes in volume and to changes in interest rates for the three and six month periods ending June 30, 2010 as compared to the same periods in 2009. Changes attributable to the combined effect of volume and interest rate have been allocated proportionately to the changes due to volume and the changes due to interest rate.

	Quarter ended June 30, 2010 vs. 2009		
	Increase (decrease) due to		
	Volume	Rate	Total

Interest Income:			
Loans	($1,125)	($59)	($1,184)
Long-term investments	411	(139)	272
Short-term investments	26		26
Total interest income	($688)	($197)	($886)
Interest Expense:			
Deposits:			
Interest-bearing deposits	$ 32	($192)	($160)
Borrowings	(38)	(125)	(163)
Total interest expense	($6)	($316)	($323)

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	Six months ended June 30, 2010 vs. 2009		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest Income:			
Loans	($2,233)	$ 413	($1,820)
Long-term investments	716	(269)	447
Short-term investments	26	(52)	(26)
Total interest income	($1,491)	$ 91	($1,399)
Interest Expense:			
Deposits:			
Interest-bearing deposits	($103)	($501)	($604)
Borrowings	(84)	(276)	(360)
Total interest expense	($187)	($777)	($964)

Provision for Loan Losses

The provision for loan losses was $1.4 million and $2.1 million for the three-month periods ending June 30, 2010 and 2009, respectively. Net charge offs were $994,000 and $2.3 million, respectively, for the quarters ending June 30, 2010 and 2009. The provision for loan losses was $2.7 million and $3.5 million for the six-month periods ending June 30, 2010 and 2009, respectively. Net charge offs were $1.4 million and $3.2 million, respectively, year to date as of June 30, 2010 and 2009. At June 30, 2010, the allowance for loan losses was $14.4 million, or 2.30% of total loans as compared to $13.2 million, or 1.93% of total loans a year ago. The Company believes that a higher reserve is appropriate at June 30, 2010 to address the impact of the current economic environment on our loan portfolio. See analysis of allowance for loan losses in the Balance Sheet Overview section.

Other Operating Income

Other operating income for the second quarter of 2010 decreased $45,000 as compared to the second quarter of 2009. The decrease was due to a $582,000 decrease in earnings from RML that resulted from decreased refinance activity in the second quarter of 2010. This decrease was almost entirely offset by increased OREO sales and rental income of $259,000 due to the acquisition of a large condominium development in December 2009 and increased sales activity, increased purchased receivable income of $121,000 primarily due to a gain of $111,000 on the sale of assets acquired in settlement of one account, increased electronic banking income of $84,000 due to increased fees collected from increased point-of-sale transactions, and increased employee benefit plan income of $83,000 due to an increased customer base at Northrim Benefits Group as well as successful cross-selling of products to existing customers.

Other operating income for the six months ending June 30, 2010 decreased $764,000 as compared to the same period in 2009. This decrease was primarily due to a $1.5 million decrease in earnings from RML that resulted from decreased refinance activity in the first six months of 2010. Additionally, purchased receivable income decreased by

$323,000 for the six months ended June 30, 2010 due to decreased average balances primarily resulting from the fact that one of the Company s large purchased receivable customers sold a portion of its business and used those proceeds to repay its purchased receivable at the end of March in 2009. These decreases were partially offset by a $413,000 increase in OREO sale and rental income due to the acquisition of a large condominium development in December 2009 and increased sale activity, increased gains on the sale of available for sale securities of $217,000, increased electronic banking income of $174,000 due to increased fees collected from increased point-of-sale transactions and increased employee benefit plan income of $138,000 due to a larger customer base at Northrim Benefits Group as well as successful cross-selling of products to existing customers.

Other Operating Expense

Other operating expense for the second quarter of 2010 decreased $361,000 as compared to the second quarter of 2009. This decrease was primarily due to decreases of $537,000 and $306,000, respectively, in insurance expense and salaries and other personnel expense. Insurance expense decreased due to a $629,000 decrease in FDIC insurance premiums that was primarily the result of the one time special assessment that the Company had in the second quarter of 2009. This decrease was partially offset by an $86,000 increase in Keyman insurance expense resulting from decreases in the cash surrender value of assets held under the Company s Keyman insurance policies. Salaries and other personnel expense decreased due to a $123,000 decrease in medical costs due primarily to lower claims costs, a $100,000 decrease in salary costs due to a slight decrease in the Company s workforce, a $74,000 decrease in incentive compensation expense and a $58,000 decrease in deferred compensation expense as the Company s liability under this plan decreased due to market losses on plan assets. The decreases in insurance and salaries and other personnel expenses were partially offset by an increase in purchased receivable losses of $406,000 in the second quarter of 2010 as compared to the same period in 2009. The Company experienced losses on two customer accounts during this period in 2010 and did not experience losses in 2009.

Other operating expense for the six months ending June 30, 2010 decreased $717,000 from the same period in 2009. This decrease was primarily due to decreases of $784,000 and $394,000, respectively, in insurance expense and professional and outside services. Insurance expense decreased due to a $709,000 decrease in FDIC insurance premiums that was primarily the result of the one time special assessment that the Company had in the second quarter of 2009 as well as the fact that there were changes in the assessment of FDIC insurance premiums in 2009. Additionally, there was an $81,000 decrease in Keyman insurance expense resulting from increases in the cash surrender value of assets held under the Company s Keyman insurance policies. Professional and outside services expense decreased due to a $198,000 decrease in audit fees, a $99,000 decrease in accounting fees resulting from the fact that the Company did not utilize consulting services in its analysis of goodwill in the first quarter of 2010 as it did in the same period a year ago and a $55,000 decrease in general legal expenses. These decreases were partially offset by the increase in purchased receivable losses of $406,000 in the second quarter of 2010 discussed above.

Income Taxes

The provision for income taxes increased by $231,000 and $106,000 in the three and six-month periods ending June 30, 2010 as compared to the same periods in 2009, primarily due to increased pre-tax income. The tax rates for the three and six-month periods ending June 30, 2010 were 29% and 28%, respectively, compared to 26% and 27% for the same periods in 2009. For the second quarter of 2010 as compared to the second quarter of 2009, decreased tax exempt interest income on investments and modest nondeductible market losses on the Company s Keyman insurance policies in the second quarter of 2010 as compared to tax exempt market gains in the same period in 2009 relative to the level of taxable income for the period resulted in a 3% increase in the tax rate for the second quarter of 2010. For the six-month period ending June 30, 2010 as compared to the same period in 2009, the Company had increased tax exempt interest income on investments and modest tax exempt market gains on the Company s Keyman insurance policies for the period as compared to nondeductible market losses in the same period in 2009. These factors were offset, however, by the increase in taxable income for the period and as a result, the year to date tax rate at June 30, 2010 increased 1% to 28% from 27%.

FINANCIAL CONDITION

Balance Sheet Overview

Investment Securities

Investment securities decreased $10.4 million, or 6%, from December 31, 2009, and increased $40.4 million, or 30%, from June 30, 2009. The decrease in investments from December 31, 2009 to June 30, 2010 was primarily due to the reinvestment of the proceeds from security calls and maturities into overnight investments. The increase in investments from June 30, 2010 to June 30, 2009 arose as loan totals decreased and proceeds from deposits were placed into investments.

Loans and Lending Activities

Our loan products include short and medium-term commercial loans, commercial credit lines, construction and real estate loans, and consumer loans. From our inception, we have emphasized commercial, land development and home construction, and commercial real estate lending. These types of lending have provided us with market opportunities and higher net interest margins than other types of lending. However, they also involve greater risks, including greater exposure to changes in local economic conditions, than certain other types of lending.

Loans are the highest yielding component of our earning assets. Loans comprised 72% and 73% of total average earning assets for the three and six-month periods ending June 30, 2010, compared to 81% of total average earning assets for both the three and six-month periods ending June 30, 2009. The yield on loans averaged 7.07% and 7.11% for the three and six-month periods ending June 30, 2010, compared to 7.13% and 7.03% during the same periods in 2009. See the Net Interest Income section for further discussion of average balances and yields for the three and six-month periods ending June 30, 2010 and 2009.

The loan portfolio decreased by $51.7 million to $636.6 million, or 8%, at June 30, 2010 from $688.3 million at June 30, 2009. Commercial loans decreased $21.9 million, or 8%, construction loans decreased $30.3 million, or 38%, commercial real estate loans decreased $4.1 million, or 1%, home equity lines and other consumer loans decreased $64,000, or less than 1%, and real estate loans for sale increased $4.8 million or 140%, at June 30, 2010 from June 30, 2009. In addition, commercial loans decreased $3.9 million, or 2%, construction loans decreased $13.5 million, or 21%, commercial real estate loans decreased $11.7 million, or 4%, home equity lines and other consumer loans increased $2.0 million, or 5%, and real estate loans for sale increased $8.2 million, or 100%, at June 30, 2010 from December 31, 2009. Due to its efforts to capitalize on market opportunities, the Company expects its loan portfolio to increase in the last six months of 2010 mainly in the commercial and commercial real estate areas.

Analysis of Allowance for Loan Losses

The Company maintains an Allowance to reflect inherent losses from its loan portfolio as of the balance sheet date. The Allowance is decreased by loan charge-offs and increased by loan recoveries and provisions for loan losses. On a quarterly basis, the Company calculates the Allowance based on an established methodology which has been consistently applied. At June 30, 2010, the allowance for loan losses was $14.4 million, or 2.30% of loans as compared to $13.2 million, or 1.93% of loans a year ago.

In determining its total Allowance, the Company first estimates a specific allowance for impaired loans. Management determines the fair value of the majority of these loans based on the underlying collateral values. This analysis is based upon a specific analysis for each impaired loan, including appraisals on loans secured by real property, management s assessment of the current market, recent payment history and an evaluation of other sources of repayment. In-house evaluations of fair value are used in the impairment analysis in some situations. Inputs to the in-house evaluation process include information about sales of comparable properties in the appropriate markets and changes in tax assessed values. With regard to our appraisal process, the Company obtains appraisals on real and personal property that secure its loans during the loan origination process in accordance with regulatory guidance and its loan policy. The Company obtains updated appraisals on loans secured by real or personal property based upon its assessment of changes in the current market or particular projects or properties, information from other current appraisals, and other sources of information. Appraisals may be adjusted downward by the Company based on our evaluation of the facts and circumstances on a case by case basis. Appraisals may be discounted when management believes that the absorption period used in the appraisal is unrealistic, when expected liquidation costs exceed those included in the appraisal, or when management s evaluation of deteriorating market conditions warrants an adjustment. Additionally, the Company may also adjust appraisals in the above circumstances between appraisal dates at its discretion. For collateral dependant loans, the Company uses the information provided in these updated appraisals along with its evaluation of all other information available on a particular property as it assesses the collateral coverage on its performing and nonperforming loans and the impact that may have on the adequacy of its Allowance. The specific allowance for impaired loans, as well as the overall Allowance, may increase or decrease based on the Company s assessment of updated appraisals as well as changes in the borrowers financial condition. The specific allowance on impaired loans at June 30, 2010, was $820,000, or 16% of total loans that are specifically measured for impairment compared to $1.9 million, or 12%, and $3.3 million, or 23%, of total loans that were specifically measured for impairment at December 31, 2009 and June 30, 2009, respectively.

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When the Company determines that a loss has occurred on an impaired loan, a charge-off equal to the difference between carrying value and fair value is recorded. If a specific allowance is deemed necessary for a loan, and that loan is partially charged off, the loan remains classified as a nonperforming loan after the charge-off is recorded. Loans measured for impairment based on the underlying collateral value and all other loans measured for impairment are accounted for in the same way. The ratio of nonperforming loans for which there has been charge offs compared to total nonperforming loans as of June 30, 2010 was 21% compared to 18% at December 31, 2009 and 24% as of June 30, 2009.

The Company then estimates an allowance for all loans that are not impaired. This allowance is based on loss factors applied to loans that are quality graded according to an internal risk classification system (classified loans). The Company s internal risk classifications are based in large part upon regulatory definitions for classified loans. The loss factors that the Company applies to each group of loans within the various risk classifications are based on industry standards, historical experience and management s judgment.

Portfolio components also receive specific attention in the Allowance analysis when those components constitute a significant concentration as a percentage of the Company s capital, when current market or economic conditions point to increased scrutiny, or when historical or recent experience suggests that additional attention is warranted in the analysis process. The Company has $49.1 million in construction loans at June 30, 2010, and $12.9 million of those loans have interest reserves as of June 30, 2010. Management does not consider construction loans with interest reserves to be a material component of the portfolio for purposes of the Allowance calculation.

Once the Allowance is determined using the methodology described above, management assesses the adequacy of the overall Allowance through an analysis of the size and mix of the loan portfolio, historical and recent credit performance of the loan portfolio (including the absolute level and trends in delinquencies and impaired loans), industry metrics and ratio analysis. In 2009, management developed a more rigorous migration analysis for unidentified loan portfolio risk that analyzed loss history associated with the unallocated portion of the portfolio. The Company has observed an increase in charge off ratios in recent years on both the allocated and unallocated portions of its loan portfolio. Additionally, the average ratio of unallocated reserves to unallocated loans has increased. The ratio of unallocated reserves to unallocated loans was 1.50% at June 30, 2010 as compared to 1.49% at December 31, 2009 and 1.09% at June 30, 2009. The increase in the unallocated reserve reflects management s belief that the current economic environment, the increased charge-off ratios discussed above, and historical experience with unidentified risk in the loan portfolio supports the current level of unallocated reserves. At June 30, 2010, the unallocated reserve as a percentage of total reserves was 45% as compared to 38% of total reserves at June 30, 2009.

Deposits

Deposits are the Company s primary source of funds. Total deposits decreased $1.6 million at June 30, 2010, from December 31, 2009, and increased $32.3 million from June 30, 2009. The Company s deposits generally are expected to fluctuate according to the level of the Company s market share, economic conditions, and normal seasonal trends. The Company continues to market its High Performance Checking products and expects increases in the number of deposit accounts and the balances associated with them in 2010. There were no depositors with deposits representing 10% or more of total deposits at June 30, 2010, December 31, 2009, or June 30, 2009.

To provide customer assurances, the Company is participating in the FDIC s Transaction Account Guarantee Program (TAGP) that provides 100% guarantee of noninterest-bearing checking accounts, including NOW accounts paying less than 0.50%. Effective July 1, 2010, the maximum interest rate for NOW accounts included in this program decreased to 0.25%. TAGP has recently been extended to January 1, 2013. Additionally, under recent changes from the FDIC, all interest-bearing deposit accounts are insured up to $250,000. The increase in basic FDIC insurance coverage from $100,000 to $250,000 was previously in affect through December 31, 2013, but in July 2010 the coverage limit was permanently increased.

Borrowings

At June 30, 2010, the Company s maximum borrowing line from the FHLB was $105.4 million, approximately 10% of the Company s assets. FHLB advances are dependent on the availability of acceptable collateral such as marketable securities or real estate loans, although all FHLB advances are secured by a blanket pledge of the Company s assets. At June 30, 2010 and December 31, 2009, the Company had no outstanding balances on the borrowing line. At June 30, 2009 there was an outstanding balance on the borrowing line of $10.3 million and there were no additional monies committed to secure public deposits. The decrease in the outstanding balance of the line at June 30, 2010 and December 31, 2009 as compared to June 30, 2009 was the result of the early pay off of $9.9 million in advances in September 2009. The advances had an average remaining life of over 8 years. A resulting $718,000 prepayment penalty reduced earnings per diluted share for the third quarter of 2009 by $0.07 and is expected to save as much as $0.05 per diluted share in 2010 and additional amounts in future years.

The Company purchased its main office facility for $12.9 million on July 1, 2008. In this transaction, the Company, through Northrim Building LLC, assumed an existing loan secured by the building in an amount of $5.1 million. At June 30, 2010, December 31, 2009 and June 30, 2009, the outstanding balance on this loan was $4.8 million, $4.9 million and $5.0 million, respectively. This loan has a maturity date of April 1, 2014 and a fixed interest rate of 5.95%.

In addition to the borrowings for the building, the Company had $700,000 in other borrowings outstanding at June 30, 2010, as compared to $690,000 and $1 million, respectively, in other borrowings outstanding at December 31, 2009 and June 30, 2009. Other borrowings during each of these periods consisted of short-term borrowings from the Federal Reserve Bank for Treasury tax deposits.

At June 30, 2010, December 31, 2009 and June 30, 2009, the Company had no short-term (original maturity of one year or less) borrowings that exceeded 30% of shareholders equity.

Liquidity and Capital Resources

The Company manages its liquidity through its Asset and Liability Committee. In addition to the $105.1 million of cash and cash equivalents and $144.8 million in unpledged available for sale securities held at June 30, 2010, the Company has additional funding sources which include fed fund borrowing lines and advances available at the Federal Home Loan Bank of Seattle and the Federal Reserve Bank of approximately $125.8 million as of June 30, 2010.

At June 30, 2010, $23.2 million in securities, or 13%, of the investment portfolio was pledged, as compared to $17.7 million, or 9%, at December 31, 2009, and $51.3 million, or 49%, at June 30, 2009. The changes in pledged securities are due to the fact that as of June 30, 2010 and December 31, 2009, the Company did not have any securities pledged to collateralize Alaska Permanent Fund certificates of deposit. At June 30, 2009, the Company had pledged $36.7 million to collateralize Alaska Permanent Fund certificates of deposit.

The Company did not issue shares through the exercise of stock options in the second quarter of 2010 and did not repurchase any shares of its common stock under the Company s publicly announced repurchase program. At June 30, 2010, the Company had approximately 6.4 million shares of its common stock outstanding.

Capital Requirements and Ratios

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum regulatory capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material adverse effect on the Company s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Northrim Bank (the Bank) must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by regulators about the components of regulatory capital, risk weightings, and other factors. The regulatory agencies may establish higher minimum requirements if, for example, a bank or bank holding company has previously received special attention or has a high susceptibility to interest rate risk.

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The requirements address both risk-based capital and leverage capital. At June 30, 2010, the Company and the Bank met all applicable regulatory capital adequacy requirements for a well-capitalized institution.

The FDIC has in place qualifications for banks to be classified as well-capitalized. As of June 15, 2010, the most recent notification from the FDIC categorized the Bank as well-capitalized. There have been no conditions or events known to us since the FDIC notification that have changed the Bank s classification.

The following table illustrates the actual capital ratios for the Company and the Bank as calculated under regulatory guidelines, compared to the regulatory minimum capital ratios and the regulatory minimum capital ratios needed to qualify as a well-capitalized institution as of June 30, 2010.

	Adequately-Capitalized	Well-Capitalized	Actual Ratio BHC	Actual Ratio Bank
Tier 1 risk-based capital	4.00%	6.00%	14.77%	13.77%
Total risk-based capital	8.00%	10.00%	16.02%	15.02%
Leverage ratio	4.00%	5.00%	12.52%	11.69%

The regulatory capital ratios for the Company exceed those for the Bank primarily because the $18.6 million junior subordinated debenture offerings that the Company completed in the third quarter of 2003 and the fourth quarter of 2005 are included in the Company s capital for regulatory purposes although such securities are accounted for as a long-term debt in its financial statements. The junior subordinated debentures are not accounted for on the Bank s financial statements nor are they included in its capital. As a result, the Company has $18.6 million more in regulatory capital than the Bank, which explains most of the difference in the capital ratios for the two entities.

Off-Balance Sheet Items

The Company is a party to financial instruments with off-balance sheet risk. Among the off-balance sheet items entered into in the ordinary course of business are commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the balance sheet. Certain commitments are collateralized. As of June 30, 2010, December 31, 2009 and June 30, 2009, the Company s commitments to extend credit and to provide letters of credit amounted to $199.8 million, $183.6 million, and $192.3, respectively. Since many of the commitments are expected to expire without being drawn upon, these total commitment amounts do not necessarily represent future cash requirements.

Capital Expenditures and Commitments

The Company has no capital commitments as of June 30, 2010.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and credit risks are the most significant market risks which affect the Company s performance. The Company relies on loan review, prudent loan underwriting standards, and an adequate allowance for credit losses to mitigate credit risk.

The Company utilizes a simulation model to monitor and manage interest rate risk within parameters established by its internal policy. The model projects the impact of a 100 basis point increase and a 100 basis point decrease, from prevailing interest rates, on the balance sheet for a period of 12 months.

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The Company is normally asset sensitive, meaning that interest-earning assets mature or reprice more quickly than interest-bearing liabilities in a given period. Therefore, an increase in market rates of interest could positively impact net interest income. Conversely, a declining interest rate environment may negatively impact net interest income.

Generalized assumptions are made on how investment securities, classes of loans, and various deposit products might respond to interest rate changes. These assumptions are inherently uncertain, and as a result, the model cannot precisely estimate net interest income nor precisely predict the impact of higher or lower interest rates on net interest income. Actual results may differ materially from simulated results due to factors such as timing, magnitude, and frequency of rate changes, customer reaction to rate changes, competitive response, changes in market conditions, the absolute level of interest rates, and management strategies, among other factors.

The results of the simulation model at June 30, 2010, indicate that, if interest rates immediately increased by 100 basis points, the Company would experience a decrease in net interest income of approximately $237,000 over the next 12 months. Similarly, the simulation model indicates that, if interest rates immediately decreased by 100 basis points, the Company would experience an increase in net interest income of approximately $1.4 million over the next 12 months. These results, which are generally atypical for an asset sensitive entity, are due to current loan pricing with floors on interest rates that limit the negative effect of a decrease in interest rates. These floors also decrease the positive impact of an increase in interest rates as many loans are priced above their floors.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Our principal executive and financial officers supervised and participated in this evaluation. Based on this evaluation, our principal executive and financial officers each concluded that the disclosure controls and procedures are effective in timely alerting them to material information required to be included in the periodic reports to the Securities and Exchange Commission. The design of any system of controls is based in part upon various assumptions about the likelihood of future events, and there can be no assurance that any of our plans, products, services or procedures will succeed in achieving their intended goals under future conditions.

Changes in Internal Control over Disclosure and Reporting

There was no change in our internal control over financial reporting that occurred during the quarterly period ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the normal course of its business, the Company is a party to various debtor-creditor legal actions, which individually or in the aggregate, could be material to the Company s business, operations, or financial condition. These include cases filed as a plaintiff in collection and foreclosure cases, and the enforcement of creditors rights in bankruptcy proceedings.

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ITEM 1A. RISK FACTORS

For information regarding risk factors, please refer to Item 1A in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. These risk factors have not materially changed as of August 6, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) -(b) Not applicable

(c) There were no stock repurchases by the Company during the second quarter of 2010.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

(a) Not applicable

(b) There have been no material changes to the procedures by which shareholders may nominate directors to the Company s board.

ITEM 6. EXHIBITS

31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)

31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)

32.1 Certification of Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

32.2 Certification of Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	NORTHRIM BANCORP, INC.
August 6, 2010	By /s/ R. Marc Langland R. Marc Langland Chairman, President, and CEO (Principal Executive Officer)
August 6, 2010	By /s/ Joseph M Schierhorn Joseph M. Schierhorn Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)