

NORTHRIM BANCORP INC  
Form 10-Q  
November 08, 2012  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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

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

Commission File Number 000-33501

NORTHRIM BANCORP, INC.

(Exact name of registrant as specified in its charter)

Alaska

(State or other jurisdiction of incorporation or organization)

92-0175752

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

3111 C Street

Anchorage, Alaska 99503

(Address of principal executive offices) (Zip Code)

(907) 562-0062

(Registrant's telephone number, including area code)

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

Yes  No

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

to submit and post such files).

Yes  No

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

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

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

Yes  No

The number of shares of the issuer's Common Stock outstanding at November 8, 2012 was 6,476,834.

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PART I. FINANCIAL INFORMATION

These consolidated financial statements should be read in conjunction with the financial statements, accompanying notes and other relevant information included in Northrim BanCorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011.

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## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED FINANCIAL STATEMENTS

## NORTHRIM BANCORP, INC.

## Consolidated Balance Sheets

September 30, 2012, December 31, 2011 and September 30, 2011

(In Thousands, Except Share Data)	September 30, 2012	December 31, 2011	September 30, 2011
	(Unaudited)		
<b>ASSETS</b>			
Cash and due from banks	\$ 34,753	\$ 30,644	\$ 34,365
Interest bearing deposits in other banks	127,354	60,886	94,205
Investment securities available for sale	172,343	222,083	211,819
Investment securities held to maturity	2,750	3,819	4,385
Total portfolio investments	175,093	225,902	216,204
Investment in Federal Home Loan Bank stock	1,985	2,003	2,003
Loans held for sale	37,291	27,822	-
Loans	671,644	645,562	629,664
Allowance for loan losses	(16,490)	(16,503)	(16,093)
Net loans	692,445	656,881	613,571
Purchased receivables, net	23,326	30,209	25,536
Accrued interest receivable	2,832	2,898	3,030
Other real estate owned	5,766	5,183	5,838
Premises and equipment, net	27,989	27,993	28,320
Goodwill and intangible assets	8,228	8,421	8,486
Other assets	34,027	34,238	34,053
Total assets	\$ 1,133,798	\$ 1,085,258	\$ 1,065,611
<b>LIABILITIES</b>			
Deposits:			
Demand	\$ 352,633	\$ 324,039	\$ 307,529
Interest-bearing demand	137,333	141,572	133,495
Savings	85,035	79,610	76,847
Alaska CDs	98,504	102,384	95,481
Money market	171,210	154,987	153,924
Certificates of deposit less than \$100,000	41,085	45,468	51,264
Certificates of deposit greater than \$100,000	59,144	63,188	75,027

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Total deposits	944,944	911,248	893,567
Securities sold under repurchase agreements	22,623	16,348	17,034
Borrowings	4,517	4,626	4,662
Junior subordinated debentures	18,558	18,558	18,558
Other liabilities	9,045	9,043	8,445
Total liabilities	999,687	959,823	942,266

SHAREHOLDERS' EQUITY

Preferred stock, \$1 par value, 2,500,000 shares authorized, none issued or outstanding

Common stock, \$1 par value, 10,000,000 shares authorized, 6,473,680; 6,466,763; and 6,440,241 shares issued and outstanding at September 30, 2012, December 31, 2011 and September 30, 2011, respectively

	6,474	6,467	6,440
Additional paid-in capital	53,536	53,164	53,091
Retained earnings	72,567	65,469	63,071
Accumulated other comprehensive income	1,429	283	680
Total Northrim BanCorp shareholders' equity	134,006	125,383	123,282
Noncontrolling interest	105	52	63
Total shareholders' equity	134,111	125,435	123,345
Total liabilities and shareholders' equity	\$ 1,133,798	\$ 1,085,258	\$ 1,065,611

See notes to consolidated financial statements

## NORTHRIM BANCORP, INC.

## Consolidated Statements of Income

For the Three and Nine Months Ended September 30, 2012 and 2011

(In Thousands, Except Per Share Data)	Three Months Ended September 30, 2012      2011 (Unaudited)		Nine Months Ended September 30, 2012      2011	
<b>Interest Income</b>				
Interest and fees on loans	\$ 10,416	\$ 10,392	\$ 30,946	\$ 31,788
Interest on investment securities-available for sale	673	717	2,140	2,251
Interest on investment securities-held to maturity	35	49	110	169
Interest on deposits in other banks	80	72	183	160
<b>Total Interest Income</b>	<b>11,204</b>	<b>11,230</b>	<b>33,379</b>	<b>34,368</b>
<b>Interest Expense</b>				
Interest expense on deposits, borrowings and junior subordinated debentures	611	876	1,936	2,757
<b>Net Interest Income</b>	<b>10,593</b>	<b>10,354</b>	<b>31,443</b>	<b>31,611</b>
Provision (benefit) for loan losses	(1,437)	550	(1,259)	1,649
<b>Net Interest Income After Provision (Benefit) for Loan Losses</b>	<b>12,030</b>	<b>9,804</b>	<b>32,702</b>	<b>29,962</b>
<b>Other Operating Income</b>				
Purchased receivable income	826	695	2,250	1,886
Employee benefit plan income	609	536	1,765	1,629
Service charges on deposit accounts	536	609	1,673	1,727
Electronic banking income	520	508	1,496	1,424
Equity in earnings from RML	963	357	1,669	575
Rental income	192	190	594	577
Gain on sale of securities	-	33	273	296
Other income	511	434	1,369	1,096
<b>Total Other Operating Income</b>	<b>4,157</b>	<b>3,362</b>	<b>11,089</b>	<b>9,210</b>
<b>Other Operating Expense</b>				
Salaries and other personnel expense	5,484	5,230	16,344	15,746
Occupancy	842	914	2,758	2,821
Marketing expense	436	435	1,308	1,315
Professional and outside services	427	370	1,103	1,045
Reserve for purchased receivables	349	-	349	-
Software expense	304	257	825	774
Equipment expense	257	291	893	887

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Insurance expense	236	391	655	1,122
OREO (income) expense, net rental income and gains on sale	249	(14)	464	(895)
Amortization of low income housing tax investments	231	224	693	675
Internet banking expense	171	162	528	473
Intangible asset amortization expense	64	70	193	211
Other operating expense	942	1,099	2,932	3,170
Total Other Operating Expense	9,992	9,429	29,045	27,344
Income Before Provision for Income Taxes	6,195	3,737	14,746	11,828
Provision for income taxes	1,991	1,125	4,568	3,357
Net Income	4,204	2,612	10,178	8,471
Less: Net income attributable to the noncontrolling interest	138	106	394	328
Net Income Attributable to Northrim BanCorp	\$ 4,066	\$ 2,506	\$ 9,784	\$ 8,143
Earnings Per Share, Basic	\$ 0.63	\$ 0.39	\$ 1.51	\$ 1.27
Earnings Per Share, Diluted	\$ 0.62	\$ 0.38	\$ 1.49	\$ 1.24
Weighted Average Shares Outstanding, Basic	6,471,572	6,436,178	6,469,673	6,431,989
Weighted Average Shares Outstanding, Diluted	6,570,772	6,554,776	6,570,287	6,553,462

See notes to consolidated financial statements



## NORTHRIM BANCORP, INC.

## Consolidated Statements of Comprehensive Income

For the Three and Nine Months Ended September 30, 2012 and 2011

(In Thousands)	Three Months Ended September 30, 2012    2011 (Unaudited)		Nine Months Ended September 30, 2012    2011	
Net income	\$ 4,204	\$ 2,612	\$ 10,178	\$ 8,471
Other comprehensive income, net of tax:				
Securities available for sale:				
Net unrealized gains (losses) arising during the period	\$ 445	\$ (456)	\$ 1,419	\$ 328
Reclassification of net gains included in net income	-	(33)	(273)	(296)
Other comprehensive income (loss)	445	(489)	1,146	32
Comprehensive income	4,649	2,123	11,324	8,503
Less: comprehensive income attributable to the noncontrolling interest	(138)	(106)	(394)	(328)
Comprehensive income attributable to Northrim BanCorp	\$ 4,511	\$ 2,017	\$ 10,930	\$ 8,175

See notes to consolidated financial statements

## NORTHRIM BANCORP, INC.

## Consolidated Statements of Changes in Shareholders' Equity

For the Nine Months Ended September 30, 2012 and 2011

(In Thousands)	Common Stock Number of Shares (Unaudited)	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non- controlling Interest	Total
Nine Months Ended September 30, 2011							
Balance as of January 1, 2011	6,427	\$ 6,427	\$ 52,658	\$ 57,339	\$ 648	\$ 50	\$ 117,122
Cash dividend declared	-	-	-	(2,411)	-	-	(2,411)
Stock based compensation expense	-	-	381	-	-	-	381
Exercise of stock options	13	13	(32)	-	-	-	(19)
Excess tax benefits from share-based payment arrangements	-	-	84	-	-	-	84
Distributions to noncontrolling interest	-	-	-	-	-	(315)	(315)
Change in unrealized holding gain on available for sale securities, net of tax	-	-	-	-	32	-	32
Net income attributable to the noncontrolling interest	-	-	-	-	-	328	328
Net income attributable to Northrim BanCorp	-	-	-	8,143	-	-	8,143
Nine Months Ended September 30, 2011	6,440	\$ 6,440	\$ 53,091	\$ 63,071	\$ 680	\$ 63	\$ 123,345
Nine Months Ended September 30, 2012							
Balance as of January 1, 2012	6,467	\$ 6,467	\$ 53,164	\$ 65,469	\$ 283	\$ 52	\$ 125,435
Cash dividend declared	-	-	-	(2,686)	-	-	(2,686)
Stock based compensation expense	-	-	339	-	-	-	339
Exercise of stock options	7	7	(22)	-	-	-	(15)
Excess tax benefits from share-based payment arrangements	-	-	55	-	-	-	55

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Distributions to noncontrolling interest	-	-	-	-	-	(341)	(341)
Change in unrealized holding gain on available for sale securities, net of tax	-	-	-	-	1,146	-	1,146
Net income attributable to the noncontrolling interest	-	-	-	-	-	394	394
Net income attributable to Northrim BanCorp	-	-	-	9,784	-	-	9,784
Nine Months Ended September 30, 2012	6,474	\$ 6,474	\$ 53,536	\$ 72,567	\$ 1,429	\$ 105	\$ 134,111

See notes to consolidated financial statements

## NORTHRIM BANCORP, INC.

## Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2012 and 2011

(In Thousands)	Nine Months Ended September 30, 2012      2011 (Unaudited)	
Operating Activities:		
Net income	\$ 10,178	\$ 8,471
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Gain on sale of securities, net	(273)	(296)
Depreciation and amortization of premises and equipment	1,242	1,299
Amortization of software	137	155
Intangible asset amortization	193	211
Amortization of investment security premium, net of discount accretion	156	144
Deferred tax (benefit) liability	(11)	(1,311)
Stock-based compensation	339	381
Excess tax benefits from share-based payment arrangements	(55)	(84)
Deferral of loan fees and costs, net	346	(240)
Provision (benefit) for loan losses	(1,259)	1,649
Reserve for purchased receivables	349	-
Purchases of loans held for sale	(185,673)	-
Proceeds from the sale of loans held for sale	176,204	5,558
Gain on sale of other real estate owned	18	(859)
Impairment on other real estate owned	173	-
Equity in undistributed earnings from mortgage affiliate	(320)	200
Net changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	66	371
(Increase) decrease in other assets	(506)	2,105
Increase (decrease) in other liabilities	2	(208)
Net Cash Provided by Operating Activities	1,306	17,546
Investing Activities:		
Investment in securities:		
Purchases of investment securities-available-for-sale	(63,491)	(113,242)
Proceeds from sales/maturities of securities-available-for-sale	115,299	115,644
Proceeds from calls/maturities of securities-held-to-maturity	1,065	1,735
Purchases of domestic certificates of deposit	(11,500)	(12,000)
Proceeds from maturities of domestic certificates of deposit	10,000	-
Proceeds from redemption of FHLB stock	18	-
(Increase) decrease in purchased receivables, net	6,534	(9,007)
(Increase) decrease in loans, net	(26,866)	40,171
Proceeds from sale of other real estate owned	964	7,912

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Investment in other real estate owned	(44)	(29)
Decrease in loan to Elliott Cove, net	110	122
Purchases of premises and equipment	(1,238)	(571)
Net Cash (Used) Provided by Investing Activities	30,851	30,735
Financing Activities:		
(Decrease) increase in deposits	33,696	1,431
Increase in securities sold under repurchase agreements	6,275	4,160
(Decrease) in borrowings	(109)	(724)
Distributions to noncontrolling interest	(341)	(315)
Excess tax benefits from share-based payment arrangements	55	84
Cash dividends paid	(2,656)	(2,380)
Net Cash (Used) Provided by Financing Activities	36,920	2,256
Net Increase in Cash and Cash Equivalents	69,077	50,537
Cash and Cash Equivalents at Beginning of Period	79,530	66,033
Cash and Cash Equivalents at End of Period	\$ 148,607	\$ 116,570
Supplemental Information:		
Income taxes paid	\$ 5,077	\$ 2,880
Interest paid	\$ 1,940	\$ 3,009
Transfer of loans to other real estate owned	\$ 1,684	\$ 2,255
Loans made to facilitate sales of other real estate owned	\$ 300	\$ 1,362
Cash dividends declared but not paid	\$ 30	\$ 31

See notes to consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2012 and 2011

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by Northrim BanCorp, Inc. (the “Company”) in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and with instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications have been made to prior year amounts to maintain consistency with the current year with no impact on net income or total shareholders’ equity. The Company determined that it operates as a single operating segment. Operating results for the interim period ended September 30, 2012, are not necessarily indicative of the results anticipated for the year ending December 31, 2012. These consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

2. Significant Accounting Policies and Recent Accounting Pronouncements

The Company’s significant accounting policies are discussed in Note 1 to the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

In May 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (“ASU 2011-04”). Some of the amendments contained in ASU 2011-04 clarify the FASB’s intent about the application of existing fair value measurement requirements, and other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This ASU was effective for the Company’s financial statements for annual and interim periods beginning on or after December 15, 2011, and has been applied prospectively. The adoption of this standard did not have a material impact on the Company’s consolidated financial position or results of operations.

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

annual and interim periods beginning after December 31, 2011, and has been applied prospectively. The adoption of this standard did not have a material impact on the Company's consolidated financial position or results of operations.

In July 2012, the FASB issued ASU 2012-02, Intangibles – Goodwill and Other (“ASU 2012-02”). The objective of ASU 2012-02 is to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other than Goodwill. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Previous guidance in Subtopic 350-30 required an entity to test indefinite-lived intangible assets for impairment, on at least an annual basis, by comparing the fair value of the asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. In accordance with the amendments in ASU 2012-02, an entity will have an option not to calculate annually the fair value of an indefinite-lived intangible asset if the entity determines that it is not more likely than not that the asset is not impaired. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 is effective for the Company’s financial statements for annual and interim periods beginning on or after September 15, 2012, and must be applied prospectively. The Company does not expect this ASU to have a material impact on the Company’s consolidated financial position or results of operations.

### 3. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with other banks, banker’s acceptances, commercial paper, securities purchased under agreement to resell, federal funds sold, and securities with maturities of less than 90 days at acquisition. As of September 30, 2012, the Company had two certificates of deposit totaling \$13.5 million in another bank. This is the only concentration representing more than 10% of the Company’s equity, other than cash and cash equivalent balances placed with the Federal Reserve of San Francisco.

### 4. Investment Securities

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

	Amortized Cost (In Thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012				
Securities available for sale				
U.S. Treasury and government sponsored entities	\$ 99,505	\$ 467	\$ -	\$ 99,972
Municipal securities	18,199	691	-	18,890
U.S. Agency mortgage-backed securities	41	2	-	43
Corporate bonds	48,644	1,035	-	49,679
Preferred stock	3,524	257	22	3,759
Total securities available for sale	\$ 169,913	\$ 2,452	\$ 22	\$ 172,343
Securities held to maturity				
Municipal securities	\$ 2,750	\$ 246	\$ -	\$ 2,996
Total securities held to maturity	\$ 2,750	\$ 246	\$ -	\$ 2,996

December 31, 2011



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Securities available for sale

U.S. Treasury and government sponsored entities	\$ 160,529	\$ 625	\$ 50	\$ 161,104
Municipal securities	16,260	675	-	16,935
U.S. Agency mortgage-backed securities	52	2	-	54
Corporate bonds	43,767	343	1,119	42,991
Preferred stock	996	3	-	999
Total securities available for sale	\$ 221,604	\$ 1,648	\$ 1,169	\$ 222,083

Securities held to maturity

Municipal securities	\$ 3,819	\$ 258	\$ -	\$ 4,077
Total securities held to maturity	\$ 3,819	\$ 258	\$ -	\$ 4,077

September 30, 2011

Securities available for sale

U.S. Treasury and government sponsored entities	\$ 153,017	\$ 831	\$ 22	\$ 153,826
Municipal securities	14,002	536	-	14,538
U.S. Agency mortgage-backed securities	56	2	-	58
Corporate bonds	43,593	439	635	43,397
Total securities available for sale	\$ 210,668			