NORTHRIM BANCORP INC
Form 10-K
March 15, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 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: 0-33501

Northrim Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Alaska	**92-0175752**
(State of Incorporation)	*(I.R.S. Employer Identification No.)*

3111 C Street,
Anchorage, Alaska 99503
(Address of principal executive offices) (Zip Code)

(Registrant s telephone number)
(907) 562-0062

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $1.00 par value
(Title of Class)

The NASDAQ Stock Market, LLC
(Name of Exchange on Which Listed)

Securities registered pursuant to Section 12(g) of the Act: N/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes o No þ

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)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2009 (the last business day of the registrant s most recently completed second fiscal quarter) was $84,774.041.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. 6,385,178 shares of Common Stock, $1.00 par value, as of March 9, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant s Proxy Statement on Schedule 14A, relating to the registrant s annual meeting of shareholders to be held on May 20, 2010, is incorporated by reference into Part III of this Form 10-K.

Northrim BanCorp, Inc.
Form 10-K Annual Report
December 31, 2009
Table of Contents

Part I

Item 1.	Business	1
Item 1A.	Risk Factors	8
Item 1B.	Unresolved Staff Comments	12
Item 2.	Properties	13
Item 3.	Legal Proceedings	13
Item 4.	Reserved	13
	Part II	
Item 5.	Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	14
Item 6.	Selected Financial Data	16
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	40
Item 8.	Financial Statements and Supplementary Data	43
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	79
Item 9A.	Controls and Procedures	79
Item 9B.	Other Information	81
	Part III	
Item 10.	Directors, Executive Officers and Corporate Governance	81
Item 11.	Executive Compensation	81
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	81

Item 13.	Certain Relationships and Related Transactions, and Director Independence	81
Item 14.	Principal Accounting Fees and Services	82
	Part IV	
Item 15.	Exhibits, Financial Statement Schedules	82
Index to Exhibits		83
Signatures		86

EX-21.1
EX-23.1
EX-24.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2

Table of Contents

Part I

Item 1. Business

The disclosures in this Item are qualified by the Risk Factors set forth in Item 1A, and the section entitled Note Regarding Forward-Looking Statements included in Item 7, Management Discussion and Analysis in this report, and any other cautionary statements contained or incorporated by reference herein.

General

Northrim BanCorp, Inc.

Northrim BanCorp, Inc. (the Company) is a publicly traded bank holding company headquartered in Anchorage, Alaska. The Company s common stock trades on the Nasdaq Stock Market under the symbol, NRIM. The Company is regulated by the Board of Governors of the Federal Reserve System. We began banking operations in Anchorage in December 1990, and formed the Company as an Alaska corporation in connection with our reorganization into a holding company structure; that reorganization was completed effective December 31, 2001.

Subsidiaries

The Company has five wholly-owned subsidiaries:

Northrim Bank (the Bank), a state chartered, full-service commercial bank headquartered in Anchorage. The Bank is regulated by the Federal Deposit Insurance Corporation and the State of Alaska Department of Community and Economic Development, Division of Banking, Securities and Corporations. The Bank has 11 branch locations; seven in Anchorage, two in Fairbanks, and one each in Eagle River and Wasilla. We also operate in the Washington and Oregon market areas through Northrim Funding Services (NFS), a division of the Bank that was formed in 2004. We offer a wide array of commercial and consumer loan and deposit products, investment products, and electronic banking services over the Internet;

Northrim Capital Investments Co. (NCIC), is a wholly-owned subsidiary of the Bank, which holds a 24% interest in the profits and losses of a residential mortgage holding company, Residential Mortgage Holding Company LLC (RML Holding Company). The predecessor of RML Holding Company, Residential Mortgage LLC, was formed in 1998 and has offices throughout Alaska. RML Holding Company also has an interest in real estate markets in the states of Washington and South Carolina through joint ventures. In March and December of 2005, NCIC purchased ownership interests totaling 50.1% in Northrim Benefits Group, LLC (NBG), an insurance brokerage company that focuses on the sale and servicing of employee benefit plans;

Northrim Building LLC (NBL) is a wholly-owned subsidiary of the Bank that owns and operates the Company s main office facility at 3111 C Street in Anchorage;

Northrim Investment Services Company (NISC) was formed in November 2002 to hold the Company s 48% equity interest in Elliott Cove Capital Management LLC, (Elliott Cove), an investment advisory services company. In the first quarter of 2006, through NISC, we purchased a 24% interest in Pacific Wealth Advisors, LLC (PWA), an investment advisory, trust and wealth management business located in Seattle, Washington;

Northrim Capital Trust 1 (NCT1), an entity that we formed in May of 2003 to facilitate a trust preferred securities offering by the Company; and

Northrim Statutory Trust 2 (NST2), an entity that we formed in December of 2005 to facilitate a trust preferred securities offering by the Company.

Recent Acquisitions

In October 2007, we acquired 100% of the outstanding shares of Alaska First Bank & Trust, N.A. (Alaska First) for a purchase price of $6.3 million and merged it into Northrim Bank. We did not acquire Alaska First s subsidiary, Hagen Insurance, Inc., nor did we retain the two Alaska First branches. The Alaska First acquisition increased our cash by $18.8 million, investments by $23.8 million, outstanding loans by $13.2 million and other assets by $1.6 million. We assumed $47.7 million of deposits, $5.1 million of borrowings and $900,000 of other liabilities.

Table of Contents

Segments

The Company s major line of business is commercial banking. Management has determined that the Company operates as a single operating segment based on accounting principles generally accepted in the United States (GAAP). Measures of the Company s revenues, profit or loss, and total assets are included in this report in Item 8 (Financial Statements and Supplementary Data) and incorporated herein by reference.

Overview and Business Strategy

We have grown to be the fourth largest commercial bank in Alaska and the third largest in Anchorage in terms of deposits, with $853.1 million in total deposits and over $1 billion in total assets at December 31, 2009. Through our 11 branches, we are accessible to approximately 70% of the Alaska population.

Anchorage: We have two major financial centers in Anchorage, four smaller branches, and one supermarket branch. We continue to explore for future branching opportunities in this market.

Fairbanks: We opened our financial center in Fairbanks, Alaska s second largest city, in mid-1996. This branch has given us a strong foothold in Interior Alaska, and management believes that there is significant potential to increase our share of that market. In the second quarter of 2008, we opened another branch in Fairbanks that is located within a large newly developed retail area.

Eagle River: We also serve Eagle River, a community outside of Anchorage. In January of 2002, we moved from a supermarket branch into a full-service branch to provide a higher level of service to this growing market.

Wasilla: Wasilla is a rapidly growing market in the Matanuska Valley outside of Anchorage where we completed construction of a new financial center in December of 2002 and moved from our supermarket branch and loan production office into this new facility.

One of our major objectives is to increase our market share in Anchorage, Fairbanks, and the Matanuska Valley, Alaska s three largest urban areas. We estimate that we hold a 19% share of the commercial bank deposit market in Anchorage, 7% share of the Fairbanks market, and a 10% share of the Matanuska Valley market as of June 30, 2009. Our success will depend on our ability to manage our credit risks and control our costs while providing competitive products and services. To achieve our objectives, we are pursuing the following business strategies:

Providing Customer First Service: We believe that we provide a high level of customer service. Our guiding principle is to serve our market areas by operating with a Customer First Service philosophy, affording our customers the highest priority in all aspects of our operations. To achieve this objective, our management emphasizes the hiring and retention of competent and highly motivated employees at all levels of the organization. We had 295 full-time equivalent employees at December 31, 2009. None of our employees are covered by a collective bargaining agreement. We consider our relations with our employees to be satisfactory. Management believes that a well-trained and highly motivated core of employees allows maximum personal contact with customers in order to understand and fulfill customer needs and preferences. This Customer First Service philosophy is combined with our emphasis on personalized, local decision making.

High Performance Checking: In the first part of 2005, we launched our High Performance Checking (HPC) product consisting of several consumer checking accounts tailored to the needs of specific segments of our market, including a totally free checking product. We supported the new products with a targeted marketing program and extensive branch sales promotions. Through the concentrated efforts of our branch employees, we

increased the number of our deposit accounts and the balances in them. In the fourth quarter of 2006, we introduced HPC for our business checking accounts. In 2007 through 2009, we continued to market the HPC products through a targeted mailing program and branch promotions, which helped us to increase the number of these accounts. In 2010, we plan to continue to support the HPC consumer and business checking products with a similar marketing and sales program in an effort to continue to expand our core deposits.

Emphasizing Business and Professional Lending: We endeavor to provide commercial lending products and services, and to emphasize relationship banking with businesses and professional individuals. Management believes that our focus on providing financial services to businesses and professional individuals has increased and may continue to increase lending and core deposit volumes.

Providing Competitive and Responsive Real Estate Lending: We are a significant land development and residential construction lender and an active lender in the commercial real estate market in our Alaskan markets. We believe that our willingness to provide these services in a professional and responsive manner has contributed significantly to our growth. Because of our relatively small size, our experienced senior management can be more involved with serving customers and making credit decisions, allowing us to compete more favorably for lending relationships. In 2010, we will continue to make

Table of Contents

a substantial effort to decrease our loans measured for impairment and other real estate owned (OREO), many of which consist of residential construction and land development loans. As a result of these efforts and continued projected slowness in the residential real estate market, we expect our loan balances in the residential construction sector to remain stable in 2010.

Pursuing Strategic Opportunities for Additional Growth: We believe that our Bank of America branch acquisition in 1999 significantly strengthened our local market position and enabled us to further capitalize on expansion opportunities resulting from the demand for a locally based banking institution providing a high level of service. Not only did the acquisition increase our size, number of branch offices, and lending capacity, but it also expanded our consumer lending, further diversifying our loan portfolio. Although to a lesser degree than the Bank of America branch acquisition, we believe that the Alaska First acquisition also strengthened our position in the Anchorage market. We expect to continue seeking similar opportunities to further our growth while maintaining a high level of credit quality. We plan to affect our growth strategy through a combination of growth at existing branch locations, new branch openings, primarily in Anchorage, Wasilla and Fairbanks, and strategic banking and non-banking acquisitions in the future.

Developing a Sales Culture: In 2003, we conducted extensive sales training throughout the Company and developed a comprehensive approach to sales. In 2007 through 2009, the Company continued with its sales calling and training efforts and plans to continue with the program in 2010. Our goal throughout this process is to increase and broaden the relationships that we have with new and existing customers and to continue to increase our market share within our existing markets.

Improving Credit Quality: In 2007, we formed a Quality Assurance department to provide independent, detailed financial analysis of our largest, most complex loans. In addition, this department, along with the Chief Lending Officer and others in the Loan Administration department, has developed processes to analyze and manage various concentrations of credit within the overall loan portfolio. The Loan Administration department has also enhanced the procedures and processes for the analysis and reporting of problem loans along with the development of strategies to resolve them. In 2010, we plan to continue with these initiatives. In addition, we will continue to devote resources towards the reduction of our nonperforming assets and substandard loans.

We provide a wide range of banking services in Southcentral and Interior Alaska to businesses, professionals, and individuals with high service expectations.

Deposit Services: Our deposit services include noninterest-bearing checking accounts and interest-bearing time deposits, checking accounts, and savings accounts. Our interest-bearing accounts generally earn interest at rates established by management based on competitive market factors and management s desire to increase or decrease certain types or maturities of deposits. We have two deposit products that are indexed to specific U.S. Treasury rates.

Several of our deposit services and products are:

An indexed money market deposit account;

A Jump-Up certificate of deposit (CD) that allows additional deposits with the opportunity to increase the rate to the current market rate for a similar term CD;

An indexed CD that allows additional deposits, quarterly withdrawals without penalty, and tailored maturity dates; and

Arrangements to courier noncash deposits from our customers to their branch.

Lending Services: We are an active lender with an emphasis on commercial and real estate lending. We also believe we have a significant niche in construction and land development lending in Anchorage, Fairbanks, and the Matanuska Valley (near Anchorage). To a lesser extent, we provide consumer loans. See Loans and Lending Activities In Item 7 of this report.

Other Customer Services: In addition to our deposit and lending services, we offer our customers several 24-hour services: Telebanking, faxed account statements, Internet banking for individuals and businesses, and automated teller services. Other special services include personalized checks at account opening, overdraft protection from a savings account, extended banking hours (Monday through Friday, 9 a.m. to 6 p.m. for the lobby, and 8 a.m. to 7 p.m. for the drive-up, and Saturday 10 a.m. to 3 p.m.), commercial drive-up banking with coin service, automatic transfers and payments, wire transfers, direct payroll deposit, electronic tax payments, Automated Clearing House origination and receipt, cash management programs to meet the specialized needs of business customers, and courier agents who pick up noncash deposits from business customers.

Elliott Cove Capital Management LLC

As of December 31, 2009, we owned a 48% equity interest in Elliott Cove, an investment advisory services company, through our wholly owned subsidiary, NISC. Elliott Cove began active operations in the fourth quarter of 2002 and has had

start-up losses since that time as it continues to build its assets under management. In addition to its ownership interest, the Company provides Elliott Cove with a line of credit that has a committed amount of $750,000 and an outstanding balance of $661,000 as of February 28, 2010.

As of February 28, 2010, there are four Northrim Bank employees who are licensed as Investment Advisor Representatives and actively selling the Elliott Cove investment products. We plan to continue to use the Elliott Cove products to strengthen our existing customer relationships and bring new customers into the Bank.

Northrim Funding Services

In the third quarter of 2004, we formed NFS as a division of the Bank. NFS is based in Bellevue, Washington and provides short-term working capital to customers in the states of Washington and Oregon by purchasing their accounts receivable. In 2010, we expect NFS to continue to penetrate its market and increase its market share in the purchased receivables business and to continue to contribute to the Company s net income.

Alaska Economy

Our growth and operations depend upon the economic conditions of Alaska and the specific markets we serve. The economy of Alaska is dependent upon the natural resources industries, in particular oil production, fishing, forest products and mining as well as tourism, government, and U.S. military spending. According to the State of Alaska Department of Revenue, approximately 88% of the unrestricted revenues that fund the Alaska state government are generated through various taxes and royalties on the oil industry. Any significant changes in the Alaska economy and the markets we serve eventually could have a positive or negative impact on the Company.

Substantially all of the Company s operations are in the greater Anchorage, Matanuska Valley, and Fairbanks, areas of Alaska. Because of our geographic concentration, our operations and growth depend on economic conditions in Alaska, generally, and the greater Anchorage, Matanuska Valley, and Fairbanks areas in particular. A material portion of our loans at December 31, 2009, were secured by real estate located in greater Anchorage, Matanuska Valley, and Fairbanks, Alaska. Moreover, 15% of our revenue was derived from the residential housing market in the form of loan fees and interest on residential construction and land development loans and income from RML Holding Company, our mortgage real estate affiliate. Real estate values generally are affected by economic and other conditions in the area where the real estate is located, fluctuations in interest rates, changes in tax and other laws, and other matters outside of our control. Since 2007 the Anchorage area and Fairbanks real estate markets have experienced a significant slowdown. Any further decline in real estate values in the greater Anchorage, Matanuska Valley, and Fairbanks areas could significantly reduce the value of the real estate collateral securing our real estate loans and could increase the likelihood of defaults under these loans. In addition, at December 31, 2009, $248 million, or 38%, of our loan portfolio was represented by commercial loans in Alaska. Commercial loans generally have greater risk than real estate loans.

Alaska s residents are not subject to any state income or state sales taxes, and for the past 26 years, have received annual distributions payable in October of each year from the Alaska Permanent Fund Corporation, which is supported by royalties from oil production. The distribution was $1,305 per eligible resident in 2009 for an aggregate distribution of approximately $820 million. The Anchorage Economic Development Corporation estimates that, for most Anchorage households, distributions from the Alaska Permanent Fund exceed other taxes to which those households are subject (primarily real estate taxes).

Alaska is strategically located on the Pacific Rim, within nine hours by air from 95% of the industrialized world, and Anchorage has become a worldwide cargo and transportation link between the United States and international business in Asia and Europe. Key sectors of the Alaska economy are the oil industry, government and military

spending, and the construction, fishing, forest products, tourism, mining, air cargo, and transportation industries, as well as medical services.

The petroleum industry plays a significant role in the economy of Alaska. Royalty payments and tax revenue related to North Slope oil fields provide 88% of the unrestricted revenue used primarily to fund state government operations primarily according to the State of Alaska Department of Revenue. State revenues are sensitive to volatile oil prices and production levels have been in decline for 20 years; however, high oil prices have been sustained for several years now, despite the global recession. This has allowed the state government to continue to increase operating and capital budgets and add to its reserves. The long-run growth of the Alaska economy will most likely be determined by large scale natural resource development projects. Several multi-billion dollar projects are progressing or can potentially advance in the near term. Some of these projects include: a large diameter natural gas pipeline extending through Canada; related gas exploration at Point Thomson by Exxon and partners; exploration for new wells offshore in the Outer Continental Shelf by Shell and Conoco Phillips; potential oil and gas activities in the Arctic National Wildlife Refuge; copper, gold and molybdenum production at Pebble mine; and energy development in the National Petroleum Reserve Alaska. Because of their size, each of these projects faces tremendous challenges. Contentious political decisions need to be made by government regulators, issues need to be resolved in the court system and multi-billion dollar financial commitments need to be

made by the private sector if they are to advance. If none of these projects moves forward in the next ten years, then state revenues will continue to decline with falling oil production from older fields on the North Slope. The decline in state revenues will likely have a negative effect on Alaska s economy.

Progress on these issues is critical to Alaska s economy. Exxon s development plan entails spending $1.3 billion in the state in six years on Point Thomson. Much of this money will be spent on local oil field service companies. This gas field would also help the prospects of the natural gas pipeline project. It is estimated to have 9 trillion cubic feet of natural gas reserves and smaller amounts of oil. Success on this field could impact the development of other fields on the North Slope. They are needed together to produce the volume of gas required to reach a profitable economies of scale that can overcome the high production and transportation costs to bring this energy thousands of miles to market.

Tourism is another major employment sector of the Alaska economy. In 2009, according to the State of Alaska Department of Labor, cruise ship visitors declined in Alaska by .6%. Recent media reports indicate that there will be further decreases in cruise ship visitors in 2010 due to announced ship reductions by the major cruise lines in Alaska.

Competition

We operate in a highly competitive and concentrated banking environment. We compete not only with other commercial banks, but also with many other financial competitors, including credit unions (including Alaska USA Federal Credit Union, one of the nation s largest credit unions), finance companies, mortgage banks and brokers, securities firms, insurance companies, private lenders, and other financial intermediaries, many of which have a state-wide or regional presence, and in some cases, a national presence. Many of our competitors have substantially greater resources and capital than we do and offer products and services that are not offered by us. Our non-bank competitors also generally operate under fewer regulatory constraints, and in the case of credit unions, are not subject to income taxes. According to information published by the State of Alaska Department of Commerce, credit unions in Alaska have a 37% share of total statewide deposits held in banks and credit unions. Recent changes in credit union regulations have eliminated the common bond of membership requirement and liberalized their lending authority to include business and real estate loans on a par with commercial banks. The differences in resources and regulation may make it harder for us to compete profitably, to reduce the rates that we can earn on loans and investments, to increase the rates we must offer on deposits and other funds, and adversely affect our financial condition and earnings.

In the late 1980s, eight of the 13 commercial banks and savings and loan associations in Alaska failed, resulting in the largest commercial banks gaining significant market share. Currently, there are seven commercial banks operating in Alaska. At June 30, 2009, the date of the most recently available information, we had approximately a 19% share of the Anchorage commercial bank deposits, approximately 7% in Fairbanks, and 10% in the Matanuska Valley.

The following table sets forth market share data for the commercial banks having a presence in the greater Anchorage area as of June 30, 2009, the most recent date for which comparative deposit information is available.

Financial institution	Number of Branches	Total Deposits	Market Share of Deposits
		(Dollars in Thousands)	
Northrim Bank	8(1)	$ 708,054	19%
Wells Fargo Bank Alaska	14	1,588,960	44%

First National Bank Alaska	10		879,092	24%
Key Bank	4		489,795	13%
Total	36	$	3,665,901	100%

(1) Does not reflect our Fairbanks or Wasilla branches

Supervision and Regulation

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the BHC Act) registered with and subject to examination by the Board of Governors of the Federal Reserve System (the FRB). The Company s bank subsidiary is an Alaska-state chartered commercial bank and is subject to examination, supervision, and regulation by the Alaska Department of Commerce, Community and Economic Development, Division of Banking, Securities and Corporations (the Division). The FDIC insures Northrim Bank s deposits and in that capacity also regulates Northrim Bank. The Company s affiliated investment company, Elliott Cove, and its affiliated investment advisory and wealth management company, Pacific Portfolio Consulting LLC, are subject to and regulated under the Investment Advisors Act of 1940 and applicable state investment

Table of Contents

advisor rules and regulations. The Company s affiliated trust company, Pacific Portfolio Trust Company, is regulated as a non-depository trust company under the banking laws of the State of Washington.

The Company s earnings and activities are affected by legislation, by actions of the FRB, the Division, the FDIC and other regulators, and by local legislative and administrative bodies and decisions of courts in Alaska. For example, these include limitations on the ability of Northrim Bank to pay dividends to the Company, numerous federal and state consumer protection laws imposing requirements on the making, enforcement, and collection of consumer loans, and restrictions on and regulation of the sale of mutual funds and other uninsured investment products to customers.

Congress enacted major federal financial institution legislation in 1999. Title I of the Gramm-Leach-Bliley Act (the GLB Act), which became effective March 11, 2000, allows bank holding companies to elect to become financial holding companies. In addition to the activities previously permitted bank holding companies, financial holding companies may engage in non-banking activities that are financial in nature, such as securities, insurance, and merchant banking activities, subject to certain limitations. The Company may utilize the new structure to accommodate an expansion of its products and services.

The activities of bank holding companies, such as the Company, that are not financial holding companies, are generally limited to managing or controlling banks. A bank holding company is required to obtain the prior approval of the FRB for the acquisition of more than 5% of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Nonbank activities of a bank holding company are also generally limited to the acquisition of up to 5% of the voting shares of a company and activities previously determined by the FRB by regulation or order to be closely related to banking, unless prior approval is obtained from the FRB.

The GLB Act also included the most extensive consumer privacy provisions ever enacted by Congress. These provisions, among other things, require full disclosure of the Company s privacy policy to consumers and mandate offering the consumer the ability to opt out of having non-public personal information disclosed to third parties. Pursuant to these provisions, the federal banking regulators have adopted privacy regulations. In addition, the states are permitted to adopt more extensive privacy protections through legislation or regulation.

As a result of the nation s recent financial crisis, the Obama administration outlined in June 2009 a set of proposals aimed at reforming the financial services industry. The administration s proposals included a significant restructuring and expansion of the financial services regulatory system. The proposals would result in, among other things, broader supervision of non-bank firms, a new agency to supervise all federally chartered banks, enhanced regulation of hedge funds, securitization markets and derivatives and the establishment of a new federal agency to regulate consumer financial and investment products and services.

In December 2009, the United States House of Representatives passed its version of a financial services regulatory reform bill. Among other things, the House bill would regulate derivatives, create a federal consumer financial protection agency to regulate consumer financial products and services and impose regulatory requirements on various private investment funds such as hedge funds. The United States Senate continues to consider various financial services reform proposals.

At this time, it is uncertain whether any financial services reform legislation will be enacted or, if it is, what form it will take. It is also uncertain whether any such reform legislation would have a material effect on the business of the Company.

There are various legal restrictions on the extent to which a bank holding company and certain of its nonbank subsidiaries can borrow or otherwise obtain credit from banking subsidiaries or engage in certain other transactions

with or involving those banking subsidiaries. With certain exceptions, federal law imposes limitations on, and requires collateral for, extensions of credit by insured depository institutions, such as Northrim Bank, to their non-bank affiliates, such as the Company.

Subject to certain limitations and restrictions, a bank holding company, with prior approval of the FRB, may acquire an out-of-state bank. Banks in states that do not prohibit out-of-state mergers may merge with the approval of the appropriate federal banking agency. A state bank may establish a de novo branch out of state if such branching is expressly permitted by the other state.

Among other things, applicable federal and state statutes and regulations which govern a bank s activities relate to minimum capital requirements, required reserves against deposits, investments, loans, legal lending limits, mergers and consolidations, borrowings, issuance of securities, payment of dividends, establishment of branches and other aspects of its operations. The Division and the FDIC also have authority to prohibit banks under their supervision from engaging in what they consider to be unsafe and unsound practices.

Specifically with regard to the payment of dividends, there are certain limitations on the ability of the Company to pay dividends to its shareholders. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines a bank holding company s ability to serve as a source of strength to its banking subsidiaries.

Table of Contents

Various federal and state statutory provisions also limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. Additionally, depending upon the circumstances, the FDIC or the Division could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

Under longstanding FRB policy, a bank holding company is expected to act as a source of financial strength for its subsidiary banks and to commit resources to support such banks. The Company could be required to commit resources to its subsidiary banks in circumstances where it might not do so, absent such policy.

The Company and Northrim Bank are subject to risk-based capital and leverage guidelines issued by federal banking agencies for banks and bank holding companies. These agencies are required by law to take specific prompt corrective actions with respect to institutions that do not meet minimum capital standards and have defined five capital tiers, the highest of which is well-capitalized. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Northrim Bank must meet specific capital guidelines that involve quantitative measures of the Company s and the Bank s assets, liabilities, and certain off-balance sheet items as calculated under regulatory practices. The Company s and the Bank s capital amounts and classification are also subject to qualitative judgment by the regulators about components, risk weightings, and other factors.

Federal banking agencies have established minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. The regulations set forth the definitions of capital, risk-weighted and average assets. As of December 15, 2009, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. Management believes, as of December 31, 2009, that the Company and Northrim Bank met all capital adequacy requirements for a well-capitalized institution.

Under the regulations adopted by the federal regulatory authorities, a bank will be: (i) well-capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not well-capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution s tangible equity is equal or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

Banks that are downgraded from well-capitalized to adequately capitalized face significant additional restrictions. For example, an adequately capitalized status affects a bank s ability to accept brokered deposits and enter into reciprocal Certificate of Deposit Account Registry System (CDARS) contracts without the prior approval of the FDIC, and may cause greater difficulty obtaining retail deposits. CDARS is a network of approximately 3,000 banks throughout the United States. The CDARS system was founded in 2003 and allows participating banks to exchange FDIC insurance coverage so that 100% of the balance of their customers certificates of deposit are fully subject to FDIC insurance. The system also allows for investment of banks own investment dollars in the form of domestic certificates of deposit. Banks in the adequately capitalized classification may have to pay higher interest rates to continue to attract those deposits, and higher deposit insurance rates for those deposits. This status also affects a bank s eligibility for a streamlined review process for acquisition proposals.

Management intends to maintain a Tier 1 risk-based capital ratio for the Bank in excess of 10% in 2010, exceeding the FDIC s well-capitalized capital requirement classification. The dividends that the Bank pays to the Company are limited to the extent necessary for the Bank to meet the regulatory requirements of a well-capitalized bank.

The capital ratios for the Company exceed those for the Bank primarily because the $18 million trust preferred securities offerings that the Company completed in the second quarter of 2003 and in the fourth quarter of 2005 are included in the Company s capital for regulatory purposes, although they are accounted for as a liability in its financial statements. The trust preferred securities are not accounted for on the Bank s financial statements nor are they included in its capital (although the Company did contribute to the Bank a portion of the cash proceeds from the sale of those securities). As a result, the Company has $18 million more in regulatory capital than the Bank at December 31, 2009 and 2008, which explains most of the difference in the capital ratios for the two entities.

Northrim Bank is required to file periodic reports with the FDIC and the Division and is subject to periodic examinations and evaluations by those regulatory authorities. These examinations must be conducted every 12 months, except that certain well-

capitalized banks may be examined every 18 months. The FDIC and the Division may each accept the results of an examination by the other in lieu of conducting an independent examination.

In the liquidation or other resolution of a failed insured depository institution, deposits in offices and certain claims for administrative expenses and employee compensation are afforded a priority over other general unsecured claims, including non-deposit claims, and claims of a parent company such as the Company. Such priority creditors would include the FDIC, which succeeds to the position of insured depositors.

The Company is also subject to the information, proxy solicitation, insider trading restrictions and other requirements of the Securities Exchange Act of 1934, including certain requirements under the Sarbanes-Oxley Act of 2002.

The Bank is subject to the Community Reinvestment Act of 1977 (CRA). The CRA requires that the Bank help meet the credit needs of the communities it serves, including low and moderate income neighborhoods, consistent with the safe and sound operation of the institution. The FDIC assigns one of four possible ratings to the Bank s CRA performance and makes the rating and the examination reports publicly available. The four possible ratings are outstanding, satisfactory, needs to improve and substantial noncompliance. A financial institution s CRA rating can affect an institution s future business. For example, a federal banking agency will take CRA performance into consideration when acting on an institution s application to establish or move a branch, to merge or to acquire assets or assume liabilities of another institution. In its most recent CRA examination, Northrim Bank received a Satisfactory rating from the FDIC.

The Company is also subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA Patriot Act). Among other things, the USA Patriot Act requires financial institutions, such as the Company and Northrim Bank, to adopt and implement specific policies and procedures designed to prevent and defeat money laundering. Management believes the Company is in compliance with the USA Patriot Act as in effect on December 31, 2009.

On October 3, 2008, the U.S. Congress passed, and the President signed into law, the Emergency Economic Stabilization Act of 2008 (the Stabilization Act). Among other things, the Stabilization Act temporarily increased the amount of insurance coverage of deposit accounts held at FDIC-insured depository institutions, including the Bank, from $100,000 to $250,000. The increased coverage is now scheduled to expire on December 31, 2013.

On October 14, 2008, using the systemic risk exception to the FDIC Improvement Act of 1991, the U.S. Treasury authorized the FDIC to provide a 100% guarantee of newly-issued senior unsecured debt and deposits in non-interest bearing transaction accounts at FDIC insured institutions. The Company elected to participate in this program as it pertains to the 100% guarantee of non-interest bearing transaction accounts by the FDIC. Banks participating in the transaction account guarantee program are required to pay an additional 10 basis points in insurance fees on the amounts guaranteed by the program. This transaction account guarantee program is scheduled to expire on June 30, 2010. The Company elected not to participate in the part of the program that guarantees newly issued senior secured debt.

Under the Troubled Asset Auction Program, another initiative based on the authority granted by the Stabilization Act, the U.S. Treasury, through a newly-created Office of Financial Stability, has purchased certain troubled mortgage-related assets from financial institutions in a reverse-auction format. Troubled assets eligible for purchase by the Office of Financial Stability include residential and commercial mortgages originated on or before March 14, 2008, securities or obligations that are based on such mortgages, and any other financial instrument that the Secretary of the U.S. Treasury determines, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, is necessary to promote financial market stability.

Available Information

The Company s annual report on Form 10-K and quarterly reports on Form 10-Q, as well as its Form 8-K filings, which are filed with the Securities and Exchange Commission (SEC), are accessible free of charge at our website at http://www.northrim.com as soon as reasonably practicable after filing with the SEC. By making this reference to our website, the Company does not intend to incorporate into this report any information contained in the website. The website should not be considered part of this report.

The SEC maintains a website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers including the Company that file electronically with the SEC

Item 1A. Risk Factors

An investment in the Company s common stock is subject to risks inherent to the Company s business. The material risks and uncertainties that management believes affect the Company are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or

Table of Contents

incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company s business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Company s financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Company s common stock could decline significantly, and you could lose all or part of your investment.

We may be Adversely Impacted by the Unprecedented Volatility in the Financial Markets.

Dramatic declines in the national housing market over the past two years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative and cash securities, in turn, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where we operate. Similarly, declining real estate values can adversely impact the carrying value of real estate secured loans. The current downturn in the economy, the slowdown in the real estate market, and declines in some real estate values have had a direct and adverse effect on our financial condition and results of operations. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We expect to face increased regulation of our industry, including as a result of the Stabilization Act. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

- Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.

- We have been required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. We may have to pay even higher premiums in the future. We may have to pay even higher premiums in the future.

Further Declines in the Residential Housing Market would have a Negative Impact on Our Residential Housing Market Income.

The Company earns revenue from residential housing market in the form of interest income and fees on loans and earnings from RML Holding Company. A slowdown in the residential sales cycle in our major markets and a constriction in the availability of mortgage financing have negatively impacted real estate sales, which has resulted in customers inability to repay loans. In 2010, the Company expects that its revenues from residential housing market in the form of interest income and fees on loans and earnings will decline due to a decline in refinance activity at RML

Holding Company and the continued slowdown in the residential housing market. Any such decline in interest income and fees may have a material adverse effect on our financial condition.

Our Loan Loss Allowance may not be Adequate to Cover Future Loan Losses, which may Adversely affect Our Earnings.

We have established a reserve for probable losses we expect to incur in connection with loans in our credit portfolio. This allowance reflects our estimate of the collectability of certain identified loans, as well as an overall risk assessment of total loans outstanding. Our determination of the amount of loan loss allowance is highly subjective; although management personnel apply criteria such as risk ratings and historical loss rates, these factors may not be adequate predictors of future loan performance. Accordingly, we cannot offer assurances that these estimates ultimately will prove correct or that the loan loss allowance will be sufficient to protect against losses that ultimately may occur. If our loan loss allowance proves to be inadequate, we may suffer unexpected charges to income, which would adversely impact our results of operations and financial condition. Moreover, bank regulators frequently monitor banks loan loss allowances, and if regulators were to determine that the allowance is inadequate, they may require us to increase the allowance, which also would adversely impact our net income and financial condition.

We have a Significant Concentration in Real Estate Lending. The Sustained Downturn in Real Estate Within Our Markets has had and is Expected to Continue to have a Negative Impact on Our Results of Operations.

Approximately 73% of the Bank s loan portfolio at December 31, 2009 consisted of loans secured by commercial and residential real estate located in Alaska. A slowdown in the residential sales cycle in our major markets and a constriction in the availability of mortgage financing have negatively impacted residential real estate sales, which has resulted in customers inability to repay loans. During 2008, we experienced a significant increase in non-performing assets relating to our real estate lending, primarily in our residential real estate portfolio. Although non-performing assets decreased from December 31, 2008 to December 31, 2009, we will see a further increase in non-performing assets if more borrowers fail to perform according to loan terms and if we take possession of real estate properties. Additionally, if real estate values decline, the value of real estate collateral securing our loans could be significantly reduced. If any of these effects continue or become more pronounced, loan losses will increase more than we expect and our financial condition and results of operations would be adversely impacted.

Further, approximately 46% of the Bank s loan portfolio at December 31, 2009 consisted of commercial real estate loans. Nationally, delinquencies in these types of portfolios are increasing significantly. While our investments in these types of loans have not been as adversely impacted as residential construction and land development loans, there can be no assurance that the credit quality in these portfolios will remain stable. Commercial construction and commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to significantly greater risk of loss compared to an adverse development with respect to a consumer loan. These trends may continue and may result in losses that exceed the estimates that are currently included in our loan loss allowance, which could adversely affect our financial conditions and results of operations.

Real Estate Values may Continue to Decrease Leading to Additional and Greater than Anticipated Loan Charge-Offs and Valuation Write Downs on Our other Real Estate Owned (OREO) Properties.

Real estate owned by the Bank and not used in the ordinary course of its operations is referred to as other real estate owned or OREO property. We foreclose on and take title to the real estate serving as collateral for defaulted loans as part of our business. At December 31, 2009, the Bank held $17.4 million of OREO properties, many of which consist of residential construction and land development loans. Increased OREO balances lead to greater expenses as we incur costs to manage and dispose of the properties. Our ability to sell OREO properties is affected by public perception that banks are inclined to accept large discounts from market value in order to quickly liquidate properties. Any decrease in market prices may lead to OREO write downs, with a corresponding expense in our statement of operations. We evaluate OREO property values periodically and write down the carrying value of the properties if the results of our evaluations require it. Further write-downs on OREO or an inability to sell OREO properties could have a material adverse effect on our results of operations and financial condition.

Our Deposit Insurance Premium could be Substantially Higher in the Future, which could have a Material Adverse Effect on Our Future Earnings.

The FDIC insures deposits at FDIC insured financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. Current economic conditions have increased bank failures and expectations for further failures, in which case the FDIC insures deposits up to statutory limits from the Deposit Insurance Fund. Either an increase in the Bank s risk category or adjustments to the base assessment rates, limits applicable to and/or a significant special assessment could have a material adverse effect on our earnings. In addition, the deposit insurance limit on FDIC deposit insurance coverage generally has increased to $250,000 through December 31, 2013. These developments may cause the premiums assessed on us by the FDIC to increase and may increase our noninterest expense.

On December 16, 2008, the FDIC Board of Directors determined deposit insurance assessment rates for the first quarter of 2009 at 12 to 14 basis points per $100 of deposits. Beginning April 1, 2009, the rates increased to 12 to 16 basis points per $100 of deposits. Additionally, on May 22, 2009, the FDIC announced a final rule imposing a special emergency assessment as of June 30, 2009, payable September 30, 2009, of 5 basis points on each FDIC insured institution s assets, less Tier 1 capital, as of June 30, 2009, but the amount of the assessment is capped at 10 basis points of domestic deposits. The final rule also allows the FDIC to impose additional special emergency assessments on or after September 30, 2009, of up to 5 basis points per quarter, if necessary to maintain public confidence in FDIC insurance. The FDIC has indicated that a second assessment is probable. These higher FDIC assessment rates and special assessments will have an adverse impact on our results of operations. We are unable to predict the impact in future periods; including whether and when additional special assessments will occur, in the event the economic crisis continues.

We also participate in the FDIC s Temporary Liquidity Guarantee Program, or TLGP, for noninterest-bearing transaction deposit accounts. Banks that participate in the TLGP s noninterest-bearing transaction account guarantee will pay the FDIC an annual assessment of 10 basis points on the amounts in such accounts above the amounts covered by FDIC deposit insurance. To the extent that these TLGP assessments are insufficient to cover any loss or expenses arising from the TLGP program, the FDIC is

Table of Contents

authorized to impose an emergency special assessment on all FDIC-insured depository institutions. The FDIC has authority to impose charges for the TLGP program upon depository institution holding companies as well. These changes, along with the full utilization of our FDIC deposit insurance assessment credit in early 2009, may cause the premiums and TLGP assessments charged by the FDIC to increase. These actions could increase our noninterest expense in 2010 and for the foreseeable future.

Changes in Market Interest Rates could Adversely Impact the Company.

Our earnings are impacted by changing interest rates. Changes in interest rates affect the demand for new loans, the credit profile of existing loans, the rates received on loans and securities, and rates paid on deposits and borrowings. The relationship between the rates received on loans and securities and the rates paid on deposits and borrowings is known as the net interest margin. Given our current volume and mix of interest-bearing liabilities and interest-earning assets, net interest margin could be expected to increase slightly during times when interest rates rise in a parallel shift along the yield curve and to increase during times of similar falling interest rates. Exposure to interest rate risk is managed by monitoring the repricing frequency of our rate-sensitive assets and rate-sensitive liabilities over any given period. Although we believe the current level of interest rate sensitivity is reasonable, significant fluctuations in interest rates could potentially have an adverse affect on our business, financial condition and results of operations.

Our Financial Performance Depends on our Ability to Manage Recent and Possible Future Growth.

Our financial performance and profitability will depend on our ability to manage recent and possible future growth. Although we believe that we have substantially integrated the business and operations of past acquisitions, there can be no assurance that unforeseen issues relating to the acquisitions will not adversely affect us. The Company s opportunities for growth may be affected by its continued focus on the reduction of its nonperforming assets in 2010. In addition, any future acquisitions and continued growth may present operating and other problems that could have an adverse effect on our business, financial condition, and results of operations. Accordingly, there can be no assurance that we will be able to execute our growth strategy or maintain the level of profitability that we have experienced in the past.

Our Concentration of Operations in the Anchorage, Matanuska Valley, and Fairbanks, Areas of Alaska Makes US More Sensitive to Downturns in Those Areas.

Substantially all of our business is derived from the Anchorage, Matanuska Valley, and Fairbanks, areas of Alaska. The majority of our lending has been with Alaska businesses and individuals. At December 31, 2009, approximately 73% of the Bank s loans are secured by real estate and 26% are for general commercial uses, including professional, retail, and small businesses, respectively. Substantially all of these loans are collateralized and repayment is expected from the borrowers cash flow or, secondarily, the collateral. Our exposure to credit loss, if any, is the outstanding amount of the loan if the collateral is proved to be of no value. These areas rely primarily upon the natural resources industries, particularly oil production, as well as tourism, government and U.S. military spending for their economic success. Our business is and will remain sensitive to economic factors that relate to these industries and local and regional business conditions. As a result, local or regional economic downturns, or downturns that disproportionately affect one or more of the key industries in regions served by the Company, may have a more pronounced effect upon its business than they might on an institution that is less geographically concentrated. The extent of the future impact of these events on economic and business conditions cannot be predicted; however, prolonged or acute fluctuations could have a material and adverse impact upon our results of operation and financial condition.

We are Subject to Extensive Regulation, which Undergoes Frequent and Often Significant Changes.

We are subject to government regulation that could limit or restrict our activities, which in turn could adversely impact our operations. The financial services industry is regulated extensively. Federal and state regulation is designed primarily to protect the deposit insurance funds and consumers, as well as our shareholders. These regulations can sometimes impose significant limitations on our operations. In addition, these regulations are constantly evolving and may change significantly over time. Significant new laws or changes in existing laws or repeal of existing laws may cause our results to differ materially. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, can significantly affect credit availability. Federal legislation such as Sarbanes-Oxley can dramatically shift resources and costs to ensure adequate compliance. Failure to comply with the laws or regulations could result in fines, penalties, sanctions and damage to our reputation which could have an adverse effect on our business and financial results.

The Financial Services Business is Intensely Competitive and Our Success will Depend on Our Ability to Compete Effectively.

The financial services business in our market areas is highly competitive. It is becoming increasingly competitive due to changes in regulation, technological advances, and the accelerating pace of consolidation among financial services providers. We face competition both in attracting deposits and in originating loans. We compete for loans principally through the pricing of interest rates and loan fees and the efficiency and quality of services. Increasing levels of competition in the banking and financial services industries may reduce our market share or cause the prices charged for our services to fall. Improvements in technology, communications and the internet have intensified competition. As a result, our competitive position could be weakened, which could adversely affect our financial condition and results of operations.

We may be Unable to Attract and Retain Key Employees and Personnel.

We will be dependent for the foreseeable future on the services of R. Marc Langland, our Chairman of the Board and Chief Executive Officer of the Company; Joseph M. Beedle, our President of Northrim Bank; Christopher N. Knudson, our Executive Vice President and Chief Operating Officer; Joseph M. Schierhorn, our Executive Vice President and Chief Financial Officer; Steven L. Hartung, our Executive Vice President and Quality Assurance Officer; and Victor P. Mollozzi, our Senior Vice President for Business and Community Development. While we maintain keyman life insurance on the lives of Messrs. Langland, Beedle, Knudson, Schierhorn, and Mollozzi in the amounts of $2.5 million, $2.1 million, $1 million, $2 million, and $1 million, respectively, we may not be able to timely replace Mr. Langland, Mr. Beedle, Mr. Knudson, Mr. Schierhorn, or Mr. Mollozzi with a person of comparable ability and experience should the need to do so arise, causing losses in excess of the insurance proceeds. Currently, we do not maintain keyman life insurance on the life of Mr. Hartung. The unexpected loss of key employees could have a material adverse effect on our business and possibly result in reduced revenues and earnings.

A Failure of a Significant Number or Our Borrowers, Guarantors and Related Parties to Perform in Accordance with the Terms of their Loans would have an Adverse Impact on Our Results of Operations.

A source of risk arises from the possibility that losses will be sustained if a significant number of our borrowers, guarantors and related parties fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for credit losses, which we believe are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially affect our results of operations.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

The following sets forth information about our branch locations:

Locations	Type	Leased/Owned
Midtown Financial Center: Northrim Headquarters 3111 C Street, Anchorage, AK	Traditional	Land leased; building owned
SouthSide Financial Center 8730 Old Seward Highway, Anchorage, AK	Traditional	Land leased; building owned
36th Avenue Branch 811 East 36th Avenue, Anchorage, AK	Traditional	Owned
Huffman Branch 1501 East Huffman Road, Anchorage, AK	Supermarket	Leased
Jewel Lake Branch 9170 Jewel Lake Road, Anchorage, AK	Traditional	Leased
Seventh Avenue Branch 517 West Seventh Avenue, Suite 300, Anchorage, AK	Traditional	Leased
West Anchorage Branch/Small Business Center 2709 Spenard Road, Anchorage, AK	Traditional	Owned
Eagle River Branch 12812 Old Glenn Highway, Eagle River, AK	Traditional	Leased
Downtown Fairbanks Branch 714 Fourth Avenue, Suite 100, Fairbanks, AK	Traditional	Leased
Fairbanks Financial Center 360 Merhar Avenue, Fairbanks, AK	Traditional	Owned
Wasilla Financial Center 850 E. USA Circle, Suite A, Wasilla, AK	Traditional	Owned

Item 3. Legal Proceedings

The Company from time to time may be involved with disputes, claims, and litigation related to the conduct of its banking business. Management does not expect that the resolution of these matters will have a material effect on the Company s business, financial position, results of operations, or cash flows.

Item 4. Reserved

Part II

Item 5. Market for Registrant s Comment Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on the Nasdaq Stock Market under the symbol, NRIM. We are aware that large blocks of our stock are held in street name by brokerage firms. At February 22, 2010, the number of shareholders of record of our common stock was 165.

The following are high and low sales prices as reported by Nasdaq. Prices do not include retail markups, markdowns or commissions.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009				
High	$ 11.70	$ 15.23	$ 15.83	$ 17.30
Low	$ 6.86	$ 9.65	$ 13.31	$ 14.92
2008				
High	$ 23.01	$ 20.13	$ 17.28	$ 16.14
Low	$ 17.75	$ 18.11	$ 14.15	$ 10.05

In 2009, we paid cash dividends of $0.10 per share each quarter. Cash dividends totaled $2.6 million, $4.2 million, and $3.6 million in 2009, 2008, and 2007, respectively. On February 18, 2010, the Board of Directors approved payment of a $0.10 per share dividend on March 19, 2010, to shareholders of record on March 9, 2010. The Company and the Bank are subject to restrictions on the payment of dividends pursuant to applicable federal and state banking regulations. The dividends that the Bank pays to the Company are limited to the extent necessary for the Bank to meet the regulatory requirements of a well-capitalized bank. Given the fact that Bank remains well-capitalized , the Company expects to receive dividends from the Bank.

Repurchase of Securities

The Company did not repurchase any of its common stock during the fourth quarter of 2009.

Equity Compensation Plan Information

The following table sets forth information regarding securities authorized for issuance under the Company s equity plans as of December 31, 2009. Additional information regarding the Company s equity plans is presented in Note 19 of the *Notes to Consolidated Financial Statements* included in Item 8 of this report.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	473,755	$13.40	23,232
Total	473,755	$13.40	23,232

14

Table of Contents

Stock Performance Graph

The graph shown below depicts the total return to shareholders during the period beginning after December 31, 2004, and ending December 31, 2009. The definition of total return includes appreciation in market value of the stock, as well as the actual cash and stock dividends paid to shareholders. The comparable indices utilized are the Russell 3000 Index, representing approximately 98% of the U.S. equity market, and the SNL Financial Bank Stock Index, comprised of publicly traded banks with assets of $500 million to $1 billion, which are located in the United States. The graph assumes that the value of the investment in the Company s common stock and each of the three indices was $100 on December 31, 2004, and that all dividends were reinvested.

Total Return Performance

	Period Ending					
Index	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Northrim BanCorp, Inc.	100.00	101.15	122.82	105.63	53.03	89.57
Russell 3000	100.00	106.12	122.80	129.11	80.94	103.88
SNL Bank $1B-$5B	100.00	98.29	113.74	82.85	68.72	49.26

Table of Contents

Item 6. Selected Financial Data

	2009	2008	2007	2006	2005
	Unaudited (In thousands Except Per Share Amounts)				
Net interest income	$46,421	$45,814	$49,830	$47,522	$43,908
Provision for loan losses	7,066	7,199	5,513	2,564	1,170
Other operating income	13,537	11,399	9,954	7,766	4,933
Other operating expense	41,810	40,439	35,063	31,476	29,577
Income before income taxes	11,082	9,575	19,208	21,248	18,094
Income taxes	2,967	3,122	7,260	7,978	6,924
Net Income	8,115	6,453	11,948	13,270	11,170
Less: Net income attributable to noncontrolling interest	388	370	290	296	
Net income attributable to Northrim Bancorp	$7,727	$6,083	$11,658	$12,974	$11,170
Earnings per share:					
Basic	$1.22	$0.96	$1.82	$2.02	$1.70
Diluted	1.20	0.95	1.80	1.99	1.64
Cash dividends per share	0.40	0.66	0.57	0.45	0.40
Assets	$1,003,029	$1,006,392	$1,014,714	$925,620	$895,580
Loans	655,039	711,286	714,801	717,056	705,059
Deposits	853,108	843,252	867,376	794,904	779,866
Long-term debt	4,897	15,986	1,774	2,174	2,574
Junior subordinated debentures	18,558	18,558	18,558	18,558	18,558
Shareholders equity	111,020	104,648	101,391	95,418	84,474
Book value per share	$17.42	$16.53	$16.09	$15.61	$13.86
Tangible book value per share	$16.01	$15.06	$14.51	$14.48	$12.65
Net interest margin (tax equivalent)	5.33%	5.26%	5.89%	5.89%	5.66%
Efficiency ratio[1]	69.19%	70.07%	58.09%	56.06%	59.80%
Return on assets	0.79%	0.62%	1.24%	1.46%	1.33%
Return on equity	7.08%	5.85%	11.70%	14.45%	13.17%
Equity/assets	11.07%	10.40%	10.00%	10.31%	9.44%
Dividend payout ratio	33.18%	68.93%	30.54%	21.43%	22.92%
Nonperforming loans/portfolio loans	2.67%	3.66%	1.59%	0.92%	0.86%
Net charge-offs/average loans	1.00%	0.86%	0.86%	0.16%	0.18%

Allowance for loan losses/portfolio loans	2.00%	1.81%	1.64%	1.69%	1.52%
Nonperforming assets/assets	3.47%	3.84%	1.56%	0.79%	0.69%
Tax rate	27%	34%	38%	38%	38%
Number of banking offices	11	11	10	10	10
Number of employees (FTE)	295	290	302	277	272

(1) In managing our business, we review the efficiency ratio exclusive of intangible asset amortiztion (see definition in table below), which is not defined in accounting principles generally accepted in the United States (GAAP). The efficiency ratio is calculated by dividing noninterest expense, exclusive of intangible asset amortization, by the sum of net interest income and noninterest income. Other companies may define or calculate this data differently. We believe this presentation provides investors with a more accurate picture of our operating efficiency. In this presentation, noninterest expense is adjusted for intangible asset amortization. For additional information see the Noninterest Expense section in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this report.

Table of Contents

Reconciliation of Selected Financial Data to GAAP Financial Measures [2]

Years Ended December 31,	2009	2008	2007	2006	2005
Net interest income[1]	$46,421	$45,814	$49,830	$47,522	$43,908
Noninterest income	13,537	11,399	9,954	7,766	4,933
Noninterest expense	41,810	40,439	35,063	31,476	29,577
Less intangible asset amortization	323	347	337	482	368
Adjusted noninterest expense	$41,487	$40,092	$34,726	$30,994	$29,209
Efficiency ratio	69.19%	70.07%	58.09%	56.06%	59.80%

(1) Amount represents net interest income before provision for loan losses.
(2) These unaudited schedules provide selected financial information concerning the Company that should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this report.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

This discussion highlights key information as determined by management but may not contain all of the information that is important to you. For a more complete understanding, the following should be read in conjunction with the Company s audited consolidated financial statements and the notes thereto as of December 31, 2009, 2008, and 2007 included elsewhere in this report.

Note Regarding Forward-Looking Statements

This annual report on Form 10-K 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 Item 1A. Risk Factors, and 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, other than as required by law.

Recent Developments

As a result of the nation s recent financial crisis, the Obama administration outlined in June 2009 a set of proposals aimed at reforming the financial services industry. In December 2009, the United States House of Representatives passed its version of a financial services regulatory reform bill. At this time, it is uncertain whether any financial services reform legislation will be enacted or, if it is, what form it will take. It is also uncertain whether any such reform legislation would have a material effect on the business of the Company. For a more detailed description of the rules and regulations affecting us, please see Supervision and Regulation under Item 1 of this report.

At December 31, 2009, we had assets of over $1 billion, a decrease of less than 1% from December 31, 2008. Also, we had gross loans of $655 million at December 31, 2009, a decrease of 8% from $711.3 million at December 31, 2008. Our net income and diluted earnings per share for 2009 were $7.7 million and $1.20, respectively, an increase of 27% and 26%, respectively, from $6.1 million and $0.95 at year end 2008. Our net interest income increased by $607,000, or 1%, to $46.4 million, from $45.8 million for the year ended 2008. Our provision for loan losses in 2009 decreased by $133,000, or 2% to $7.1 million, from $7.2 million in 2008, as our nonperforming loans for 2009 decreased by $8.5 million, or 33%, from $26.0 million in 2008 to $17.5 million in 2009. In 2009, our other operating

income increased by $2.1 million, or 19%, to $13.5 million from $11.4 million in 2008.

Critical Accounting Estimates

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. We believe that our most critical

accounting policies upon which our financial condition depends, and which involve the most complex or subjective decisions or assessments are as follows:

Allowance for loan losses (the Allowance): 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.

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 secured by real property, management s assessment of the current market, recent payment history and an evaluation of other sources of repayment. 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. 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 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 suggest 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), national and local economic trends, business conditions, underwriting policies and standards, and ratio analysis. The reasonableness of the unallocated portion of the Allowance is assessed based upon all of these internal and external quantitative and qualitative factors, including analysis of the unallocated portion of the Allowance as a percentage of unallocated loans.

We recognize the determination of the Allowance is sensitive to the assigned credit risk ratings and inherent loss rates at any given point in time. Therefore, we perform a sensitivity analysis to provide insight regarding the impact that adverse changes in risk ratings may have on our Allowance. The sensitivity analysis does not imply any expectation of future deterioration in our loans risk ratings and it does not necessarily reflect the nature and extent of future changes in the Allowance due to the numerous quantitative and qualitative factors considered in determining our Allowance. At December 31, 2009, in the event that 1 percent of our loans were downgraded from the pass category to the special mention category within our current allowance methodology, the Allowance would have increased by approximately $327,000.

Based on our methodology and its components, management believes the resulting Allowance is adequate and appropriate for the risk identified in the Company s loan portfolio. Given current processes employed by the Company,

management believes the risk ratings and inherent loss rates currently assigned are appropriate. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions that could be material to the Company s financial statements. In addition, current risk ratings and fair value estimates of collateral are subject to change as we continue to review loans within our portfolio and as our borrowers are impacted by economic trends within their market areas. Although we have established an Allowance that we consider adequate, there can be no assurance that the established Allowance will be sufficient to offset losses on loans in the future.

Goodwill and other intangibles: Net assets of entities acquired in purchase transactions are recorded at fair value at the date of acquisition. Identified intangibles are amortized over the period benefited either on a straight-line basis or on an accelerated basis depending on the nature of the intangible. Goodwill is not amortized, although it is reviewed for impairment on an annual basis or if events or circumstances indicate a potential impairment. Goodwill impairment testing is performed at the reporting unit level. The Company has only one reporting unit.

Under applicable accounting standards, goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit s fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment.

Table of Contents

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill in the pro forma business combination accounting as described above exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards.

At December 31, 2009, the Company performed step 1 of the annual impairment test and concluded that no potential impairment existed at that time, and therefore the Company did not perform step 2 of the impairment test. 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 2010 for goodwill impairment, if, for example, our stock price declines significantly, although there are many factors that we analyze in determining the impairment of goodwill.

Valuation of other real estate owned: Other real estate owned represents properties acquired through foreclosure or its equivalent. Prior to foreclosure, the carrying value is adjusted to the fair value, less cost to sell, of the real estate to be acquired by an adjustment to the allowance for loan loss. The amount by which the fair value less cost to sell is greater than the carrying amount of the loan plus amounts previously charged off is recognized in earnings up to the original cost of the asset. Any subsequent reduction in the carrying value at acquisition is charged against earnings.

Reductions in the carrying value of other real estate owned subsequent to acquisition are determined based on management s estimate of the fair value of individual properties. Significant inputs into this estimate include estimated costs to complete projects, as well as our assessment of current market conditions. During 2009, $825,000 in impairment was recognized on OREO due to adjustments to the Company s estimate of the fair value of certain properties based on changes in estimated costs to complete the projects and the continued slowdown in the Anchorage area and Fairbanks real estate markets.

Results of Operations

Net Income

Our results of operations are dependent to a large degree on our net interest income. We also generate other income primarily through service charges and fees, purchased receivables products, employee benefit plan income, electronic banking income, and earnings from our mortgage affiliate. Our operating expenses consist in large part of compensation, employee benefits expense, occupancy, insurance expense, expenses related to OREO, marketing, and professional and outside services. Interest income and cost of funds are affected significantly by general economic conditions, particularly changes in market interest rates, and by government policies and the actions of regulatory authorities.

We earned net income of $7.7 million in 2009, compared to net income of $6.1 million in 2008, and $11.7 million in 2007. During these periods, net income per diluted share was $1.20, $0.95, and $1.80, respectively. The increase in 2009 was due to an increase in net interest income of $607,000, a $2.1 million increase in other operating income which was partially offset by a $1.4 million increase in other operating expenses, a decrease in the provision for income taxes of $155,000 and a decrease in the provision for loan losses of $133,000.

Net Interest Income

Net interest income is the difference between interest income from loan and investment securities portfolios and interest expense on customer deposits and borrowings. Net interest income in 2009 was $46.4 million, compared to $45.8 million in 2008 and $49.8 million in 2007, reflecting relatively flat interest rates in 2009 and the effect of the 400 basis point drop in interest rates that occurred in 2008.

Changes in net interest income result from changes in volume and spread, which in turn affect our margin. For this purpose, volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities, spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, and margin refers to net interest income divided by average interest-earning assets. Changes in net interest income are influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities. During the fiscal years ended December 31, 2009, 2008, and 2007, average interest-earning assets were $876.1 million, $876.9 million, and $849.3 million, respectively. During these same periods, net interest margins were 5.30%, 5.22%, and 5.87%, respectively, which reflect our balance sheet mix. Our average yield on interest-earning assets was 6.11% in 2009, 6.81% in 2008, and 8.60% in 2007, while the average cost of interest-bearing liabilities was 1.14% in 2009, 2.11% in 2008 and 3.67% in 2007.

Table of Contents

Our net interest margin increased in 2009 from 2008 mainly due to the fact that the cost of interest-bearing liabilities decreased by 97 basis points while the yield on interest-earning assets decreased by 70 basis points. During this time, the average balance of our interest-bearing deposits decreased by $31 million to $586.3 million at December 31, 2009 from $617.3 million at December 31, 2008 and the average balance of interest-earning assets decreased $803,000 to $876.1 million at December 31, 2009 from $876.9 million at December 31, 2008.

The following table sets forth for the periods indicated, information with regard to average balances of assets and liabilities, as well as the total dollar amounts of interest income from interest-earning assets and interest expense on interest-bearing liabilities. Resultant yields or costs, net interest income, and net interest margin are also presented:

Years Ended December 31,	2009			2008			2007		
	Average outstanding balance	Interest earned/ paid(1)	Yield/ rate	Average outstanding balance	Interest earned/ paid(1)	Yield/ rate	Average outstanding balance	Interest earned/ paid(1)	Yield/ rate
				(In Thousands)					
Assets:									
Loans(2)	$688,347	$48,830	7.09%	$702,117	$53,287	7.59%	$710,959	$66,463	9.35%
Securities	144,713	4,499	3.11%	134,705	5,493	4.08%	98,578	4,619	4.69%
Short term investments	43,041	161	0.37%	40,082	936	2.34%	39,726	1,985	5.00%
Total interest-earning assets	876,101	53,490	6.11%	876,904	59,716	6.81%	849,263	73,067	8.60%
Noninterest-earning assets	105,578			108,140			92,065		
Total assets	$981,679			$985,044			$941,328		
Liabilities and Shareholders Equity:									
Deposits:									
Interest-bearing demand accounts	$115,065	$170	0.15%	$97,171	$578	0.59%	$85,192	$1,188	1.39%
Money market accounts	127,651	740	0.58%	187,779	3,306	1.76%	186,722	7,378	3.95%
Savings accounts	169,812	1,240	0.73%	187,225	3,444	1.84%	234,780	8,756	3.73%
Certificates of deposit	173,777	3,651	2.10%	145,153	4,851	3.34%	95,961	4,080	4.25%
Total interest-bearing deposits	586,305	5,801	0.99%	617,328	12,179	1.97%	602,655	21,402	3.55%
Borrowings	35,935	1,268	3.53%	41,567	1,723	4.15%	30,337	1,835	6.05%
	622,240	7,069	1.14%	658,895	13,902	2.11%	632,992	23,237	3.67%

Total interest-bearing liabilities						
Demand deposits and other noninterest-bearing liabilities	250,342		222,247		208,671	
Total liabilities	872,582		881,142		841,663	
Shareholders equity	109,097		103,902		99,665	
Total liabilities and shareholders equity	$981,679		$985,044		$941,328	
Net interest income		$46,421		$45,814		$49,830
Net interest margin(3)		5.30%		5.22%		5.87%

(1) Interest income included loan fees.
(2) Nonaccrual loans are included with a zero effective yield.
(3) The net interest margin on a tax equivalent basis was 5.33%, 5.26%, and 5.89%, respectively, for 2009, 2008, and 2007.

Table of Contents

The following table sets forth the changes in consolidated net interest income attributable to changes in volume and to changes in interest rates. 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.

	2009 compared to 2008			2008 compared to 2007		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$(1,029)	$(3,428)	$(4,457)	$(817)	$(12,359)	$(13,176)
Securities	452	(1,446)	(994)	1,352	(478)	874
Short term investments	75	(850)	(775)	18	(1,066)	(1,048)
Total interest income	$(502)	$(5,724)	$(6,226)	$553	$(13,903)	$(13,350)
Interest Expense:						
Deposits:						
Interest-bearing demand accounts	$132	$(540)	$(408)	$198	$(808)	$(610)
Money market accounts	(829)	(1,737)	(2,566)	42	(4,114)	(4,072)
Savings accounts	(294)	(1,911)	(2,205)	(1,517)	(3,795)	(5,312)
Certificates of deposit	1,363	(2,562)	(1,199)	1,325	(554)	771
Total interest on deposits	372	(6,750)	(6,378)	48	(9,271)	(9,223)
Borrowings	(216)	(238)	(454)	689	(577)	(112)
Total interest expense	$156	$(6,988)	$(6,832)	$737	$(9,848)	$(9,335)

Other Operating Income

Total other operating income increased $2.1 million, or 19%, in 2009, after increasing $1.4 million, or 15%, in 2008, and increasing $2.2 million, or 28%, in 2007. The main reasons for the increase in operating income in 2009 were the increase in earnings from RML Holding Company, rental income and electronic banking fees. These increases were partially offset by decreases in purchased receivable income and deposit service charges. The following table separates the more routine (operating) sources of other income from those that can fluctuate significantly from period to period:

Years Ended December 31,	2009	2008	2007	2006	2005
			(In Thousands)		
Other Operating Income					
Deposit service charges	$2,983	$3,283	$3,116	$1,975	$1,800
Equity in earnings from RML	2,349	595	454	649	493
Purchased receivable income	2,106	2,560	2,521	1,855	993
Employee benefit plan income	1,739	1,451	1,194	1,113	
Electronic banking fees	1,542	1,193	914	790	632
Rental income	850	463	134	108	100
Loan service fees	508	476	516	531	374
Merchant credit card transaction fees	406	451	509	531	444
Equity in loss from Elliott Cove	(115)	(106)	(93)	(230)	(424)
Other transaction fees	308	380	267	227	214
Other income	188	462	312	217	298
Operating sources	12,864	11,208	9,844	7,766	4,924
Gain on sale of securities available for sale, net	220	146			9
Gain on sale of other real estate owned, net	453	45	110		
Other sources	$673	$191	110		9
Total other operating income	$13,537	$11,399	$9,954	$7,766	$4,933

Table of Contents

Deposit service charges decreased $300,000, or 9%, in 2009 as compared to 2008, and increased $167,000, or 5%, in 2008 as compared to 2007. The decrease in service charges from 2008 to 2009 was primarily the result of a decrease in fees collected on nonsufficient funds transactions due to a decrease in the number of overdraft transactions processed in 2009. The increase of $1.1 million in 2007 as compared to 2006 was primarily from the April 2007 implementation of nonsufficient funds (NSF) fees on point-of-sale transactions. The new point-of-sale NSF fees represented $1.1 million of the increase in service charges in 2007. The Company expects continued decreases in deposit services charges in 2010 due to recent changes in regulations that restrict the Company s ability to assess service charges on point-of-sale transactions unless its customers request this service. This legislation is effective starting in the third quarter of 2010.

Included in operating sources of other operating income in 2009, 2008, and 2007 were $2.3 million, $595,000, and $454,000, respectively, of income from our share of the earnings from RML Holding Company, which we account for according to the equity method. Earnings from RML Holding Company have fluctuated with activity in the housing market, which has been affected by local economic conditions and changes in mortgage interest rates. Earnings from RML Holding Company increased $1.8 million, or 295%, in 2009 as compared to 2008. The increase in earnings resulted from increased refinance activity that began in the fourth quarter of 2008 and continued through the third quarter of 2009. In 2008, earnings from RML Holding Company increased $141,000, or 31%, due to an increase in mortgage loan originations and a reduction in its costs. However, in 2007 the decline in mortgage applications due to the slowdown in the Alaskan housing market had a direct effect on RML Holding Company s operating income and led to a decrease of $195,000, or 30%. The Company expects that its income from RML Holding Company will decrease in 2010 as compared to 2009 as the refinance activity that started in late 2008 and continued into 2009 decreases.

Income from the Company s purchased receivable products decreased by $454,000, or 18%, in 2009 as compared to 2008. Purchased receivable income increased by $39,000, or 2%, in 2008 as compared to 2007, and increased $666,000, or 36%, in 2007 as compared to 2006. The Company uses these products to purchase accounts receivable from its customers and provide them with working capital for their businesses. While the customers are responsible for collecting these receivables, the Company mitigates this risk with extensive monitoring of the customers transactions and control of the proceeds from the collection process. The Company records losses on purchased receivable products in other operating expense. Net purchased receivable losses were $166,000, $192,000, and $245,000 in 2009, 2008 and 2007, respectively. The Company earns income from the purchased receivable product by charging finance charges to its customers for the purchase of their accounts receivable. The income from this product has grown overall in the last several years as the Company has used it to purchase more receivables from its customers. However, the Company expects the income level from this product to fluctuate as the Company adds new customers while some of its existing customers will move into different products to meet their working capital needs. For example, during the six months ending June 30, 2009, two of the Company s purchased receivable customers sold all or a portion of their businesses and used those proceeds to repay substantially all of their purchased receivable balances which accounted for most of the decrease in purchased receivable revenues for 2009 as compared to 2008. In 2008, the Company stopped offering one of its purchased receivable products in Alaska, which accounts for the slower growth rate for this product during that time.

In December of 2005, the Company, through its wholly-owned subsidiary NCIC, purchased an additional 40.1% interest in NBG, which brought its ownership interest in NBG to 50.1%. As a result of this increase in ownership, the Company now consolidates the balance sheet and income statement of NBG into its financial statements. The Company included employee benefit plan income from NBG for the first time in its other operating income in 2006. In 2009 and 2008, the income from employee benefit plan income from NBG increased by $288,000, or 20%, and $257,000, or 22%, respectively. The increase in employee benefit plan income in 2009 as compared to 2008 is a reflection of NBG s ability to provide additional products and services to an increasing client base. The increase in 2008 as compared to 2007 was due in part to premium increases by the largest insurance carrier represented by NBG

which corresponded to higher commission income for NBG in both years. In 2007, the Company recorded an $81,000 increase for this item, or 7%, compared to the initial $1.1 million income recorded in 2006. In contrast, the Company did not record any income for this item in its other operating income in 2005 as it purchased a 10% interest in NBG in March of 2005 and accounted for this interest according to the equity method in 2005.

The Company s electronic banking fees increased by $349,000, or 29%, in 2009 as compared to 2008, and increased $279,000, or 31%, in 2008 as compared to 2007. These increases resulted from additional fees collected from increased point-of-sale and ATM transactions. The point-of-sale and ATM fees have increased as a result of the increased number of deposit accounts that the Company has acquired through the marketing of the high performance checking (HPC) product and overall continued increased usage of point-of-sale transactions by the entire customer base.

Rental income increased by $387,000, or 84%, in 2009 to $850,000 from $463,000 in 2008. Rental income increased by $329,000, or 246%, to $463,000 in 2008 from $134,000 in 2007. These increases were the result of the purchase of the Company s main office facility through NBL in July 2008. The Company leases approximately 40% of the building to other companies and earned $773,000 and $399,000 from these leases in 2009 and 2008, respectively. Rental income increased by $26,000, or 24% in 2007 to $134,000 from $108,000 in 2006 due mainly to increased rental income received for space rented at the Wasilla branch.

Table of Contents

Loan service fees increased by $32,000, or 7%, in 2009 as compared to 2008 and decreased by $40,000, or 8% in 2008 as compared to 2007. In 2009, these fees increased from 2008 due to fees received from RML Holding Company related to loans purchased in 2009. The decrease in 2008 as compared to 2007 wass the result of decreased service fees as loan volume decreased in 2008.

Merchant credit card transaction fees decreased by $45,000, or 10%, in 2009 as compared to 2008 and decreased by $58,000, or 11%, in 2008 as compared to 2007 due to decreased sales at merchants utilizing the Company s credit card system. The Company expects fees in this area to remain stable in 2010 due to its efforts to attract new customers to this product.

Our share of the loss from Elliott Cove in 2009 and 2008 remained consistent with 2007 at $115,000 and $106,000, respectively, as compared to $93,000 in 2007. Losses in 2006 and 2005 were $230,000 and $424,000, respectively, as Elliott Cove continued to increase its assets under management, which provided it with increased revenues.

Other income decreased by $274,000, or 59%, to $188,000 in 2009 as compared to $462,000 in 2008. Other income increased by $150,000, or 48%, to $462,000 in 2008 as compared to 2007. The decrease in 2009 as compared to 2008 was the result of decreases in Company s commissions from the sale of Elliott Cove products, and losses incurred by the Company s affiliate PWA.

In the first quarter of 2006, through our subsidiary, NISC, the Company purchased a 24% interest in PWA. 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. The Company incurred a loss of $23,000, earned income of $36,000, and incurred a loss of $105,000 in 2009, 2008 and 2007, respectively, on its investment in PWA, which it accounts for according to the equity method.

Net gains on sales of OREO and available for sale securities are included in other income on the income statement. The Company had gains on sale of OREO of $453,000, $45,000 and $110,000 in 2009, 2008 and 2007, respectively. Additionally, there was $522,000 and $432,000 of deferred gain on the sale of OREO included in other liabilities at December 31, 2009 and December 31, 2008, respectively. These deferred gains will be recognized using the installment method. Finally, there were security gains of $220,000 and $146,000 in 2009 and 2008, respectively, and none were recorded in 2007.

Other Operating Expense

Other operating expense increased $1.4 million, or 3%, in 2009, $5.4 million, or 15%, in 2008, and $3.6 million, or 11%, in 2007. The following table breaks out the other operating expense categories:

Years Ended December 31,	2009	2008	2007	2006	2005
			(In Thousands)		
Other Operating Expense					
Salaries and other personnel expense	$22,174	$20,996	$20,700	$19,277	$17,656
Occupancy, net	3,687	3,399	2,957	2,611	2,517
OREO expense, including impairment	1,572	2,558	(20)	(5)	
Insurance expense	2,715	1,779	465	378	451
Marketing	1,317	1,558	1,617	1,641	1,657

Professional and outside services	1,336	1,498	1,167	840	923
Equipment	1,218	1,233	1,350	1,350	1,371
Prepayment penalty on long term debt	718				
Intangible asset amortization	323	347	337	482	368
Other expenses	6,750	7,071	6,490	4,902	4,634
Total other operating expense	$41,810	$40,439	$35,063	$31,476	$29,577

Salaries and other personnel expense increased $1.2 million, or 6%, in 2009, $296,000, or 1%, in 2008, and $1.4 million, or 7%, in 2007. The increase in salary and other personnel expenses in 2009 as compared to 2008 was the result of a $526,000 increase in deferred compensation expense as the Company s liability under this plan increased due to market increases on plan assets. The Company incurs a liability to pay deferred compensation according to the level of assets held in variable annuity life insurance plans on certain key executives. As the value of these assets increased in 2009, the Company s liability and expenses for that plan also increased during the year. Additionally, group medical and dental costs increased by $427,000 in 2009 due to increased medical claims. Salary and other personnel expenses remained consistent with 2007 in 2008 due in part to the fact that the Company did not pay most management and officer incentives that were paid in 2007 as the Company s net income decreased by 48% in 2008 as compared to 2007. Additionally, deferred compensation expense decreased $668,000 in 2008 from the prior year as the Company s

liability under this plan decreased due to market losses incurred on plan assets. The increase in 2007 from 2006 reflects increases in salary and benefit costs throughout this time due in part to ongoing competition for our employees, which placed upward pressure on our salary structure. In addition, as noted above, the Company now accounts for NBG on a consolidated basis. In 2008, NBG s salary and benefit costs included in the Company s own salary and benefit costs increased by $52,000 to $580,000. Lastly, stock-based compensation expense increased to $648,000 in 2009 from $597,000 in 2008 and $578,000 in 2007 due to increases in the weighted average fair values for restricted stock units.

During 2009, our occupancy expenses increased by $288,000, or 9%, to $3.7 million from $3.4 million in 2008. This increase was primarily the result of a $216,000 increase in utilities expense, a $241,000 increase in depreciation expense, a $224,000 increase in repairs and maintenance expense, and a $116,000 increase in real estate tax expense. These increases were partially offset by a $518,000 decrease in rent expense. These increases are the result of the purchase of the Company s main office facility in July 2008, which also caused the decrease in rent expense. Occupancy expense increased $442,000, or 15%, to $3.4 million in 2008 from $3 million in 2007. This increase is primarily the result of a $254,000 increase in depreciation expense, a $197,000 increase in repairs and maintenance, a $151,000 increase in real estate taxes, a $132,000 increase in utility expense, and a $71,000 increase in janitorial costs. These increases are the result of the Company taking on additional space in both Anchorage and Fairbanks as well as the purchase of the Company s main office facility in July 2008. Additionally, these increases were offset by a $386,000 decrease in rent expense which also resulted from the purchase of the main office facility. During 2007, occupancy expenses increased by $346,000, or 13%, to $3 million from $2.6 million, as we incurred higher costs in repair and maintenance as well as increased utility expenses. In addition to this, the Company incurred a $233,000 increase in rent expense due to expenses associated with the Alaska First buildings, as well as an overall increase in rents. The Company closed the two Alaska First branches in December of 2007 and February of 2008. In 2008, the Company incurred $31,000 in rent expense associated with these branches.

OREO expenses decreased $1 million, or 39%, to $1.6 million in 2009 from $2.6 million in 2008. The primary reason for this decrease was the fact that impairment charges on OREO properties decreased $1.2 million to $825,000 in 2009 from $2 million in 2008. Impairment charges arise from adjustments to the Company s estimate of the fair value of certain properties based on changes in estimated costs to complete the projects and overall market conditions in the Anchorage, Matanuska-Susitna Valley, and Fairbanks markets. The decrease in impairment on OREO was partially offset by a $188,000 increase in property management expenses related to OREO properties. This increase resulted from a higher average balance of OREO properties in 2009 as compared to 2008. In 2008, the Company incurred $365,000 in taxes and insurance costs, $133,000 in legal expense and $91,000 in property management expense related to OREO properties. In 2007, the Company did not incur any expenses related to OREO properties. Additionally, the Company recognized rental income on OREO properties of $26,000, $1,000, and $20,000 in 2009, 2008 and 2007, respectively. In 2010, the Company expects to incur lower overall net OREO expenses due in large part to increased rental income on its OREO properties.

Insurance expense increased by $936,000, or 53%, to $2.7 million in 2009 from $1.8 million in 2008. This increase is the result of a $1.8 million increase in FDIC insurance expense that was due to changes in the assessment of FDIC insurance premiums. This increase was partially offset by an $803,000 decrease in Keyman insurance expense that arose from increases in the cash surrender value of assets held under the Company s policies. In 2008, insurance expense increased $1.3 million, or 283%, from $465,000 in 2007. This increase is attributable to an $805,000 increase in Keyman insurance expense that arose from decreases in the cash surrender value of assets held under the Company s policies and a $472,000 increase in FDIC insurance expense that was due to changes in the assessment of FDIC insurance premiums.

Marketing costs decreased by $241,000, or 15%, in 2009, by $59,000, or 5%, in 2008, and by $24,000, or 1%, in 2007. The primary reason for the decrease in 2009 was decreased charitable contributions and promotional expenses.

Although the Company incurred additional marketing expenses due to promoting its HPC Program in 2008 and 2007, those costs were offset by a decrease in other marketing expenses such as advertising for some of the Company s other products. The Company plans to continue to market its HPC Program as it has since the second quarter of 2005. However, the related marketing expenses may fluctuate from year to year depending on the Company s liquidity needs. Furthermore, the Company expects that the additional deposit accounts will continue to generate increased fee income that will offset a majority of the increased marketing costs associated with the HPC Program.

Professional and outside services expense decreased by $162,000, or 11%, to $1.3 million in 2009 from $1.5 million in 2008. This decrease is primarily the result of a $127,000 decrease in consulting fees due to fees paid for services rendered by former Alaska First employees to facilitate the transition of Alaska First operations to the Company in 2008 that were not paid in 2009. Additionally, other outside services decreased by $96,000 for internal audit and loan compliance consulting fees that were incurred in 2008 but not in 2009. Professional and outside services expense increased by $331,000, or 28% to $1.5 million in 2008 from $1.2 million in 2007. The majority of this increase is due to fees paid for services rendered by former Alaska First employees to facilitate the transition of Alaska First operations to the Company, increased fees related to tax services, increased investment management fees due to higher average investment security balances in 2008, and the outsourcing of internal audit work.

Equipment expense decreased $15,000, or 1%, in 2009 from $1.2 million in 2008 and decreased $117,000, or 9% to $1.2 million in 2008 from $1.4 million in 2007. The decrease in 2008 is primarily the result of decreased rental costs related on some of the Company s office equipment.

The Company incurred a prepayment penalty of $718,000 when it paid off two long term borrowings from the Federal Home Loan Bank of Seattle totaling $9.9 million in September of 2009. The borrowing had an average remaining life of over 8 years. The resulting prepayment penalty reduced earnings per share for the third quarter of 2009 by $0.07 and is expected to save as much as $0.05 per share in 2010 and additional amounts in future years. There were no early payoffs of borrowings in 2008. See the Borrowings section under Liabilities below for further discussion of the payoff of long term debit in 2009.

Intangible asset amortization decreased by $24,000, or 7%, in 2009 to $323,000 from $347,000 in 2008. This decrease arose because we amortize the core deposit intangible (CDI) associated with the Alaska First acquisition using an accelerated method. Therefore, amortization expense on this CDI will continue to decrease every year. Intangible asset amortization increased by $10,000 or 3% to $347,000 during 2008 from $337,000 during 2007. In 2007, the Company finished amortizing the CDI related to the accounts it acquired in 1999 from the Bank of America transaction. The Company had no amortization related to this CDI in 2008 and $163,000 in 2007. Additionally, the Company recognized amortization on the CDI associated with the Alaska First acquisition of $232,000 in 2008 and $60,000 in 2007. The amortization expense on the NBG intangible asset was $115,000 in 2009, 2008 and 2007.

Other expenses, which includes loan collateral expenses, software expenses, amortization of low income housing tax credit partnerships, ATM and debit card processing fees, internet banking fees and other operational expenses, decreased $321,000, or 5%, in 2009 as compared to 2008. The primary reason for the decreases in other expense for both periods was a $260,000 decrease in expenses related to the payment of costs for taxes, insurance, and other loan collateral expenses associated with the loan collection process. Additionally, ATM and debit card processing expenses decreased by $115,000 as compared to 2008. Other expenses increased $581,000, or 9%, in 2008 as compared to 2007 due to changes in a variety of expense accounts. The largest increases in 2008 can be attributed to a $382,000 increase in costs associated with loan collection, and a $122,000 increase in correspondent bank charges due to the Company converting to Check 21. In addition, the amortization expense associated with the Company s investments in partnerships that develop low-income housing increased by $118,000 in 2008.

Provision for Loan Losses

The provision for loan losses in 2009 was $7.1 million, compared to $7.2 million in 2008 and $5.5 million in 2007. We decreased the provision for loan losses slightly in 2009 due to decreases in nonperforming loans and impaired loans. The decreases in the specific allocations in the allowance for loan losses related to these segments of the loan portfolio were mostly offset by an increase in the unallocated portion of the allowance for loan losses to address the impact of the current economic environment on our loan portfolio. Nonperforming loans decreased $8.5 million to $17.5 million at December 31, 2009 from $26 million at December 31, 2008, and impaired loans decreased by $33.4 million to $46.3 million at December 31, 2009 from $79.7 million at December 31, 2008. See the Allowance for Loan Loss section under Financial Condition for further discussion of these decreases. In addition, net loan charge-offs were $6.9 million, or 1% of average loans, in 2009 as compared to $6 million, or 0.86% of average loans, in 2008 and $6.1 million, or 0.86% of average loans, in 2007. See the Note 7 for further discussion of the change in the allowance for loan losses.

Income Taxes

The provision for income taxes decreased $155,000, or less than 1%, to $3.0 million in 2009, decreased $4.1 million, or 57%, to $3.1 million in 2008, and decreased $718,000 million, or 9%, to $7.3 million in 2007. The effective tax

rates for 2009, 2008 and 2007 were 27%, 34%, and 38%. The decrease in the tax rate for 2009 was primarily due to increased tax exempt income on investments and tax credits relative to the level of taxable income.

Financial Condition

Assets

Loans and Lending Activities

General: Our loan products include short and medium-term commercial loans, commercial credit lines, construction and real estate loans and consumer loans. We emphasize providing financial services to small and medium-sized businesses and to individuals. 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 needed 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.

Table of Contents

Loans are the highest yielding component of earning assets. Average loans were $13.8 million, or 2% lower in 2009 than in 2008. Average loans were $8.8 million, or 1% lower in 2008 than in 2007. Average loans comprised 79% of total earning assets on average in 2009, 80% in 2008 and 84% in 2007. The yield on loans averaged 7.09% in 2009, 7.59% in 2008, and 9.35% in 2007.

The reduction in the loan portfolio during 2009 was $56.2 million, or 8%. Commercial loans decreased $45 million, or 15%, commercial real estate loans increased $33 million, or 12%, construction loans decreased $37.9 million, or 38%, and homes equity lines and consumer loans decreased $6.2 million in 2009. Due to its efforts to capitalize on market opportunities, the Company expects its loan portfolio to increase in 2010.

Nonperforming Assets: Nonperforming assets consist of nonaccrual loans, accruing loans that are 90 days or more past due, restructured loans, and other real estate owned. We had other real estate owned property of $17.4 million at December 31, 2009, as compared to $12.6 million at December 31, 2008. The following table sets forth information regarding our nonperforming loans and total nonperforming assets:

December 31,	2009	2008	2007	2006	2005
			(In Thousands)		
Nonperforming loans					
Nonaccrual loans	$12,738	$20,593	$9,673	$5,176	$5,090
Accruing loans past due 90 days or more	1,000	5,411	1,665	708	981
Troubled debt restructuring	3,754			748	
Total nonperforming loans	17,492	26,004	11,338	6,632	6,071
Real estate owned	17,355	12,617	4,445	717	105
Total nonperforming assets	$34,847	$38,621	$15,783	$7,349	$6,176
Allowance for loan losses to portfolio loans	2.00%	1.81%	1.64%	1.69%	1.52%
Allowance for loan losses to nonperforming loans	75%	50%	104%	183%	176%
Nonperforming loans to portfolio loans	2.67%	3.66%	1.59%	0.92%	0.86%
Nonperforming assets to total assets	3.47%	3.84%	1.56%	0.79%	0.69%

Nonaccrual, Accruing Loans 90 Days or More Past Due, and Troubled Debt Restructuring (TDR   ): The Company   s financial statements are prepared on the accrual basis of accounting, including recognition of interest income on its loan portfolio, unless a loan is placed on a nonaccrual basis. Loans are placed on a nonaccrual basis when management believes serious doubt exists about the collectability of principal or interest. Our policy generally is to discontinue the accrual of interest on all loans 90 days or more past due unless they are well secured and in the process of collection. Cash payments on nonaccrual loans are directly applied to the principal balance. The amount of unrecognized interest on nonaccrual loans was $1.4 million, $1.9 million, and $865,000, in 2009, 2008, and 2007, respectively. The Company had no relationships that represented more than 10% of nonaccrual loans as of

December 31, 2009.

TDRs are those loans for which concessions, including the reduction of interest rates below a rate otherwise available to that borrower, have been granted due to the borrower s weakened financial condition. Interest on TDRs will be accrued at the restructured rates when it is anticipated that no loss of original principal will occur, and the interest can be collected. The Company had one $3.8 million loan classified as a TDR as of December 31, 2009. This is a commercial relationship that has been classified as a TDR since the third quarter of 2009. When this loan was restructured, it was converted into two separate loans. One of the loans was charged off, and the other loan was made at market terms. The Company expects the second loan to return to performing status in 2010.

Total nonperforming loans at December 31, 2009, were $17.5 million, or 2.67% of portfolio loans, a decrease of $8.5 million from $26 million at December 31, 2008, and an increase of $6.2 million from $11.3 million at December 31, 2007. The decrease in nonperforming loans at December 31, 2009 as compared to December 31, 2008 is due to a $7.9 million decrease in nonaccrual loans and a $4.4 million decrease in accruing loans past due 90 days or more. These decreases were partially offset by a $4.7 million increase in other real estate owned.

Loans Measured for Impairment, Other Real Estate Owned and Potential Problem Loans: At December 31, 2009, the Company had $63.6 million in loans measured for impairment and OREO as compared to $92.3 million at December 31, 2008. At December 31, 2009, management had identified potential problem loans of $17 million as compared to potential problem loans of $21.6 million at December 31, 2008. Potential problem loans are loans which are currently performing and are not included in

nonaccrual, accruing loans 90 days or more past due, or restructured loans 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 restructured loans. The $4.6 million decrease in potential problem loans from December 31, 2009 from December 31, 2008 is primarily due to the transfer of one multi-unit condominium project and three condominiums to OREO in 2009. This decrease was partially offset by the addition of one land development loan and one construction loan.

At December 31, 2009 and 2008 the Company held $17.4 million and $12.6 million, respectively, as OREO which consists of $12.8 million in condominiums, $3.7 million in residential lots in various stages of development, $498,000 in commercial property and $365,000 in single family residences. All OREO property is located in Alaska. The Bank initiates foreclosure proceedings to recover and sell collateral pledged by a debtor to secure a loan based on various events of default and circumstances related to loans that are secured by either commercial or residential real property. These events and circumstances include delinquencies, the Company s relationship with the borrower, and the borrower s ability to repay the loan via a source other than the collateral. If the loan has not yet matured, the debtor may cure the events of default up to the time of sale to retain their interest in the collateral. Failure to cure the defaults will result in the debtor losing ownership interest in the property, which is taken by the creditor, or high bidder at a foreclosure sale. During 2009, additions to OREO totaled $12.4 million and included $9.7 million in condominiums, including one $7.7 million, 49-unit development, $1.4 million in single family residences, $1.1 million in residential lots, and $326,000 in other properties. During 2009, the Company received approximately $9.1 million in proceeds for the sale of OREO which included $5.0 million from the sale of condominiums, $2.5 million from the sale of single family residences, $1.1 million from the sale of commercial properties, and $589,000 from the sale of residential lots.

The Company recognized $548,000 in gains and $101,000 in losses on the sale of fifty individual OREO properties in 2009. The Company also amortized $6,000 in deferred gain on a 2007 sale for a net gain of $453,000 for the year ended December 31, 2009. The Company deferred $96,000 in gains on the sale of three OREO properties in 2009. During 2008, the Company received approximately $2.6 million in proceeds from the sale of several owned properties and recognized net gains on sales of $45,000. During 2007, the Company sold two owned properties and recognized a gain on sale of $110,000. An additional $432,000 of gain was deferred in 2007 and will be recognized using the installment method. Total deferred gain on the sale of OREO at December 31, 2009 is $522,000. In 2010, the Company expects to realize the gains deferred in 2009.

The Company recognized impairments of $825,000 and $2 million in 2009 and 2008, respectively, due to adjustments to the Company s estimate of the fair value of certain properties based on changes in estimated costs to complete the projects and changes in the Anchorage and Fairbanks real estate markets. There was no impairment recorded in 2007.

The following summarizes OREO activity in 2009:

December 31,	2009	2008	2007
		(In Thousands)	
Balance, beginning of the year	$12,617	$4,445	$717
Transfers from loans	12,441	9,395	4,486
Investment in other real estate owned	1,699	3,273	
Proceeds from the sale of other real estate owned	(9,120)	(2,583)	(1,300)
Gain on sale of other real estate owned, net	453	45	110
Deferred gain on sale of other real estate owned	90		432
Impairment on other real estate owned	(825)	(1,958)	

Balance, End of Year	$17,355	$12,617	$4,445

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.

In determining its total Allowance, the Company first estimates a specific allowance for impaired loans. Management determined 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 warrant an adjustment. Additionally, the Company may also adjust appraisals in the above circumstances between appraisal dates. 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 based on the Company s assessment of updated appraisals. The specific allowance on impaired loans at December 31, 2009, is $1.9 million, or 12% of total loans that are specifically impaired.

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 done. If a specific allowance is deemed necessary for a loan, and then that loan is partially charged off, the loan remains classified as a nonperforming loan after the charge off is done. Loans measured for impairment based on collateral value and all other loans measured for impairment are accounted for in the same way. The total charge off rate for nonperforming loans as of December 31, 2009 is 18%. The Allowance coverage ratios are affected by charge offs.

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 $62.6 million in construction loans at December 31, 2009, and $7.3 million of those loans have interest reserves as of December 31, 2009. 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. The Company s five year average ratio of charge offs to average loans was 0.61% at December 31, 2009. For 2009, the ratio of charge offs to average loans was 0.99% as compared to 0.86% in 2008. During the same five year period, the five year average ratio of unallocated reserves to unallocated loans was 1.27%. The ratio of unallocated reserves to unallocated loans was 1.49% at December 31, 2009 as compared to 1.14% at December 31, 2008. The unallocated portion of the Allowance at December 31, 2009 increased to $7.2 million from $5.2 million at December 31, 2008. This increase 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 a level of unallocated reserves above the previously established range for unallocated reserve as a percentage of total reserve. At December 31, 2009, the unallocated reserve as a percentage of total reserves was 55% as compared

to 41% of total reserves at December 31, 2008. The level of the unallocated portion of the Allowance also reflects management s belief that there is higher inherent risk in the remaining portfolio in today s lending environment.

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.

At December 31, 2009, nonperforming loans decreased to $17.5 million, or 2.67% of portfolio loans as compared to $26 million, or 3.66% of portfolio loans at December 31, 2008. The coverage ratio of the allowance for loan losses verses nonperforming loans increased to 75% in 2009 as compared to a coverage ratio of 50% in 2008. The decrease in nonperforming loans and potential problem loans has been factored into the Company s methodology for analyzing its allowance on a consistent basis. The Company has also taken steps to improve its credit quality including the formation of a Quality Assurance department to provide independent, detailed financial analysis of its largest, most complex loans, which it believes will help to improve its credit quality in the future. The increased ratio of the allowance for loan losses verses nonperforming loans is the result of the decrease in nonperforming loans and the increase in the unallocated portion of the Allowance noted above. Management believes that at

Table of Contents

December 31, 2009, the allowance is adequate to cover losses that are probable in light of our current loan portfolio and existing economic conditions.

While management believes that it uses the best information available to determine the allowance for loan losses, unforeseen market conditions and other events could result in adjustment to the allowance for loan losses, and net income could be significantly affected, if circumstances differed substantially from the assumptions used in making the final determination.

The following table shows the allocation of the allowance for loan losses for the periods indicated:

ember 31,	2009		2008		2007		2006		2005	
ance applicable to:	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]	Amount	% of T Loans
					(Dollars in Thousands)					
nmercial	$3,962	38%	$5,558	41%	$6,496	40%	$8,208	40%	$6,913	4
struction	1,365	9%	1,736	14%	940	19%	330	21%	246	1
l estate term	565	46%	306	38%	1,661	34%	964	33%	1,214	3
ne equity lines and r consumer	50	7%	61	7%	16	7%	6	6%	37	
llocated	7,166	0%	5,239	0%	2,622	0%	2,617	0%	2,296	
al	$13,108	100%	$12,900	100%	$11,735	100%	$12,125	100%	$10,706	10

(1) Represents percentage of this category of loans to total loans.

The following table sets forth information regarding changes in our allowance for loan losses for the periods indicated:

December 31,	2009	2008	2007	2006	2005
			(In Thousands)		
Balance at beginning of period	$12,900	$11,735	$12,125	$10,706	$10,764
Charge-offs:					
Commercial loans	(3,372)	(4,187)	(4,291)	(2,545)	(1,552)
Construction loans	(1,308)	(1,004)	(2,982)		(100)
Real estate loans	(2,478)	(1,402)	(599)		
Home equity and other consumer loans	(509)	(132)	(45)	(72)	(63)
Total charge-offs	(7,667)	(6,725)	(7,917)	(2,617)	(1,715)

Recoveries:					
Commercial loans	736	577	1,723	1,086	418
Construction loans	7	61	50		15
Real estate loans	11	3		355	15
Home equity and other consumer loans	55	50	21	31	39
Total recoveries	809	691	1,794	1,472	487
Charge-offs net of recoveries	(6,858)	(6,034)	(6,123)	(1,145)	(1,228)
Allowance aquired with Alaska First acquisition			220		
Provision for loan losses	7,066	7,199	5,513	2,564	1,170
Balance at end of period	$13,108	$12,900	$11,735	$12,125	$10,706
Ratio of net charge-offs to average loans outstanding during the period	1.00%	0.86%	0.86%	0.16%	0.18%

Table of Contents

The increase in real estate charge offs in 2009 as compared to 2008 is related to one borrower. The increase in real estate charge offs in 2008 as compared to 2007 related to two borrowers. Management has consistently applied its methodology for calculating the allowance for loan losses from period-to-period, and the unallocated portion of the allowance has increased in 2009 to address the impact of the current economic environment on our loan portfolio.

Credit Authority and Loan Limits: All of our loans and credit lines are subject to approval procedures and amount limitations. These limitations apply to the borrower s total outstanding indebtedness and commitments to us, including the indebtedness of any guarantor.

Generally, we are permitted to make loans to one borrower of up to 15% of the unimpaired capital and surplus of the Bank. The loan-to-one-borrower limitation for the Bank was $20 million at December 31, 2009. At December 31, 2009, the Company had four relationships whose total direct and indirect commitments exceeded $20 million; however, no individual direct relationship exceeded the limit. See Management s Discussion and Analysis of Financial Condition and Results of Operations Provision for Loan Losses.

Loan Policy: Our lending operations are guided by loan policies, which outline the basic policies and procedures by which lending operations are conducted. Generally, the policies address our desired loan types, target markets, underwriting and collateral requirements, terms, interest rate and yield considerations, and compliance with laws and regulations. The policies are reviewed and approved annually by the Board of Directors. We supplement our own supervision of the loan underwriting and approval process with periodic loan reviews by experienced officers who examine quality, loan documentation, and compliance with laws and regulations. Our Quality Assurance department also provides independent, detailed financial analysis of our largest, most complex loans. In addition, the department, along with the Chief Lending Officer and others in the Loan Administration department, has developed processes to analyze and manage various concentrations of credit within the overall loan portfolio. The Loan Administration department has also enhanced the procedures and processes for the analysis and reporting of problem loans along with the development of strategies to resolve them. Finally, our Internal Audit Department also performs an independent review of each loan portfolio for compliance with loan policy as well as a review of credit quality. The Internal Audit review follows the FDIC sampling guidelines, and a review of each portfolio is performed on an annual basis.

Loans Receivable: Loans receivable decreased to $655 million at December 31, 2009, compared to $711.3 million and $714.8 million at December 31, 2008 and 2007, respectively. At December 31, 2009, 65% of the portfolio was scheduled to mature or reprice in 2010 with 31% scheduled to mature or reprice between 2011 and 2014. Future growth in loans is generally dependent on new loan demand and deposit growth, constrained by our policy of being well-capitalized as determined by the FDIC.

Loan Portfolio Composition: The following table sets forth at the dates indicated our loan portfolio composition by type of loan:

er 31,	2009		2008		2007		2006		2005	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	P o
					(Dollars in Thousands)					
rcial loans	$248,205	37.89%	$293,249	41.23%	$284,956	39.87%	$287,281	40.06%	$287,617	4
ate loans:										
ction	62,573	9.55%	100,438	14.12%	138,070	19.32%	153,059	21.35%	131,532	1
ate term	301,816	46.08%	268,864	37.80%	243,245	34.03%	237,599	33.14%	252,395	3
	45,243	6.91%	51,447	7.23%	51,274	7.17%	42,140	5.88%	36,519	

quity lines er er										
	657,837	100.43%	713,998	100.39%	717,545	100.38%	720,079	100.42%	708,063	10
ed purchase t		0.00%		0.00%		0.00%		0.00%		
ed loan fees rigination	(2,798)	-0.43%	(2,712)	-0.39%	(2,744)	-0.38%	(3,023)	-0.42%	(3,004)	
ns	$655,039	100.00%	$711,286	100.00%	$714,801	100.00%	$717,056	100.00%	$705,059	10

31

Table of Contents

The following table presents at December 31, 2009, the aggregate maturity and repricing data of our loan portfolio:

	Maturity			
	Within 1 Year	1-5 Years	Over 5 Years	Total
	(In Thousands)			
Commercial	$100,365	$102,233	$45,607	$248,205
Construction	57,815	4,758		62,573
Real estate term	28,608	97,168	176,040	301,816
Home equity lines and other consumer	1,130	9,355	34,758	45,243
Total	$187,918	$213,514	$256,405	$657,837
Fixed interest rate	$92,136	$87,440	$45,739	$225,315
Floating interest rate	95,782	126,074	210,666	432,522
Total	$187,918	$213,514	$256,405	$657,837

Commercial Loans: Our commercial loan portfolio includes both secured and unsecured loans for working capital and expansion. Short-term working capital loans generally are secured by accounts receivable, inventory, or equipment. We also make longer-term commercial loans secured by equipment and real estate. We also make commercial loans that are guaranteed in large part by the Small Business Administration or the Bureau of Indian Affairs and commercial real estate loans that are participated with the Alaska Industrial Development and Export Authority (AIDEA). Commercial loans represented 38% of our total loans outstanding as of December 31, 2009 and reprice more frequently than other types of loans, such as real estate loans. More frequent repricing means that interest cash flows from commercial loans are more sensitive to changes in interest rates. In a rising interest rate environment, our philosophy is to emphasize the pricing of loans on a floating rate basis, which allows these loans to reprice more frequently and to contribute positively to our net interest margin. The majority of these loans reprice to an index based upon the prime rate of interest. In 2008, the Company began to implement floors in its loans as they were originated or renewed during the year.

Construction Loans:

Land Development: We are a major land development and residential construction lender. At December 31, 2009 and 2008, we had $27.4 million and $39 million, respectively, of residential subdivision land development loans outstanding, or 5%, respectively, in each year of total loans.

One-to-Four-Family Residences: We financed approximately 42% of the single-family houses constructed in Anchorage in 2009. We originated one-to-four-family residential construction loans to builders for construction of homes. At December 31, 2009 and 2008, we had $36.5 million and $39.8 million, respectively, of one-to-four-family residential and condominium construction loans, or 5% and 6% of total loans. Of the homes under construction at December 31, 2009 and 2008, for which these loans had been made, 52% and 33% were subject to sale contracts

between the builder and homebuyers who were pre-qualified for loans, usually with other financial institutions.

The Company s construction loans decreased from $100.4 million in 2008 to $62.3 million in 2009 due to the continued decrease in new construction activity. The Company expects continued slowness in residential construction in 2010. However, due to its efforts to maintain market share, it expects its construction loan totals to remain constant in 2010.

Commercial Construction: We also provide construction lending for commercial real estate projects. Such loans generally are made only when there is a firm take-out commitment upon completion of the project by a third party lender.

Commercial Real Estate: We are an active lender in the commercial real estate market. At December 31, 2009, our commercial real estate loans were $301.8 million, or 46% of our loan portfolio, an increase over $268.9 million, or 38% of our loan portfolio at December 31, 2008. These loans are typically secured by office buildings, apartment complexes or warehouses. Loan maturities range from 10 to 25 years, ordinarily subject to our right to call the loan within 10 to 15 years of its origination. The interest rate for approximately 62% of these loans originated by Northrim resets every one to five years based on the spread over an index rate, and 10% reset on either a daily or monthly basis. The indices for these loans have historically been prime or the respective Treasury rate. In 2008, the Company began to use the interest rates of the Federal Home Loan Bank of Seattle as an additional index. In addition, the Company began to implement floors in its interest rates for loans originated or renewed during the year.

Table of Contents

We may sell all or a portion of our commercial real estate loans to two State of Alaska entities that were established to provide long-term financing in the State, AIDEA, and the Alaska Housing Finance Corporation (AHFC). We may sell up to a 90% loan participation to AIDEA. AIDEA s portion of the participated loan typically features a maturity twice that of the portion retained by us and bears a lower interest rate. The blend of our and AIDEA s loan terms allows us to provide competitive long-term financing to our customers, while reducing the risk inherent in this type of lending. We also originate and sell to AHFC loans secured by multifamily residential units. Typically, 100% of these loans are sold to AHFC and we provide ongoing servicing of the loans for a fee. AIDEA and AHFC make it possible for us to originate these commercial real estate loans and enhance fee income while reducing our exposure to risk.

Home Equity Lines and Other Consumer Loans: We provide personal loans for automobiles, recreational vehicles, boats, and other larger consumer purchases. We provide both secured and unsecured consumer credit lines to accommodate the needs of our individual customers, with home equity lines of credit serving as the major product in this area.

Purchased Loans: During 2009, the Company entered into an agreement to purchase residential loans from our mortgage affiliate, RML Holding Company, in anticipation of higher than normal refinance activity in the Anchorage market. The Company then sold these loans in the secondary market. All loans purchased and sold in 2009 were newly originated loans that did not affect nonperforming loans. The Company purchased and sold $75.1 million in residential loans during 2009 and recognized $64,000 in gains related to these transactions in the 2009. There were no loans held for sale as of December 31, 2009, but the Company may resume this program in the future.

Off-Balance Sheet Arrangements Commitments and Contingent Liabilities: In the ordinary course of business, we enter into various types of transactions that include commitments to extend credit that are not reflected on our balance sheet. We apply the same credit standards to these commitments as in all of our lending activities and include these commitments in our lending risk evaluations.

As of December 31, 2009 we had commitments to extend credit of $166.7 million which were not reflected on our balance sheet. Commitments to extend credit are agreements to lend to customers. These commitments have specified interest rates and generally have fixed expiration dates but may be terminated by the Company if certain conditions of the contract are violated. Although currently subject to draw down, many of the commitments do not necessarily represent future cash requirements. Collateral held relating to these commitments varies, but generally includes real estate, inventory, accounts receivable, and equipment. Our exposure to credit loss under commitments to extend credit is represented by the amount of these commitments. For additional information regarding the Company s off-balance sheet arrangement, see Note 20 and the Liquidity and Resources .

As of December 31, 2009 we had standby letters of credit of $16.9 million which were not reflected on our balance sheet. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Credit risk arises in these transactions from the possibility that a customer may not be able to repay the Company upon default of performance. Collateral held for standby letters of credit is based on an individual evaluation of each customer s creditworthiness. Our total unfunded lending commitments at December 31, 2009, were $133.6 million, and we do not expect that all of these loans are likely to be fully drawn upon at any one time.

Investments and Investment Activities

General: Our investment portfolio consists primarily of government sponsored entity securities, corporate bonds, and municipal securities. Investment securities totaled $187.4 million at December 31, 2009, an increase of $35 million, or 23%, from year-end 2008. The average maturity of the investment portfolio was approximately two years at December 31, 2009.

Investment securities designated as available for sale comprised 95% of the portfolio and are available to meet liquidity requirements. Both available for sale and held to maturity securities may be pledged as collateral to secure public deposits. At December 31, 2009 and 2008, $17.7 million and $67.4 million in securities were pledged for deposits and borrowings, respectively. Pledged securities decreased at December 31, 2009 as compared to December 31, 2008 because the Company had fewer secured deposits at December 31, 2009. As the Company s core deposits increased in 2009, we allowed public, secured deposits to mature.

Investment Portfolio Composition: Our investment portfolio is divided into two classes:

Securities Available For Sale: These are securities we may hold for indefinite periods of time. These securities include those that management intends to use as part of our asset/liability management strategy and that may be sold in response to changes in interest rates and/or significant prepayment risks. We carry these securities at fair value with any unrealized gains or losses reflected as an adjustment to shareholders equity.

Securities Held To Maturity: These are securities that we have the ability and the intent to hold to maturity. Events that may be reasonably anticipated are considered when determining our intent to hold investment securities to maturity. These securities are carried at amortized cost.

Table of Contents

The following tables set forth the composition of our investment portfolio at the dates indicated:

	Amortized Cost	Fair Value
	(In thousands)	
Securities Available for Sale:		
2009:		
U.S. Treasury	$500	$502
U.S. Government Sponsored Entities	140,871	141,498
Muncipal Securities	6,184	6,270
U.S. Agency Mortgage-backed Securities	85	87
Corporate Bonds	28,242	29,802
Total	$175,882	$178,159
2008:		
U.S. Treasury		
U.S. Government Sponsored Entities	$110,882	$112,584
Muncipal Securities	5,054	4,881
U.S. Agency Mortgage-backed Securities	345	361
Corporate Bonds	23,203	23,184
Total	$139,484	$141,010
2007:		
U.S. Treasury	$4,977	$4,982
U.S. Government Sponsored Entities	134,370	134,738
U.S. Agency Mortgage-backed Securities	466	465
Corporate Bonds	7,813	7,824
Total	$147,626	$148,009
Securities Held to Maturity:		
2009:		
Municipal Securities	$7,285	$7,516
Total	$7,285	$7,516

2008:		
Municipal Securities	$9,431	$9,502
Total	$9,431	$9,502
2007:		
Municipal Securities	$11,701	$11,748
Total	$11,701	$11,748

For the periods ending December 31, 2009, 2008, and 2007, we held Federal Home Loan Bank (FHLB) stock with a book value approximately equal to its market value in the amounts of $2.0 million for each year. The Company evaluated its investment in FHLB stock for other-than-temporary impairment as of December 31, 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

Table of Contents

during the twelve-month period ending December 31, 2009, continued deterioration in the FHLB of Seattle s financial position may result in future impairment losses.

Fair Value, Maturities and Weighted Average Yields: The following table sets forth the market value, maturities and weighted average pretax yields of our investment portfolio for the periods indicated as of December 31, 2009:

	Maturity				
	Within 1 Year	1-5 Years	5-10 Years	Over 10 Years	Total
	(Dollars In Thousands)				
Securities Available for Sale:					
U.S. Treasury					
Balance	$	$502	$	$	$502
Weighted Average Yield	0.00%	0.80%	0.00%	0.00%	0.00%
U.S. Government Sponsored Entities					
Balance	20,010	118,531	2,957		141,498
Weighted Average Yield	0.76%	2.65%	3.00%	0.00%	2.39%
Municipal Securities					
Balance		1,179	2,875	2,216	6,270
Weighted Average Yield	0.00%	3.49%	4.93%	4.75%	4.60%
U.S. Agency Mortgage-backed Securities					
Balance			87		87
Weighted Average Yield	0.00%	0.00%	4.57%	0.00%	4.57%
Corporate Bonds					
Balance		28,385	1,417		29,802
Weighted Average Yield	0.00%	4.51%	4.82%	0.00%	4.53%
Total					
Balance	$20,010	$147,418	$4,461	$0	$171,889
Weighted Average Yield	0.76%	2.99%	4.12%	4.75%	2.80%
Securities Held to Maturity:					
Municipal Securities					
Balance	$1,437	$4,164	$1,915	$	$7,516
Weighted Average Yield	3.76%	3.95%	4.38%	0.00%	4.02%

At December 31, 2009, we held no securities of any single issuer (other than government sponsored entities) that exceeded 10% of our shareholders equity.

Purchased Receivables

General: We purchase accounts receivable from our business customers and provide them with short-term working capital. We provide this service to our customers in Alaska and in Washington and Oregon through NFS.

Our purchased receivable balances decreased in 2009 to $7.3 million, as compared to $19.1 million in 2008. This decrease is primarily due to the fact that two of the Company s purchased receivable customers sold all or a portion of their businesses and used those proceeds to repay substantially all of their purchased receivable balances at the end of the six-month period ending June 30, 2009. The Company expects that purchased receivable balances will increase in the future as NFS continues to expand its customer base.

Policy and Authority Limits: Our purchased receivable activity is guided by policies that outline risk management, documentation, and approval limits. The policies are reviewed and approved annually by the Board of Directors.

Table of Contents

Liabilities

Deposits

General: Deposits are our primary source of funds. Total deposits increased 1% to $853.1 million at December 31, 2009, compared with $843.3 million at December 31, 2008, and $867.4 million at December 31, 2007. Our deposits generally are expected to fluctuate according to the level of our market share, economic conditions, and normal seasonal trends.

Average Balances and Rates: The following table sets forth the average balances outstanding and average interest rates for each major category of our deposits, for the periods indicated: