NORTHRIM BANCORP INC
Form 10-Q
November 09, 2009

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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 September 30, 2009

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

(907)562-0062
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 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 smaller 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)	Small 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 November 6, 2009 was 6,364,966.

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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, 2008.

ITEM 1. FINANCIAL STATEMENTS

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NORTHRIM BANCORP, INC.

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2009, DECEMBER 31, 2008, AND SEPTEMBER 30, 2008

	September 30, 2009 (unaudited)	December 31, 2008	September 30, 2008 (unaudited)
		(Dollars in thousands)	
ASSETS			
Cash and due from banks	$ 24,979	$ 30,925	$ 31,809
Money market investments	51,120	6,905	53,766
Domestic certificates of deposit		9,500	9,500
Investment securities held to maturity	9,896	9,431	11,526
Investment securities available for sale	142,373	141,010	102,264
Investment in Federal Home Loan Bank stock	2,003	2,003	2,529
Total investment securities	154,272	152,444	116,319
Loans	674,191	711,286	705,239
Allowance for loan losses	(13,452)	(12,900)	(13,656)
Net loans	660,739	698,386	691,583
Purchased receivables, net	8,202	19,075	15,905
Accrued interest receivable	3,472	4,812	4,561
Premises and equipment, net	28,889	29,733	30,108
Goodwill and intangible assets	9,072	9,320	9,402
Other real estate owned	10,118	12,617	12,261
Other assets	34,829	32,675	34,077
Total Assets	$985,692	$1,006,392	$1,009,291
LIABILITIES			
Deposits:			
Demand	$267,291	$ 244,391	$ 244,559
Interest-bearing demand	115,337	101,065	104,521
Savings	62,761	58,214	59,723
Alaska CDs	108,057	108,101	115,010
Money market	123,239	158,114	162,820
Certificates of deposit less than $100,000	62,603	76,738	78,828
Certificates of deposit greater than $100,000	97,820	96,629	88,999
Total deposits	837,108	843,252	854,460
Borrowings	10,739	30,106	23,634
Junior subordinated debentures	18,558	18,558	18,558
Other liabilities	9,356	9,792	9,004

Total liabilities	875,761	901,708	905,656
SHAREHOLDERS EQUITY			
Common stock, $1 par value, 10,000,000 shares authorized, 6,359,650, 6,331,372, and 6,315,109 shares issued and outstanding at September 30, 2009, December 31, 2008, and September 30, 2008, respectively	6,360	6,331	6,315
Additional paid-in capital	51,994	51,458	51,304
Retained earnings	49,819	45,958	46,093
Accumulated other comprehensive income unrealized gain (loss) on securities, net	1,727	901	(121)
Total Northrim Bancorp shareholders equity	109,900	104,648	103,591
Noncontrolling interest	31	36	44
Total shareholders equity	109,931	104,684	103,635
Total Liabilities and Shareholders Equity	$985,692	$1,006,392	$1,009,291

See notes to the consolidated financial statements

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NORTHRIM BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
	(Dollar in thousands, except per share data)			
Interest Income				
Interest and fees on loans	$ 12,218	$ 13,189	$ 36,672	$ 40,900
Interest on investment securities:				
Securities available for sale	1,057	966	3,057	3,795
Securities held to maturity	98	188	295	353
Interest on money market investments	31	68	64	389
Interest on domestic certificate of deposit	0	196	58	415
Total Interest Income	13,404	14,607	40,146	45,852
Interest Expense				
Interest expense on deposits and borrowings	1,662	3,511	5,562	11,095
Net Interest Income	11,742	11,096	34,584	34,757
Provision for loan losses	1,374	2,000	4,866	5,699
Net Interest Income After Provision for Loan Losses	10,368	9,096	29,718	29,058
Other Operating Income				
Service charges on deposit accounts	791	841	2,269	2,591
Equity in earnings from mortgage affiliate	385	210	1,997	516
Purchased receivable income	474	712	1,706	1,763
Employee benefit plan income	469	398	1,282	1,057
Electronic banking income	463	343	1,124	881
Equity in loss from Elliott Cove	(13)	(17)	(106)	(70)
Other income	791	715	2,320	1,737
Total Other Operating Income	3,360	3,202	10,592	8,475
Other Operating Expense				
Salaries and other personnel expense	5,730	5,135	16,889	15,978
Occupancy	977	875	2,789	2,538
Prepayment penalty on long term debt	718		718	
Insurance expense	502	491	2,266	1,085
Professional and outside services	374	411	1,061	1,143

Marketing expense	317	391	951	1,172
OREO expense net, including impairment	304	395	1,148	1,530
Equipment expense	286	316	887	903
Intangible asset amortization expense	82	89	247	265
Other operating expense	1,577	1,792	4,963	5,164
Total Other Operating Expense	10,867	9,895	31,919	29,778
Income Before Income Taxes	2,861	2,403	8,391	7,755
Provision for income taxes	810	751	2,318	2,347
Net Income	2,051	1,652	6,073	5,408
Less: Net income attributable to the noncontrolling interest	102	102	292	271
Net income attributable to Northrim Bancorp	$ 1,949	$ 1,550	$ 5,781	$ 5,137
Earnings Per Share, Basic	$ 0.31	$ 0.24	$ 0.91	$ 0.81
Earnings Per Share, Diluted	$ 0.30	$ 0.24	$ 0.90	$ 0.78
Weighted Average Shares Outstanding, Basic	6,348,519	6,351,210	6,338,757	6,350,166
Weighted Average Shares Outstanding, Diluted	6,422,262	6,539,295	6,406,117	6,545,427

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 NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
			(unaudited) (Dollar in thousands)				
Nine months ending September 30, 2009:							
Balance as of January 1, 2009	6,331	$6,331	$51,458	$45,958	$ 901	$ 36	$104,684
Cash dividend declared				(1,920)			(1,920)
Stock option expense			445				445
Exercise of stock options	29	29	33				62
Excess tax benefits from share-based payment arrangements			58				58
Distributions to noncontrolling interest						(297)	(297)
Comprehensive income:							
Change in unrealized holding (gain/loss) on available for sale investment securities, net of related income tax effect					826		826
Net income attributable to the noncontrolling interest						292	292
Net Income attributable to Northrim Bancorp				5,781			5,781

Total Comprehensive Income						(5)	6,899
Balance as of September 30, 2009	6,360	$6,360	$51,994	$49,819	$ 1,727	$ 31	$109,931
Nine months ending September 30, 2008:							
Balance as of January 1, 2008	6,300	$6,300	$50,798	$44,068	$ 225	$ 24	$101,415
Cash dividend declared				(3,112)			(3,112)
Stock option expense			456				456
Exercise of stock options	15	15	(44)				(29)
Excess tax benefits from share-based payment arrangements			94				94
Distributions to noncontrolling interest						(251)	(251)
Comprehensive income:							
Change in unrealized holding (gain/loss) on available for sale investment securities, net of related income tax effect					(346)		(346)
Net income attributable to the noncontrolling interest						271	271
Net Income attributable to Northrim Bancorp				5,137			5,137
Total Comprehensive Income						20	5,062
Balance as of September 30, 2008	6,315	$6,315	$51,304	$46,093	($121)	$ 44	$103,635

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NORTHRIM BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

	Nine Months Ended September 30,	
	2009	2008
	(unaudited) (Dollars in thousands)	
Operating Activities:		
Net income	$ 6,073	$ 5,408
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Security (gains), net	(220)	(146)
Depreciation and amortization of premises and equipment	1,234	965
Amortization of software	121	135
Intangible asset amortization	247	265
Amortization of investment security premium, net of discount accretion	214	(26)
Deferred tax (benefit)	(1,221)	(3,108)
Stock-based compensation	445	456
Excess tax benefits from share-based payment arrangements	(58)	(94)
Deferral of loan fees and costs, net	(6)	(88)
Provision for loan losses	5,491	5,699
Purchased receivable recovery	(16)	(13)
Purchases of loans held for sale	(75,096)	
Proceeds from the sale of loans held for sale	75,096	
(Gain) loss on sale of other real estate owned	(424)	(5)
Impairment on other real estate owned	516	1,062
Distributions (proceeds) in excess of earnings from RML	522	(9)
Equity in loss from Elliott Cove	106	70
Decrease in accrued interest receivable	1,340	671
(Increase) decrease in other assets	(2,091)	967
(Decrease) of other liabilities	(462)	(1,563)
Net Cash Provided by Operating Activities	11,811	10,646
Investing Activities:		
Investment in securities:		
Purchases of investment securities-available-for-sale	(87,722)	(66,400)
Purchases of investment securities-held-to-maturity	(1,217)	(510)
Proceeds from sales/maturities of securities-available-for-sale	87,769	111,735
Proceeds from calls/maturities of securities-held-to-maturity	750	680
Proceeds from maturities of domestic certificates of deposit	14,500	55,500
Purchases of domestic certificates of deposit	(5,000)	(65,000)
Investment in Federal Home Loan Bank stock, net		(526)
Investment in purchased receivables, net of repayments	10,889	3,545

Investments in loans:		
Loan participations	997	6,874
Loans made, net of repayments	27,647	(8,451)
Proceeds from sale of other real estate owned	7,466	697
Investment in other real estate owned	(1,470)	(2,121)
Loan to Elliott Cove, net of repayments	(106)	(71)
Purchases of premises and equipment	(390)	(15,452)
Purchases of software	(60)	(94)
Net Cash Provided by Investing Activities	54,053	20,406
Financing Activities:		
Increase (decrease) in deposits	(6,144)	(12,916)
Repayment of borrowings	(19,367)	6,864
Distributions to noncontrolling interest	(297)	(251)
Proceeds from issuance of common stock	62	
Excess tax benefits from share-based payment arrangements	58	94
Cash dividends paid	(1,907)	(3,074)
Net Cash Used by Financing Activities	(27,595)	(9,283)
Net Increase in Cash and Cash Equivalents	38,269	21,769
Cash and cash equivalents at beginning of period	37,830	63,806
Cash and cash equivalents at end of period	$ 76,099	$ 85,575
Supplemental Information:		
Income taxes paid	$ 4,720	$ 4,555
Interest paid	$ 6,017	$ 10,937
Transfer of loans to other real estate owned	$ 3,518	$ 7,449
Cash dividends declared but not paid	$ 18	$ 36

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NORTHRIM BANCORP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

September 30, 2009 and 2008

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, except for changes in the presentation of shareholder s equity in accordance with GAAP. The Company determined that the Company operates as a single operating segment. Operating results for the interim period ended September 30, 2009, are not necessarily indicative of the results anticipated for the year ending December 31, 2009. These financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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, 2008.

In December 2007, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 810-10-65-1, *Consolidation,* formerly Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements*). This accounting standard established accounting and reporting for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This accounting standard clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, this accounting standard requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. The Company adopted this standard on January 1, 2009 and affected presentation and disclosure items retroactively. The adoption did not significantly impact the Company s financial condition and results of operations.

Recently Issued Accounting Pronouncements

In January 2009, the FASB issued ASC Topic 325-40-65, *Beneficial Interests in Securitized Financial Assets,*, formerly FSP EITF No. 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. This accounting standard also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in ASC Topic 320, *Investments Debt and Equity Securities,* formerly SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and other related guidance. This accounting standard is effective for the Company s financial statements for the year beginning on January 1, 2009 and has been adopted prospectively. The adoption did not impact the Company s financial condition and results of operations.

In April 2009, the FASB issued ASC Topic 320-10-65-1, *Recognition and Presentation of Other-Than-Temporary-Impairment*, formerly FSP No.115-2. This accounting standard amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This accounting standard does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. Under certain circumstances, only the amount of the estimated credit loss on debt securities with other-than-temporary-impairment will be recorded through earnings while the remaining mark-to-market loss is recognized through other comprehensive income. This accounting standard is effective for the Company s financial statements for interim and annual periods ending after June 15, 2009 and has been adopted prospectively. The adoption did not impact the Company s financial condition and results of operations.

In April 2009, the FASB issued ASC Topic 820-10-65, *Fair Value Measurements and Disclosures,* formerly FSP No.157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability has Significantly Decreased and Identifying Transactions that are Not*. The standard provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This accounting standard also includes guidance on identifying circumstances that indicate a transaction is not orderly. It is effective for the Company s financial statements for interim and annual periods ending after June 15, 2009 and has been adopted prospectively. The adoption did not impact the Company s financial condition and results of operations.

In April 2009, the FASB issued ASC Topic 825-10-65, *Financial Instruments*, formerly FSP No.107-1, *Interim Disclosures About Fair Value of Financial Instruments*. This accounting standard requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and is effective for the Company s financial statements for interim and annual periods ending after June 15, 2009 and has been adopted prospectively. The adoption did not impact the Company s financial condition and results of operations.

In May 2009, the FASB issued ASC Topic 855, *Subsequent Events*, formerly SFAS 165, *Subsequent Events*. The objective of this accounting standard is to establish general standards of accounting for, and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This accounting standard is effective for the Company s financial statements for interim and annual periods ending after June 15, 2009 and has been adopted prospectively. Management has reviewed events occurring through November 6, 2009, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

In June 2009, the FASB issued SFAS 166, *Accounting for Transfers of Financial Assets* (SFAS 166). ASU 2009-01 identified SFAS 166 as authoritative until such time that each is integrated into the Codification. This accounting standard addresses practices that have developed since the issuance of SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, that are not consistent with the original intent and key requirements of SFAS 140 as well as concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. SFAS 166 is effective for the Company s financial statements for interim and annual periods beginning after November 15, 2009 and must be adopted prospectively, and must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. Additionally, the disclosure provisions of this standard should be applied to transfers that occurred both before and after the effective date. The Company does not expect that adoption will impact its financial condition and results of operations.

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In June 2009, the FASB issued SFAS 167, *Amendments to FASB Interpretation 46(R) (as amended)* (SFAS 167). ASU 2009-01 identified SFAS 166 as authoritative until such time that each is integrated into the Codification. The FASB s objective in issuing this accounting standard is to improve financial reporting by enterprises involved with variable interest entities. SFAS 167 addresses the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46R) as a result of the elimination of the qualifying special-purpose entity concept in SFAS 166, and constituent concerns about the application of certain key provisions of FIN 46R, including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise s involvement in a variable interest entity. This accounting standard is effective for the Company s financial statements for annual and interim periods beginning after November 15, 2009 and must be adopted prospectively. The Company does not expect that adoption will impact its financial condition and results of operations.

In June 2009, the FASB issued ASC Topic 105-10-65, *Transition and Effective Date Information, FASB Codification*, formerly SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The FASB Accounting Standards Codification (Codification) is now the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification now supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. The Board no longer issues new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it issues Accounting Standards Updates (ASU). The Board will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance, and provide the basis for conclusions on changes in the Codification. This accounting standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and has been adopted prospectively. The adoption did not impact the Company s financial condition and results of operations.

3. LENDING ACTIVITIES

The following table sets forth the Company s loan portfolio composition by loan type for the dates indicated:

	September 30, 2009		December 31, 2008		September 30, 2008	
	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total
			(Dollars in thousands)			
Commercial	$249,171	37%	$293,173	41%	$277,782	39%
Construction/development	82,160	12%	100,441	14%	113,842	16%
Commercial real estate	298,828	44%	268,864	38%	263,812	37%
Home equity lines and other consumer	46,047	7%	51,357	7%	51,978	7%
Loans in process	691	0%	163	0%	481	0%
Unearned loan fees, net	(2,706)	0%	(2,712)	0%	(2,656)	0%
Total loans	$674,191	100%	$711,286	100%	$705,239	100%

4. ALLOWANCE FOR LOAN LOSSES, NONPERFORMING ASSETS, AND LOANS MEASURED FOR IMPAIRMENT

The Company maintains an Allowance for Loan Losses (the 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.

In determining its total Allowance, the Company first estimates a specific allowance for impaired loans. This analysis is based upon a specific analysis for each impaired loan, including appraisals on loans

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secured by real property, management s assessment of the current market, recent payment history and an evaluation of other sources of repayment.

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.

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.

Our banking regulators, as an integral part of their examination process, periodically review the Company s Allowance. Our regulators may require the Company to recognize additions to the allowance based on their judgments related to information available to them at the time of their examinations.

The Company recorded a provision for loan losses in the amount of $1.4 million and $4.9 million, respectively, for the three and nine-month periods ending September 30, 2009 based upon its analysis of its loan portfolio as noted above.

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The following table details activity in the Allowance for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Balance at beginning of period	$13,187	$13,519	$12,900	$11,735
Charge-offs:				
Commercial	987	746	2,135	2,209
Construction/development	231		1,301	816
Commercial real estate	159	1,268	1,217	1,268
Home equity lines and other consumer	145	2	286	34
Total charge-offs	1,522	2,016	4,939	4,327
Recoveries:				
Commercial	398	149	565	454
Construction/development				51
Commercial real estate	1		10	
Home equity lines and other consumer	14	4	50	44
Total recoveries	413	153	625	549
Net, (recoveries) charge-offs	1,109	1,863	4,314	3,778
Provision for loan losses	1,374	2,000	4,866	5,699
Balance at end of period	$13,452	$13,656	$13,452	$13,656

Nonperforming assets consist of nonaccrual loans, accruing loans of 90 days or more past due, restructured loans, and other real estate owned (OREO). Fluctuations in these balances are discussed in the Management Discussion and Analysis section of this Form 10-Q. The following table sets forth information with respect to nonperforming assets:

	September 30, 2009	December 31, 2008	September 30, 2008
	(Dollars in thousands)		
Nonaccrual loans	$22,432	$ 20,593	$ 15,747
Accruing loans past due 90 days or more	2,625	5,411	4,953
Restructured loans	3,800		
Total nonperforming loans	28,857	26,004	20,700
Other real estate owned	10,118	12,617	12,261
Total nonperforming assets	$38,975	$ 38,621	$ 32,961
Allowance for loan losses	$13,452	$ 12,900	$ 13,656
Nonperforming loans to loans	4.28%	3.66%	2.94%
Nonperforming assets to total assets	3.95%	3.84%	3.27%
Allowance to loans	2.00%	1.81%	1.94%
Allowance to nonperforming loans	47%	50%	66%

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5. INVESTMENT SECURITIES

The carrying values and approximate fair values of investment securities at September 30, 2009 are presented below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in thousands)		
Securities available for sale U.S. Treasury	$ 500	$ 2	$	$ 502
Government sponsored entities	112,078	1,365		113,443
Mortgage-backed securities	91			91
Corporate bonds	26,770	1,567		28,337
Total	$139,439	$2,934	$	$142,373
Securities held to maturity Municipal securities	$ 9,896	$ 311		$ 10,207
Federal Home Loan Bank stock	$ 2,003	$	$	$ 2,003

The Company had no gross unrealized losses on available for sale securities at September 30, 2009. At December 31, 2008 and September 30, 2008 the Company had gross unrealized losses on available for sale securities of $448,000 and $391,000, respectively.

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The amortized cost and fair values of debt securities at September 30, 2009, 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.

	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)		
Government sponsored entities			
Within 1 year	$ 19,999	$ 20,031	0.76%
1-5 years	85,232	86,369	2.69%
5-10 years	5,164	5,247	5.00%
Over 10 years	2,183	2,298	0.00%
Total	$112,578	$113,945	2.38%
Mortgage-backed securities			
Within 1 year	$	$	0.00%
1-5 years			0.00%
5-10 years	91	91	4.57%
Over 10 years			0.00%
Total	$ 91	$ 91	4.57%
Corporate bonds			
Within 1 year	$	$	0.00%
1-5 years	26,770	28,337	4.52%
5-10 years			0.00%
Over 10 years			0.00%
Total	$ 26,770	$ 28,337	4.52%
Municipal securities			
Within 1 year	$ 3,510	$ 3,525	3.78%
1-5 years	4,533	4,709	3.94%
5-10 years	930	988	4.21%
Over 10 years	923	985	4.55%
Total	$ 9,896	$ 10,207	3.96%

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

	Proceeds	Gross Gains	Gross Losses
	(Dollars in thousands)		

Available-for-sale securities	$7,550	$ 220	$
Held-to-maturity securities	$	$	$

A summary of taxable interest income for the nine months ending September 30, 2009 on available for sale investment securities is as follows:

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	Taxable Interest Income (Dollars in thousands)
Government sponsored entities	$2,055
Other	1,002
Total	$3,057

The Company evaluated its investment in FHLB stock for other-than-temporary impairment as of September 30, 2009, 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 nine-month period ending September 30, 2009, continued deterioration in the FHLB of Seattle s financial position may result in future impairment losses.

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, 2008. The Company continues to monitor the Company s goodwill for potential impairment on an ongoing basis. No assurance can be given that we will not charge earnings during 2009 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. OTHER OPERATING INCOME

The Company, through Northrim Capital Investments Co. (NCIC), a wholly-owned subsidiary of Northrim Bank, owns a 50.1% interest in Northrim Benefits Group, LLC (NBG). The Company consolidates the balance sheet and income statement of NBG into its financial statements and notes the noncontrolling interest in this subsidiary as a separate line item on its financial statements. In the three-month periods ending September 30, 2009 and 2008, the Company included employee benefit plan income from NBG of $469,000 and $398,000, respectively, in its Other Operating Income. The Company included employee benefit plan income from NBG of $1.3 million and $1.1 million, respectively, in its Other Operating Income in the nine-month periods ending September 30, 2009 and 2008.

The Company also owns a 24% interest in Residential Mortgage Holding Company, LLC (RML Holding Company) through NCIC. In the three-month period ending September 30, 2009, the Company s earnings from RML Holding Company increased by $175,000 to $385,000 as compared to $210,000 for the three-month period ending September 30, 2008. In the nine-month period ending September 30, 2009, the Company s earnings from RML Holding Company increased by $1.5 million to $2 million as compared to $516,000 for the nine-month period ending September 30, 2008.

The Company owns a 48% equity interest in Elliott Cove Capital Management LLC (Elliott Cove), an investment advisory services company, through its wholly owned subsidiary, Northrim Investment Services Company (NISC). In addition to its ownership interest, the Company provides Elliott Cove with a line of credit that has a commitment amount of $750,000 and an outstanding balance of $647,000 as of September 30, 2009. The Company s share of the loss from Elliott Cove for the third quarter of 2009 was $13,000, as compared to a loss of $17,000 in the third quarter of 2008. In the nine-month period ending September 30, 2009, the Company s share of the loss from Elliott Cove was $106,000 as compared to a loss of $70,000 for the nine-month period ending September 30, 2008. The losses from Elliott Cove were offset by commissions that the Company receives for its sales of Elliott Cove investment products.

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These commissions are accounted for as other operating income and totaled $42,000 in the third quarter of 2009 and $122,000 for the nine months ending September 30, 2009 as compared to $69,000 in the third quarter of 2008 and $265,000 for the nine months ending September 30, 2008. A portion of these commissions are paid to the Company s employees and accounted for as salary expense. There were no commission payments in the nine months ending September 30, 2009. There were no commission payments in the third quarter of 2008 and $23,000 in commission payments in the nine-month period ending September 30, 2008.

The Company also owns a 24% interest in Pacific Wealth Advisors, LLC (PWA) through NISC. PWA is a holding company that owns Pacific Portfolio Consulting, LLC (PPC) and Pacific Portfolio Trust Company (PPTC). PPC is an investment advisory company with an existing client base while PPTC is a start-up operation. During the three-month period ending September 30, 2009, the Company s earnings from PWA decreased by $29,000 to a loss of $13,000 as compared to earnings of $16,000 for the three-month period ending September 30, 2008. During the nine-month period ending September 30, 2009, the Company s earnings from PWA decreased by $65,000 to a loss of $32,000 as compared to earnings of $32,000 for the nine-month period ending September 30, 2008.

8. DEPOSIT ACTIVITIES

Total deposits at September 30, 2009, December 31, 2008 and September 30, 2008 were $837.1 million, $843.3 million and $854.5 million, respectively. The only deposit category with stated maturity dates is certificates of deposit. At September 30, 2009, the Company had $160.4 million in certificates of deposit as compared to certificates of deposit of $173.4 million and $167.8 million, for the periods ending December 31, 2008 and September 30, 2008, respectively. At September 30, 2009, $125.7 million, or 78%, of the Company s certificates of deposits are scheduled to mature over the next 12 months as compared to $144.7 million, or 83%, of total certificates of deposit, at December 31, 2008, and $141 million, or 84%, of total certificates of deposit at September 30, 2008.

9. STOCK INCENTIVE PLAN

The Company has 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. The Company s policy is to issue new shares to cover awards. The total number of shares under the 2004 Plan and previous stock incentive plans at September 30, 2009 was 446,750, which includes 220,246 shares granted under the 2004 Plan leaving 63,298 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 then 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 $85,000 and $75,000 on the fair value of restricted stock units and $61,000 and $77,000 on the fair value of stock options for a total of $146,000 and $152,000 in stock-based compensation expense for the three-month periods ending September 30, 2009 and 2008, respectively. For the nine-month periods ending September 30, 2009 and 2008, the Company recognized expense of $263,000 and $226,000, respectively, on the fair value of restricted stock units and $182,000 and $230,000, respectively, on the fair value of stock options for a total of $445,000 and $456,000, respectively, in stock-based compensation expense.

Proceeds from the exercise of stock options for the three months ended September 30, 2009 and 2008 were $262,000 and $53,000, respectively. The Company withheld shares valued at $204,000 and $27,000 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 periods ending September 30, 2009 and 2008, respectively. The

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Company recognized tax deductions of $51,000 and $4,000 related to the exercise of these stock options during the quarter ended September 30, 2009 and 2008, respectively.

Proceeds from the exercise of stock options for the nine months ended September 30, 2009 and 2008 were $334,000 and $285,000, respectively. The Company withheld shares valued at $276,000 and $314,000 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 nine-month periods ending September 30, 2009 and 2008, respectively. The Company recognized tax deductions of $58,000 and $94,000, respectively, related to the exercise of stock options during the nine-months ended September 30, 2009 and 2008, respectively. The Company recognized tax deductions of $41,000 during the nine months ended September 30, 2009. There were no restricted stock units that vested during the nine months ended September 30, 2008.

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 and Money Market 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: In 2009, fair value adjustments for loans are mainly related to credit risk, interest rate risk, and liquidity risk. Credit risk is primarily addressed in the financial statements through the allowance for loan losses (see Note 5). Impaired loans are recorded at fair value through the specific valuation allowance which is based on the estimated value of underlying collateral less estimated selling costs. Specific valuation allowances are included in the allowance for loan losses. Interest rate risk on fixed rate loans is addressed using a discounted cash flow methodology. A discount rate was developed based on the relative risk of the cash flows, taking into account the maturity of the loans and comparable average interest rates for loans within each maturity band. An additional liquidity risk is estimated for both fixed and variable loans primarily using observable, historical sales of loans during periods of similar economic conditions. The carrying amount of accrued interest receivable approximates its fair value.

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

Other real estate owned: Other real estate owned represents properties acquired through foreclosure or its equivalent. The fair value of other real estate owned is determined based on management s estimate of the fair value of individual properties. Significant inputs into this estimate include independently prepared appraisals, recent sales data for similar properties, our assessment of current market conditions and estimated costs to complete projects. These valuation inputs generally result in a fair value measurement that is categorized as a Level 3 measurement, including when management determines that discounts on appraised values are required. When appraised values are not discounted, fair value measurements are categorized as Level 2 measurements.

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 non-recurring adjustment to fair value: The Company may be required to measure certain assets such as equity method investments, intangible assets or OREO at fair value on a nonrecurring basis. 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.

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Changes in assumptions could significantly affect the estimates. Estimated fair values as of September 30, 2009 are as follows:

	Carrying Amount	Fair Value
	(Dollars in thousands)	
Financial assets:		
Cash and money market	$ 76,099	$ 76,099
Investment securities	151,340	154,582
Net loans	660,739	625,880
Purchased receivables	8,202	8,202
Accrued interest receivable	3,472	3,472
Financial liabilities:		
Deposits	$837,108	$836,786
Accrued interest payable	448	448
Borrowings	10,739	10,014
Junior subordinated debentures	18,558	7,504
Unrecognized financial instruments:		
Commitments to extend credit[a]	$170,807	$ 1,708
Standby letters of credit[a]	17,635	176

[a] Carrying amounts reflect the notional amount of credit exposure under these financial instruments.

The following table sets forth the balances of assets and liabilities measured at fair value on a recurring basis:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Signifcant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Available-for-sale securities	$ 142,373		$ 142,373	
Total	$ 142,373		$ 142,373	

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As of and for the nine months ending September 30, 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
			(Dollars in thousands)		
Loans measured for impairment[1]	$17,753		$ 6,143	$ 11,610	$(416)
Other real estate owned[2]	6,171			6,171	516
Total	$23,924		$ 6,143	$ 17,781	$ 100

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 impairement 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.

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

Note Regarding Forward-Looking Statements

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements describe Northrim Bancorp, Inc. s (the Company) 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 anticipates, believes, expects, intends and similar expressions in part to help identify forward-looking statements. 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 margins; 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 our 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.

OVERVIEW

GENERAL

Northrim BanCorp, Inc. (the Company) is a publicly traded bank holding company (Nasdaq: NRIM) with four wholly-owned subsidiaries: Northrim Bank (the Bank), a state chartered, full-service commercial bank, Northrim Investment Services Company (NISC), which we formed in November 2002 to hold the Company s equity interest in Elliott Cove Capital Management LLC (Elliott Cove), an investment advisory services company; Northrim Capital Trust 1 (NCT1), an entity that we formed in May 2003 to facilitate a trust preferred securities offering by the Company, and Northrim Statutory Trust 2 (NST2), an entity that we formed in December 2005 to facilitate a trust preferred securities offering by the Company. The Company also holds a 24% interest in the profits and losses of a residential mortgage holding company, Residential Mortgage Holding Company, LLC (RML Holding Company), through the Bank s wholly-owned subsidiary, Northrim Capital Investments Co. (NCIC). Residential Mortgage LLC (RML), the predecessor of RML Holding Company, was formed in 1998 and has offices throughout Alaska. We also operate in the Washington and Oregon market areas through Northrim Funding Services (NFS), a division of the Bank that we started in the third quarter of 2004. This division also began operating in Alaska in the second quarter of 2008. NFS purchases accounts receivable from its customers and provides them with working capital. In addition, through NCIC, we hold a 50.1% interest in Northrim Benefits Group, LLC (NBG), an insurance brokerage company that focuses on the sale and servicing of employee benefit plans. In the first quarter of 2006, through NISC, we purchased a 24% interest in Pacific Wealth Advisors, LLC (PWA), an investment advisory and wealth management business located in Seattle, Washington. Finally, in the third quarter of 2008, the Bank formed another wholly-owned subsidiary, Northrim Building, LLC (NBL), which owns and operates the Company s main office facility at 3111 C Street in Anchorage. NBL purchased the building in the third quarter of 2008.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles (GAAP). The Company s accounting policies are fundamental to understanding management s discussion and analysis of results of operations and financial condition. The Company has identified three policies as being critical because they require management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, contingent assets and liabilities, and revenues and expenses included in the consolidated financial statements. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Circumstances and events that differ significantly from those underlying the Company s estimates, assumptions and judgments could cause the actual amounts reported to differ significantly from these estimates.

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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, 2008. 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, 2008. Management has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

Several new accounting pronouncements became effective for the Company on January 1, 2009. 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See note 2 of the Notes to the Consolidated Financial Statements in this Form 10-Q for further details.

SUMMARY OF THIRD QUARTER RESULTS

At September 30, 2009, the Company had assets of $985.7 million and gross loans of $674.2 million, decreases of 2% and 4%, respectively, as compared to the balances for these accounts at September 30, 2008. As compared to balances at December 31, 2008, total assets and total loans at September 30, 2009 decreased by 2% and 5%, respectively. The Company s net income and diluted earnings per share for the three months ended September 30, 2009, were $1.9 million and $0.30, respectively, increases of 26% and 25%, respectively, as compared to the same period in 2008. For the quarter ended September 30, 2009, the Company s net interest income increased by $646,000, or 6%, its provision for loan losses decreased by $626,000, or 31%, its other operating income increased $158,000, or 5%, and its other operating expenses increased by $972,000, or 10%, as compared to the third quarter a year ago.

RESULTS OF OPERATIONS

NET INCOME

Net income attributable to Northrim Bancorp for the quarter ended September 30, 2009, was $1.9 million or $0.30 per diluted share, increases of 26% and 25%, respectively, as compared to net income of $1.6 million and diluted earnings per share of $0.24, respectively, for the third quarter of 2008.

The increase in net income attributable to Northrim Bancorp for the three-month period ending September 30, 2009 as compared to the same period a year ago was the result of an increase in net interest income of $646,000, a decrease in the loan loss provision of $626,000 and an increase in other operating income of $158,000. These increases were partially offset by a $972,000 increase in other operating expenses and a $59,000 increase in the provision for income taxes for the three-month period ending September 30, 2009 as compared to the same period a year ago. The Other Operating Income, Other Operating Expense, Net Interest Income, Analysis of Allowance for Loan Losses and Loan Loss Provision and Income Taxes sections of Item 2 in this Form 10-Q discuss these changes further.

Net income attributable to Northrim Bancorp for the nine months ended September 30, 2009, was $5.8 million, or $0.90 per diluted share, increases of 13% and 15%, respectively, as compared to net income of $5.1 million and diluted earnings per diluted share of $0.78, respectively, for the same period in 2008.

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The increase in net income attributable to Northrim Bancorp for the nine-month period ending September 30, 2009 as compared to the same period a year ago was the result of an increase in other operating income of $2.1 million, a decrease in the loan loss provision of $833,000, and a $29,000 decrease in the provision for income taxes. These changes were partially offset by a $2.1 million increase in other operating expenses and a $173,000 decrease in net interest income for the nine-month period ending September 30, 2009 as compared to the same period a year ago. The Other Operating Income, Other Operating Expense, Net Interest Income, Analysis of Allowance for Loan Losses and Loan Loss Provision and Income Taxes sections of Item 2 in this Form 10-Q discuss these changes further.

NET INTEREST INCOME

The primary component of income for most financial institutions is net interest income, which represents the institution s interest income from loans and investment securities minus interest expense, ordinarily on deposits and other interest bearing liabilities. Both the Company s loans and deposits consist largely of variable interest rate arrangements, with the result that as loans and deposits reprice, the Company can expect fluctuations in net interest income. Net interest income for the third quarter of 2009 increased $646,000 million, or 6%, to $11.7 million from $11.1 million in the third quarter of 2008 because of larger reductions in interest expense, accompanied by a smaller decrease in the yields on the Company s interest-earning assets. Net interest income for the nine-month period ending September 30, 2009 decreased $173,000, or less than 1%, to $34.6 million from $34.8 million in the same period in 2008 due to a decrease in interest income, accompanied by a smaller decrease in interest expense. The following table compares average balances and rates for the quarters and nine-month periods ending September 30, 2009 and 2008:

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