NORTHRIM BANCORP INC
Form 10-Q
August 11, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q
(Mark One)
þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from_____to____
Commission File Number 000-33501
NORTHRIM BANCORP, INC.
(Exact name of registrant as specified in its charter)

Alaska	92-0175752
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(907) 562-0062

(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:
Large Accelerated Filer ¨ Accelerated Filer ý Non-accelerated Filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨ Yes ý No
The number of shares of the issuer's Common Stock, par value $1 per share, outstanding at August 8, 2014 was 6,830,913.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

These consolidated financial statements should be read in conjunction with the financial statements, accompanying notes and other relevant information included in Northrim BanCorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
NORTHRIM BANCORP, INC.
Consolidated Balance Sheets
(Unaudited)

(In Thousands, Except Share Data)	June 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$36,318	$33,112
Interest bearing deposits in other banks	61,565	65,979
Investment securities available for sale	207,899	248,688
Investment securities held to maturity	2,204	2,208
Total portfolio investments	210,103	250,896
Investment in Federal Home Loan Bank stock	3,475	1,896
Loans held for sale	14,189	11,301
Loans	926,809	770,016
Allowance for loan losses	(16,032)	(16,282)
Net loans	924,966	765,035
Purchased receivables, net	17,380	16,025
Accrued interest receivable	3,136	2,729
Other real estate owned, net	4,897	2,402
Premises and equipment, net	32,370	28,324
Goodwill and intangible assets, net	8,430	7,942
Other assets	53,052	40,666
Total assets	$1,355,692	$1,215,006
LIABILITIES		
Deposits:		
Demand	$388,728	$363,969
Interest-bearing demand	174,647	143,703
Savings	120,118	94,518
Alaska CDs	115,081	112,702
Money market	220,811	202,606
Certificates of deposit less than $100,000	49,288	35,432
Certificates of deposit greater than $100,000	61,593	50,793
Total deposits	1,130,266	1,003,723
Securities sold under repurchase agreements	19,776	21,143
Borrowings	2,186	6,527
Junior subordinated debentures	18,558	18,558
Other liabilities	28,008	20,737
Total liabilities	1,198,794	1,070,688
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value, 2,500,000 shares authorized, none issued or outstanding	—	—
Common stock, $1 par value, 10,000,000 shares authorized, 6,830,913 and 6,537,652 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	6,831	6,538
Additional paid-in capital	61,495	54,089
Retained earnings	87,592	82,855
Accumulated other comprehensive income	853	669

Total Northrim BanCorp shareholders' equity	156,771	144,151
Noncontrolling interest	127	167
Total shareholders' equity	156,898	144,318
Total liabilities and shareholders' equity	$1,355,692	$1,215,006

See notes to consolidated financial statements

3

NORTHRIM BANCORP, INC.
Consolidated Statements of Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, Except Per Share Data)	2014	2013	2014	2013
Interest Income				
Interest and fees on loans	$13,082	$10,734	$23,953	$21,076
Interest on investment securities available for sale	750	630	1,480	1,289
Interest on investment securities held to maturity	22	30	45	59
Interest on deposits in other banks	41	46	90	108
Total Interest Income	13,895	11,440	25,568	22,532
Interest Expense				
Interest expense on deposits, borrowings and junior subordinated debentures	484	511	924	1,041
Net Interest Income	13,411	10,929	24,644	21,491
Provision for loan losses	(1,136)	—	(1,136)	150
Net Interest Income After Provision for Loan Losses	14,547	10,929	25,780	21,341
Other Operating Income				
Employee benefit plan income	878	632	1,754	1,201
Service charges on deposit accounts	607	539	1,083	1,064
Electronic banking income	604	536	1,104	1,040
Purchased receivable income	484	768	965	1,470
Equity in earnings from RML	355	538	224	780
Gain on sale of securities, net	349	100	446	318
Other income	829	589	1,264	968
Total Other Operating Income	4,106	3,702	6,840	6,841
Other Operating Expense				
Salaries and other personnel expense	6,839	5,586	12,759	11,321
Occupancy expense	1,112	858	1,989	1,746
Professional and outside services	410	309	1,134	658
Marketing expense	394	445	1,008	892
Equipment expense	359	301	657	579
Software expense	354	267	614	532
Amortization of low income housing tax investments	330	247	672	492
Insurance expense	284	261	469	405
Reserve for (recovery from) purchased receivables	243	(115)	206	(31)
Internet banking expense	213	189	413	373
Intangible asset amortization expense	81	59	133	117
OREO (income) expense, net rental income and gains on sale	(9)	12	(247)	6
Other operating expense	1,340	972	2,453	1,998
Total Other Operating Expense	11,950	9,391	22,260	19,088
Income Before Provision for Income Taxes	6,703	5,240	10,360	9,094
Provision for income taxes	2,239	1,635	3,194	2,725
Net Income	4,464	3,605	7,166	6,369
Less: Net income attributable to the noncontrolling interest	95	109	139	199
Net Income Attributable to Northrim BanCorp	$4,369	$3,496	$7,027	$6,170
Earnings Per Share, Basic	$0.64	$0.54	$1.05	$0.95
Earnings Per Share, Diluted	$0.63	$0.53	$1.04	$0.94

Weighted Average Shares Outstanding, Basic	6,829,897	6,515,414	6,683,897	6,513,935
Weighted Average Shares Outstanding, Diluted	6,919,568	6,591,003	6,774,434	6,590,899

See notes to consolidated financial statements

NORTHRIM BANCORP, INC.
Consolidated Statements of Comprehensive Income
(Unaudited)
2010

(In Thousands)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Net income	$4,464	$3,605	$7,166	$6,369
Other comprehensive income, net of tax:				
Securities available for sale:				
Unrealized gains (loss) arising during the period	$612	($1,070)	$707	($919)
Reclassification of net gains included in net income (net tax expense of $143 and $41 for the second quarter of 2014 and 2013, respectively and $183 and $131 for the first six months of 2014 and 2013, respectively)	(206)	(59)	(263)	(187)
Income tax expense (benefit) related to unrealized gains	(221)	440	(260)	377
Other comprehensive income (loss)	185	(689)	184	(729)
Comprehensive income	4,649	2,916	7,350	5,640
Less: comprehensive income attributable to the noncontrolling interest	95	109	139	199
Comprehensive income attributable to Northrim BanCorp	$4,554	$2,807	$7,211	$5,441

See notes to consolidated financial statements

5

NORTHRIM BANCORP, INC.
Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

(In Thousands)	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest	Total
Balance as of January 1, 2013	6,512	$6,512	$53,638	$74,742	$1,368	$93	$136,353
Cash dividend declared	—	—	—	(4,212)	—	—	(4,212)
Stock based compensation expense	—	—	506	—	—	—	506
Exercise of stock options	26	26	(155)	—	—	—	(129)
Excess tax benefits from share-based payment arrangements	—	—	100	—	—	—	100
Distributions to noncontrolling interest	—	—	—	—	—	(13)	(13)
Change in unrealized holding (loss) on available for sale securities, net of tax	—	—	—	—	(699)	—	(699)
Net income attributable to the noncontrolling interest	—	—	—	—	—	87	87
Net income attributable to Northrim BanCorp	—	—	—	12,325	—	—	12,325
Twelve Months Ended December 31, 2013	6,538	$6,538	$54,089	$82,855	$669	$167	$144,318
Purchase of Alaska Pacific	290	290	7,156	—	—	—	7,446
Cash dividend declared	—	—	—	(2,290)	—	—	(2,290)
Stock based compensation expense	—	—	189	—	—	—	189
Exercise of stock options	3	3	61	—	—	—	64
Distributions to noncontrolling interest	—	—	—	—	—	(179)	(179)
Change in unrealized holding (loss) on available for sale securities, net of tax	—	—	—	—	184	—	184
Net income attributable to the noncontrolling interest	—	—	—	—	—	139	139
Net income attributable to Northrim BanCorp	—	—	—	7,027	—	—	7,027
Six Months Ended June 30, 2014	6,831	$6,831	$61,495	$87,592	$853	$127	$156,898

See notes to consolidated financial statements

NORTHRIM BANCORP, INC.
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
(In Thousands)	2014	2013
Operating Activities:		
Net income	$7,166	$6,369
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Gain on sale of securities, net	(446)	(318)
Depreciation and amortization of premises and equipment	900	893
Amortization of software	90	94
Intangible asset amortization	133	117
Amortization of investment security premium, net of discount accretion	(85)	41
Deferred tax liability	(859)	(44)
Stock-based compensation	189	227
Excess tax benefits from share-based payment arrangements	—	(30)
Deferral of loan fees and costs, net	419	(16)
Provision for loan losses	(1,136)	150
Reserve for purchased receivables	206	(31)
Purchases of loans held for sale	(75,877)	(75,680)
Proceeds from the sale of loans held for sale	72,989	71,574
Gain on sale of other real estate owned	(368)	(129)
Impairment on other real estate owned	45	87
Equity in undistributed earnings from mortgage affiliate	145	17
Net changes in assets and liabilities:		
(Increase) in accrued interest receivable	(407)	(111)
(Increase) decrease in other assets	(557)	65
(Decrease) increase in other liabilities	(2,998)	1,563
Net Cash (Used) Provided by Operating Activities	(451)	4,838
Investing Activities:		
Investment in securities:		
Purchases of investment securities available for sale	(92,934)	(78,197)
Proceeds from sales/maturities of securities available for sale	140,085	58,333
Purchases of domestic certificates of deposit	(3,500)	(3,500)
Proceeds from maturities of domestic certificates of deposit	3,500	3,500
Proceeds from redemption of FHLB stock	95	35
Alaska Pacific acquisition, net of cash received	6,367	—
Decrease in purchased receivables, net	(1,561)	(7,493)
(Increase) decrease in loans, net	(19,052)	(14,323)
Proceeds from sale of other real estate owned	1,599	634
(Increase) decrease in loan to Elliott Cove, net	49	(66)
Purchases of premises and equipment	(2,414)	(1,185)
Net Cash Provided (Used) by Investing Activities	32,234	(42,262)
Financing Activities:		
(Decrease) in deposits	(24,895)	(11,197)
(Decrease) increase in securities sold under repurchase agreements	(1,367)	1,283
(Decrease) increase in borrowings	(4,341)	2,150
Distributions to noncontrolling interest	(179)	(217)

Proceeds from the issuance of common stock	64	—
Excess tax benefits from share-based payment arrangements	—	30
Cash dividends paid	(2,273)	(1,953)
Net Cash Used by Financing Activities	(32,991)	(9,904)
Net (Decrease) increase in Cash and Cash Equivalents	(1,208)	(47,328)
Cash and Cash Equivalents at Beginning of Period	85,591	141,313
Cash and Cash Equivalents at End of Period	$84,383	$93,985
Supplemental Information:		
Income taxes paid	$1,877	$2,196
Interest paid	$858	$1,037
Noncash commitments to invest in Low Income Housing Tax Credit Partnerships	$8,518	$—
Transfer of loans to other real estate owned	$1,158	$365
Transfer of premises to other real estate owned	$904	$—
Cash dividends declared but not paid	$17	$20
Acquisitions:		
Assets acquired	$167,199	$—
Liabilities assumed	$153,172	$—

See notes to consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by Northrim BanCorp, Inc. (the “Company”) in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and with instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications have been made to prior year amounts to maintain consistency with the current year with no impact on net income or total shareholders’ equity. The Company determined that it operates as a single operating segment. Operating results for the interim period ended June 30, 2014, are not necessarily indicative of the results anticipated for the year ending December 31, 2014. These consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

2. Significant Accounting Policies and Recent Accounting Pronouncements

The Company’s significant accounting policies are discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The Company acquired Alaska Pacific Bancshares, Inc. ("Alaska Pacific") on April 1, 2014. The following accounting policies augment the disclosures included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for new items in the Company's financial statements as a result of the acquisition:

Acquired Loans: Loans are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date. Purchased loans are evaluated upon acquisition and classified as either purchased impaired or purchased non-impaired. Purchased impaired loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments.

Purchased impaired loans were individually evaluated for credit impairment at acquisition using expected future cash flows or the estimated value of underlying collateral. A purchased impaired loan will be removed from impaired loans only if the loan is sold, foreclosed, or assets are received in full satisfaction of the loan, and it will be removed from impaired loans at its carrying value. If an individual loan is removed, the difference between its relative carrying amount and its cash, fair value of the collateral, or other assets received will be recognized in other income immediately as a gain and would not affect the effective yield used to recognize the accretable yield on impaired loans.

The excess of the undiscounted contractual balances due over the cash flows expected to be collected is considered to be the nonaccretable difference. The nonaccretable difference represents our estimate of the credit losses expected to occur and was considered in determining the fair value of the purchased impaired loans as of the acquisition date. Subsequent to the acquisition date, any increases in expected cash flows over those expected at purchase date in excess of fair value are adjusted through an increase to the accretable yield on a prospective basis. The purchased impaired loans are and will continue to be subject to the Company’s internal and external credit review and monitoring. If credit deterioration is experienced subsequent to the initial acquisition fair value amount, such deterioration will be measured, and a charge off will be recorded.

For purchased non-impaired loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income over the estimated life of the loans.

Mortgage Servicing Rights: The Company purchased mortgage servicing rights, ("MSR") in conjunction with the acquisition of Alaska Pacific. MSRs are the rights to service mortgage loans for others. The Company initially records all of our MSRs at fair value. Subsequently, MSRs are carried at fair value. The Company uses a model derived valuation methodology to estimate the fair value of MSRs, obtained from an independent broker on an annual basis. The model pools loans into buckets of homogeneous characteristics and performs a present value analysis of the future cash flows. The buckets are created by individual loan characteristics such as note rate, product type, and the remittance schedule. Current market rates are utilized for discounting the future cash flows. Significant assumptions used in the valuation of MSR include discount rates, projected prepayment speeds, escrow calculations, ancillary income, delinquencies and option adjusted spreads. Changes in the fair value of MSRs occur primarily due to the collection/realization of expected cash flows, as well as changes in valuation inputs and assumptions. Changes in the fair value of MSRs are reported in noninterest income in the period in which the change occurs. The amortization of MSRs is reported in noninterest income.

Recent Accounting Pronouncements:
In March 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). The amendments to the Codification in ASU 2014-08 change the requirements for reporting discontinued operations. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when any of the following occurs: 1) the component of an entity or group of components of an entity meets the criteria to be classified as held for sale, 2) the component of an entity or group of components of an entity is disposed of by sale, or 3) the component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group. This ASU is effective for the Company's financial statements for annual and interim periods beginning on or after December 15, 2014, and must be applied prospectively. The Company does not believe that the adoption of this standard will have a material impact on the Company's consolidated financial position or results of operations.
In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The amendments to the Codification in ASU 2014-09 change the core principal for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principal, an entity should apply the following steps: 1) identify the contract(s) with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. An entity is required to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This ASU is effective for the Company's financial statements for annual and interim periods beginning on or after December 15, 2016, and must be applied prospectively. The Company does not believe that the adoption of this standard will have a material impact on the Company's consolidated financial position or results of operations.
In June 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures("ASU 2014-11"). The amendments to the Codification in ASU 2014-11 require two accounting changes. First, the amendments change the accounting for repurchase-to maturity transactions to secured borrowing accounting. Second, for repurchase financing agreements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. This ASU is effective for the Company's financial statements for annual and interim periods beginning on or after December 15, 2014, and must be applied prospectively. The Company does not believe that the adoption of this standard will have a material impact on the Company's consolidated financial position or results of operations.

3. Business Combinations
On April 1, 2014, the Company completed the acquisition of 100% of of the outstanding shares of Alaska Pacific for a total purchase price of $13.9 million, which was comprised of the issuance of 290,212 shares of the Company's common stock (at a volume weighted average closing price of $25.66 per share) and $6.4 million in cash. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting and were

recorded at their estimated fair values as of the April 1, 2014 acquisition date. Estimated fair values recorded in the transaction are subject to change for up to one year after the closing date of the acquisition. The primary reason for the acquisition was to expand the Company's geographic footprint in Alaska.

The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain of $158,000 and a core deposit intangible of $623,000, or 0.5% of core deposits. The bargain purchase gain represents the excess of the estimated fair value of the net assets acquired in excess of the purchase price and is included in Other Income in the Consolidated Statements of Net Income in this Form 10-Q. This acquisition resulted in a bargain purchase gain primarily due to the inclusion of certain adjustments to the purchase price for potential risks identified by the Company during the due diligence and price negotiation stages of the acquisition that were concluded in October of 2013. The Company has concluded that the potential risks identified at that time do not represent a liability to the Company and, accordingly, they have not been allocated any value in the application of the acquisition method of accounting.

A summary of the net assets acquired and the estimated fair value adjustments of Alaska Pacific are presented below:

(In Thousands)	Alaska Pacific April 1, 2014
Cost basis net assets	$14,733
Cash payment made	(6,423)
Common stock issued	(7,446)
Fair value adjustments:	
Net loans	(1,137)
Premises and equipment	547
Other intangible assets	623
Mortgage servicing rights	(119)
Deposits	(844)
Other	224
Bargain purchase gain	$158

A summary of assets acquired and liabilities assumed at their estimated fair values are presented below:

(In Thousands)	Alaska Pacific April 1, 2014
Assets Acquired:	
Cash and equivalents	$12,956
Investment securities	7,240
Net loans	138,432
Premises and equipment	3,436
Other intangibles	623
Mortgage servicing rights	1,170
Other real estate owned	1,709
Other assets	1,633
Total assets acquired	$167,199
Liabilities Assumed:	
Deposits	$151,438
Other liabilities	1,734
Total liabilities assumed	$153,172

Alaska Pacific purchased loans not subject to the requirements of FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30") are presented below at acquisition:

(In Thousands)	April 1, 2014
Contractually required principal payments	$133,921
Purchase adjustment for credit, interest rate, and liquidity	612
Fair value of purchased non-credit impaired loans	$134,533

Alaska Pacific purchased loans subject to the requirements of FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality. The Company identified eighteen purchased credit impaired loans as of April 1, 2014. This group of loans consists primarily of commercial and commercial real estate loans, and unlike a pool of consumer mortgages, it is not practicable for the Company to analyze the accretable yield of these loans. As such, the Company has elected the cost recovery method of income recognition for these loans, and thus no accretable difference has been identified for these loans.

Purchased credit impaired loans at acquisition are presented below:

(In Thousands)	April 1, 2014
Contractually required principal payments	$7,553
Nonaccretable difference	(3,654)
Fair value of purchased credit impaired loans	$3,899

The acquisition of Alaska Pacific is not considered significant to the Company's financial statements. The operations of Alaska Pacific are included in our operating results from April 1, 2014, and added revenue of $2.4 million, non-interest expense of $1.3 million, and net income of $1.1 million, before taxes, for the quarter ended June 30, 2014. Alaska Pacific's results of operations prior to the acquisition are not included in our operating results. Additionally, merger-related expenses of $452,000 and $199,000 for the six months ended June 30, 2014 have been incurred in connection with the acquisition of Alaska Pacific and recognized within the professional and outside services and other operating expense line items, respectively, on the Consolidated Statements of Income.

The following table presents unaudited pro forma results of operations for the six month periods ended June 30, 2014 and 2013 as if the acquisition of Alaska Pacific had occurred on January 1, 2013. The proforma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2013.

(In Thousands, except earnings per share data)	June 30, 2014			
	Company	Alaska Pacific[1]	Pro Forma Adjustments	Pro Forma Combined
Net interest and other income	$31,484	$2,095	($4)[2]	$33,575
Net income attributable to Northrim BanCorp, Inc.	7,027	(1,282)	(175)[3]	5,570
Earnings Per Share, Basic	$1.05			$0.83
Earnings Per Share, Diluted	$1.04			$0.82
Weighted Average Shares Outstanding, Basic	6,683,897			6,683,897
Weighted Average Shares Outstanding, Diluted	6,774,434			6,774,434

(In Thousands, except earnings per share data)	June 30, 2013			
	Company	Alaska Pacific[1]	Pro Forma Adjustments	Pro Forma Combined
Net interest and other income	$28,332	$4,845	($20)[2]	$33,157
Net income attributable to Northrim BanCorp, Inc.	6,170	82	113[3]	6,365
Earnings Per Share, Basic	$0.95			$0.98
Earnings Per Share, Diluted	$0.94			$0.97
Weighted Average Shares Outstanding, Basic	6,513,935			6,513,935
Weighted Average Shares Outstanding, Diluted	6,590,899			6,590,899

[1] Alaska Pacific represents results from January 1 to March 31 for 2014 and represents results from January 1 to June 30 for 2013.
[2] Amount of amortization/ accretion of the fair value adjustments on loans and certificates of deposit.
[3] Amount of amortization/accretion of the fair value adjustments on loans and certificates of deposit, bargain purchase gain, amortization of cored deposit intangible, and the change in the provision for income taxes.

4. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with other banks, banker’s acceptances, commercial paper, securities purchased under agreement to resell, federal funds sold, and securities with maturities of less than 90 days at acquisition. As of June 30, 2014, the Company had two certificates of deposits totaling $13.5 million in another bank with original maturities greater than 90 days. Cash and cash equivalent balances placed with the Federal Reserve of San Francisco is the only concentration representing more than 10% of the Company’s equity.

5. Investment Securities

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

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014				
Securities available for sale				
U.S. Treasury and government sponsored entities	$147,691	$223	$21	$147,893
Municipal securities	15,517	376	6	15,887
U.S. Agency mortgage-backed securities	1,148	11	5	1,154
Corporate bonds	39,167	639	—	39,806
Preferred stock	2,999	160	—	3,159
Total securities available for sale	$206,522	$1,409	$32	$207,899
Securities held to maturity				
Municipal securities	$2,204	$145	$—	$2,349
Total securities held to maturity	$2,204	$145	$—	$2,349
December 31, 2013				
Securities available for sale				
U.S. Treasury and government sponsored entities	$168,922	$103	$323	$168,702
Municipal securities	19,825	378	54	20,149
U.S. Agency mortgage-backed securities	25	—	—	25
Corporate bonds	55,798	1,000	20	56,778
Preferred stock	2,999	35	—	3,034
Total securities available for sale	$247,569	$1,516	$397	$248,688
Securities held to maturity				
Municipal securities	$2,208	$153	$—	$2,361
Total securities held to maturity	$2,208	$153	$—	$2,361

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2014 and December 31, 2013 were as follows:

	Less Than 12 Months		More Than 12 Months		Total	
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2014:						
Securities Available for Sale						
U.S. Treasury and government sponsored entities	$19,977	$21	$—	$—	$19,977	$21
U.S. Agency mortgage-backed securities	172	6	—	—	$172	$6
Municipal Securities	879	3	285	2	1,164	5
Total	$21,028	$30	$285	$2	$21,313	$32
December 31, 2013:						
Securities Available for Sale						
U.S. Treasury and government sponsored entities	$122,560	$323	$—	$—	$122,560	$323
Municipal Securities	5,613	54	—	—	5,613	54
Corporate Bonds	6,051	20	—	—	6,051	20
Total	$134,224	$397	$—	$—	$134,224	$397

There were nine and twenty-six available-for-sale securities with unrealized losses as of June 30, 2014 and December 31, 2013, respectively, that have been in a loss position for less than twelve months. There was one security with unrealized losses as of June 30, 2014 and no securities as of December 31, 2013 that have been in an unrealized loss position for more than twelve months. The contractual terms of the investments in a loss position do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company does not intend to sell, nor is it required to sell these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

At June 30, 2014, $50.7 million in securities, or 24%, of the investment portfolio was pledged for deposits and borrowings, as compared to $46.8 million, or 19%, at December 31, 2013. We held no securities of any single issuer (other than government sponsored entities) that exceeded 10% of our shareholders’ equity at June 30, 2014 and December 31, 2013.

The amortized cost and fair values of debt securities at June 30, 2014, are distributed by contractual maturity as shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Although preferred stock has no stated maturity, it is aggregated in the calculation of weighted average yields presented below in the category of investments that mature in ten years or more.

(In Thousands)	Amortized Cost	Fair Value	Weighted Average Yield	
US Treasury and government sponsored entities				
1-5 years	$147,213	$147,404	1.02	%
5-10 years	478	489	2.27	%
Total	$147,691	$147,893	1.02	%
U.S. Agency mortgage-backed securities				
Within 1 year	$247	$243	1.85	%
1-5 years	88	89	2.40	%
5-10 years	350	355	3.42	%
Over 10 years	463	467	3.63	%
Total	$1,148	$1,154	3.09	%
Corporate bonds				
1-5 years	$37,167	$37,801	1.46	%
5-10 years	2,000	2,005	1.04	%
Total	$39,167	$39,806	1.44	%
Preferred stock				
Over 10 years	$2,999	$3,159	5.61	%
Total	$2,999	$3,159	5.61	%
Municipal securities				
Within 1 year	$7,151	$7,173	0.87	%
1-5 years	4,324	4,472	3.05	%
5-10 years	6,246	6,591	4.43	%
Total	$17,721	$18,236	2.66	%

The proceeds and resulting gains and losses, computed using specific identification, from sales of investment securities for the three months ending June 30, 2014 and 2013 respectively, are as follows:

(In Thousands)	Proceeds	Gross Gains	Gross Losses
2014			
Available for sale securities	$23,588	$450	$4
2013			
Available for sale securities	$22,013	$318	$—

15

A summary of interest income for the six months ending June 30, 2014 and 2013 on available for sale investment securities is as follows:

(In Thousands)	2014	2013
US Treasury and government sponsored entities	$775	$419
U.S. Agency mortgage-backed securities	9	1
Other	488	581
Total taxable interest income	$1,272	$1,001
Municipal securities	$208	$288
Total tax-exempt interest income	$208	$288
Total	$1,480	$1,289

6. Loans Held for Sale

From time to time, the Company has purchased residential loans from our mortgage affiliate, Residential Mortgage Holding Company LLC ("RML"). The Company then sells these loans in the secondary market. The Company purchased $75.9 million and sold $73.0 million in loans during the six-month period ending June 30, 2014. The Company purchased $75.7 million and sold $71.6 million in loans during the six-month period ending June 30, 2013.

7. Loans

The following table presents total portfolio loans by portfolio segment and class of financing receivable, based on our risk classification criteria:

(In Thousands)	Commercial	Real estate construction one-to-four family	Real estate construction other	Real estate term owner occupied	Real estate term non-owner occupied	Real estate term other	Consumer secured by 1st deeds of trust	Consumer other	Total
June 30, 2014									
AQR Pass	$333,734	$39,825	$49,098	$105,031	$280,143	$37,153	$32,128	$33,511	$910,623
AQR Special Mention	2,904	353	803	6,266	3,496	588	428	94	14,932
AQR Substandard	2,373	—	—	1,222	1,185	152	663	99	5,694
AQR Doubtful	—	—	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—	—	—
Subtotal	$339,011	$40,178	$49,901	$112,519	$284,824	$37,893	$33,219	$33,704	$931,249
Less: Unearned origination fees, net of origination costs									(4,440)
Total loans									$926,809
December 31, 2013									
AQR Pass	$293,803	$28,227	$31,633	$84,191	$251,384	$28,684	$15,877	$17,694	$751,493
AQR Special Mention	6,022	1,934	966	6,235	2,620	—	397	196	18,370
AQR Substandard	513	—	—	672	1,320	1,292	209	168	4,174
AQR Doubtful	—	—	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—	—	—
Subtotal	$300,338	$30,161	$32,599	$91,098	$255,324	$29,976	$16,483	$18,058	$774,037

Less: Unearned origination fees, net of origination costs	(4,021)
Total loans	$770,016

Loans are carried at their principal amount outstanding, net of charge-offs, unamortized fees and direct loan origination costs. Loan balances are charged-off to the allowance for loan losses ("Allowance") when management believes that collection of principal is unlikely. Interest income on loans is accrued and recognized on the principal amount outstanding except for loans in a nonaccrual status. All classes of loans are placed on nonaccrual and considered impaired when management believes doubt exists as to the collectability of the interest or principal. Cash payments received on nonaccrual loans are directly applied to the principal balance. Generally, a loan may be returned to accrual status when the delinquent principal and interest is brought current in accordance with the terms of the loan agreement. Additionally, certain ongoing performance criteria, which generally includes a performance period of six months, must be met in order for a loan to be returned to accrual status. Loans are reported as past due when installment payments, interest payments, or maturity payments are past due based on contractual terms.

Nonaccrual loans totaled $3.1 million and $1.8 million at June 30, 2014 and December 31, 2013, respectively. Nonaccrual loans at the periods indicated, by segment are presented below:

(In Thousands)	June 30, 2014	December 31, 2013
Commercial	$934	$222
Real estate construction one-to-four family	—	—
Real estate construction other	—	—
Real estate term owner occupied	383	—
Real estate term non-owner occupied	1,194	151
Real estate term other	—	1,136
Consumer secured by 1st deeds of trust	473	187
Consumer other	96	119
Total	$3,080	$1,815

Past due loans and nonaccrual loans at the periods indicated are presented below by loan class:

(In Thousands)	30-59 Days Past Due Still Accruing	60-89 Days Past Due Still Accruing	Greater Than 90 Days Still Accruing	Nonaccrual	Total Past Due	Current	Total
June 30, 2014							
AQR Pass	$261	$—	$—	$—	$261	$910,362	$910,623
AQR Special Mention	488	—	—	—	488	14,444	14,932
AQR Substandard	—	—	—	3,080	3,080	2,614	5,694
AQR Doubtful	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—
Subtotal	$749	$—	$—	$3,080	$3,829	$927,420	$931,249
Less: Unearned origination fees, net of origination costs							(4,440)
Total							$926,809
December 31, 2013							
AQR Pass	$672	$—	$—	$127	$799	$750,694	$751,493
AQR Special Mention	385	—	—	—	385	17,985	18,370
AQR Substandard	—	—	—	1,688	1,688	2,486	4,174
AQR Doubtful	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—
Subtotal	$1,057	$—	$—	$1,815	$2,872	$771,165	$774,037
Less: Unearned origination fees, net of origination costs							(4,021)
Total							$770,016

The Company considers a loan to be impaired when it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is determined to be impaired, the impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate, except that if the loan is collateral dependent, the impairment is measured by using the fair value of the loan's collateral. Nonperforming loans greater than $50,000 are individually evaluated for impairment based upon the borrower's overall financial condition, resources, and payment record, and the prospects for support from any financially responsible guarantors.

At June 30, 2014 and December 31, 2013, the recorded investment in loans that are considered to be impaired was $11.7 million and $8.8 million, respectively. The following table presents information about impaired loans by class as of the periods indicated:

(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
June 30, 2014			
With no related allowance recorded			
Commercial - AQR pass	$59	$59	$—
Commercial - AQR special mention	346	346	—
Commercial - AQR substandard	2,262	2,727	—
Real estate term owner occupied- AQR pass	507	507	—
Real estate term owner occupied- AQR special mention	330	330	—
Real estate term owner occupied- AQR substandard	1,183	1,183	—
Real estate term non-owner occupied- AQR pass	614	614	—
Real estate term non-owner occupied- AQR special mention	3,132	3,132	—
Real estate term non-owner occupied- AQR substandard	1,141	1,141	
Real estate term other - AQR special mention	1,156	1,156	—
Real estate term other - AQR substandard	152	152	—
Consumer secured by 1st deeds of trust - AQR pass	85	85	—
Consumer secured by 1st deeds of trust - AQR substandard	293	299	
Consumer other - AQR substandard	53	53	—
Subtotal	$11,313	$11,784	$—
With an allowance recorded			
Consumer secured by 1st deeds of trust - AQR substandard	$349	$349	$14
Subtotal	$349	$349	$14
Commercial - AQR pass	$59	$59	$—
Commercial - AQR special mention	346	346	—
Commercial - AQR substandard	2,262	2,727	—
Real estate term owner-occupied - AQR pass	507	507	—
Real estate term owner-occupied - AQR special mention	330	330	—
Real estate term owner-occupied - AQR substandard	1,183	1,183	—
Real estate term non-owner occupied - AQR pass	614	614	—
Real estate term non-owner occupied - AQR special mention	3,132	3,132	—
Real estate term non-owner occupied - AQR substandard	1,141	1,141	—
Real estate term other - AQR special mention	1,156	1,156	—
Real estate term other - AQR substandard	152	152	—
Consumer secured by 1st deeds of trust - AQR pass	85	85	—
Consumer secured by 1st deeds of trust - AQR substandard	642	648	14
Consumer other - AQR substandard	53	53	—
Total	$11,662	$12,133	$14

(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2013			
With no related allowance recorded			
Commercial - AQR pass	$181	$181	$—
Commercial - AQR special mention	314	314	—
Commercial - AQR substandard	343	488	—
Real estate construction one-to-four family - AQR special mention	353	353	—
Real estate construction other - AQR pass	1,686	1,686	—
Real estate construction other - AQR special mention	834	834	—
Real estate term owner occupied - AQR pass	512	512	—
Real estate term owner occupied - AQR special mention	484	484	—
Real estate term owner occupied - AQR substandard	672	672	—
Real estate term non-owner occupied - AQR special mention	786	786	—
Real estate term non-owner occupied - AQR substandard	955	955	—
Real estate term other - AQR substandard	1,292	1,571	—
Consumer secured by 1st deeds of trust - AQR pass	88	88	—
Consumer other - AQR substandard	65	65	—
Subtotal	$8,565	$8,989	$—
With an allowance recorded			
Consumer secured by 1st deeds of trust - AQR substandard	$186	$186	$11
Subtotal	$186	$186	$11
Commercial - AQR pass	$181	$181	$—
Commercial - AQR special mention	314	314	—
Commercial - AQR substandard	343	488	—
Real estate construction one-to-four family - AQR special mention	353	353	—
Real estate construction other - AQR pass	1,686	1,686	—
Real estate construction other - AQR special mention	834	834	—
Real estate term owner occupied - AQR pass	512	512	—
Real estate term owner occupied - AQR special mention	484	484	—
Real estate term owner occupied - AQR substandard	672	672	—
Real estate term non-owner occupied - AQR special mention	786	786	—
Real estate term non-owner occupied - AQR substandard	955	955	—
Real estate term other - AQR substandard	1,292	1,571	—
Consumer secured by 1st deeds of trust - AQR pass	88	88	—
Consumer secured by 1st deeds of trust - AQR substandard	186	186	11
Consumer other - AQR substandard	65	65	—
Total	$8,751	$9,175	$11

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

The following table summarizes our average recorded investment and interest income recognized on impaired loans for the three month periods ended June 30, 2014 and 2013, respectively:

Three Months Ended June 30,	2014		2013	
(In Thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Commercial - AQR pass	$63	$1	$184	$8
Commercial - AQR special mention	351	9	333	4
Commercial - AQR substandard	2,546	4	837	7
Real estate construction one-to-four family - AQR special mention	—	—	470	—
Real estate construction other - AQR pass	—	—	2,373	—
Real estate term owner occupied- AQR pass	508	15	519	29
Real estate term owner occupied- AQR special mention	363	4	942	13
Real estate term owner occupied- AQR substandard	1,414	14	286	—
Real estate term non-owner occupied- AQR pass	614	36	—	—
Real estate term non-owner occupied- AQR special mention	3,234	25	1,203	49
Real estate term non-owner occupied- AQR substandard	2,055	—	1,002	5
Real estate term other - AQR special mention	1,161	47	—	—
Real estate term other - AQR substandard	153	4	1,479	6
Consumer secured by 1st deeds of trust - AQR pass	85	—	91	1
Consumer secured by 1st deeds of trust - AQR substandard	379	—	—	—
Consumer other - AQR substandard	55	—	229	2
Subtotal	$12,981	$159	$9,948	$124
With an allowance recorded				
Commercial - AQR substandard	$—	$—	$125	$—
Real estate construction one-to-four family - AQR substandard				