NORTHRIM BANCORP INC
Form 10-Q
November 06, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q
(Mark One)
þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015
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 November 6, 2015 was 6,862,916.

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PART I. FINANCIAL INFORMATION

These consolidated financial statements should be read in conjunction with the financial statements, accompanying notes and other relevant information included in Northrim BanCorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 1. FINANCIAL STATEMENTS

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

(In Thousands, Except Share Data)	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$42,257	$36,036
Interest bearing deposits in other banks	102,309	36,020
Investment securities available for sale	234,273	281,730
Investment securities held to maturity	904	2,201
Total portfolio investments	235,177	283,931
Investment in Federal Home Loan Bank stock	1,816	3,404
Loans held for sale	66,597	43,866
Loans	973,680	924,504
Allowance for loan losses	(17,848)	(16,723)
Net loans	955,832	907,781
Purchased receivables, net	13,732	15,254
Accrued interest receivable	3,476	3,373
Other real estate owned, net	3,511	4,607
Premises and equipment, net	39,434	35,643
Goodwill	22,334	22,334
Other intangible assets, net	1,483	1,701
Other assets	51,295	55,399
Total assets	$1,539,253	$1,449,349
LIABILITIES		
Deposits:		
Demand	$485,304	$403,523
Interest-bearing demand	179,080	185,114
Savings	221,205	222,324
Money market	236,488	226,574
Certificates of deposit less than $100,000	53,386	58,249
Certificates of deposit greater than $100,000	89,456	83,963
Total deposits	1,264,919	1,179,747
Securities sold under repurchase agreements	33,413	19,843
Borrowings	12,458	26,304
Junior subordinated debentures	18,558	18,558
Other liabilities	34,569	40,456
Total liabilities	1,363,917	1,284,908
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, 6,859,351 and 6,854,189 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	6,859	6,854
Additional paid-in capital	62,183	61,729
Retained earnings	105,363	95,493

Accumulated other comprehensive income	784	247
Total Northrim BanCorp shareholders' equity	175,189	164,323
Noncontrolling interest	147	118
Total shareholders' equity	175,336	164,441
Total liabilities and shareholders' equity	$1,539,253	$1,449,349

See notes to consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands, Except Per Share Data)	2015	2014	2015	2014
Interest Income				
Interest and fees on loans	$14,484	$13,437	$42,086	$37,390
Interest on investment securities available for sale	844	696	2,488	2,176
Interest on investment securities held to maturity	13	24	61	69
Interest on deposits in other banks	47	55	82	145
Total Interest Income	15,388	14,212	44,717	39,780
Interest Expense				
Interest expense on deposits, borrowings and junior subordinated debentures	706	487	2,208	1,411
Net Interest Income	14,682	13,725	42,509	38,369
Provision for loan losses	676	—	1,378	(1,136)
Net Interest Income After Provision for Loan Losses	14,006	13,725	41,131	39,505
Other Operating Income				
Mortgage banking income	8,113	—	23,235	—
Employee benefit plan income	1,004	899	2,712	2,653
Electronic banking income	721	590	2,043	1,694
Purchased receivable income	587	582	1,738	1,547
Service charges on deposit accounts	559	599	1,617	1,682
Gain on sale of securities, net	4	15	134	461
Gain on sale of premises and equipment	—	1,115	—	1,115
Equity in earnings from RML	—	384	—	608
Other income	1,419	750	3,026	2,014
Total Other Operating Income	12,407	4,934	34,505	11,774
Other Operating Expense				
Salaries and other personnel expense	11,440	7,107	33,115	19,866
Occupancy expense	1,522	1,041	4,720	3,030
Change in fair value, RML earn-out liability	780	—	2,869	—
Professional and outside services	642	323	2,184	947
Marketing expense	565	417	1,824	1,425
Insurance expense	406	319	1,075	788
Equipment expense	387	405	1,249	1,062
Software expense	298	383	947	997
Internet banking expense	229	264	676	677
Intangible asset amortization expense	73	81	218	214
Merger and acquisition expense	—	1,031	—	1,736
Reserve for (recovery from) purchased receivables	(23)	241	(95)	447
OREO (income) expense, net rental income and gains on sale	152	(68)	328	(315)
Other operating expense	1,732	1,235	5,308	3,494
Total Other Operating Expense	18,203	12,779	54,418	34,368
Income Before Provision for Income Taxes	8,210	5,880	21,218	16,911
Provision for income taxes	2,678	1,982	7,111	5,848
Net Income	5,532	3,898	14,107	11,063
Less: Net income attributable to the noncontrolling interest	197	191	431	329

Net Income Attributable to Northrim BanCorp, Inc.	$5,335	$3,707	$13,676	$10,734
Earnings Per Share, Basic	$0.78	$0.54	$2.00	$1.59
Earnings Per Share, Diluted	$0.77	$0.53	$1.97	$1.57
Weighted Average Shares Outstanding, Basic	6,856,059	6,831,976	6,854,862	6,733,175
Weighted Average Shares Outstanding, Diluted	6,952,209	6,919,993	6,941,861	6,822,288

See notes to consolidated financial statements

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

(In Thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Net income	$5,532	$3,898	$14,107	$11,063
Other comprehensive income (loss), net of tax:				
Securities available for sale:				
Unrealized gains (losses) arising during the period	$217	($307)	$953	$400
Reclassification of net gains included in net income (net tax expense of $2 and $6 for the third quarter of 2015 and 2014, respectively and $55 and $190 for the first nine months of 2015 and 2014, respectively)	(2)	(9)	(79)	(271)
Income tax (benefit) expense related to unrealized gains and losses	(74)	108	(337)	(152)
Other comprehensive income (loss)	141	(208)	537	(23)
Comprehensive income	5,673	3,690	14,644	11,040
Less: comprehensive income attributable to the noncontrolling interest	197	191	431	329
Comprehensive income attributable to Northrim BanCorp, Inc.	$5,476	$3,499	$14,213	$10,711

See notes to consolidated financial statements

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

(In Thousands)	Common Stock Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest	Total
Balance as of January 1, 2014	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	—	—	—	(4,770)	—	—	(4,770)
Stock-based compensation expense	—	—	360	—	—	—	360
Exercise of stock options	26	26	28	—	—	—	54
Excess tax benefits from stock based payment arrangements	—	—	96	—	—	—	96
Distributions to noncontrolling interest	—	—	—	—	—	(508)	(508)
Other comprehensive loss, net of tax	—	—	—	—	(422)	—	(422)
Net income attributable to the noncontrolling interest	—	—	—	—	—	459	459
Net income attributable to Northrim BanCorp, Inc.	—	—	—	17,408	—	—	17,408
Twelve Months Ended December 31, 2014	6,854	$6,854	$61,729	$95,493	$247	$118	$164,441
Cash dividend declared	—	—	—	(3,806)	—	—	(3,806)
Stock-based compensation expense	—	—	357	—	—	—	357
Exercise of stock options	5	5	92	—	—	—	97
Excess tax benefits from share-based payment arrangements	—	—	5	—	—	—	5
Distributions to noncontrolling interest	—	—	—	—	—	(402)	(402)
Other comprehensive income, net of tax	—	—	—	—	537	—	537
Net income attributable to the noncontrolling interest	—	—	—	—	—	431	431
Net income attributable to Northrim BanCorp, Inc.	—	—	—	13,676	—	—	13,676
Nine Months Ended September 30, 2015	6,859	$6,859	$62,183	$105,363	$784	$147	$175,336

See notes to consolidated financial statements

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

	Nine Months Ended September 30,			
(In Thousands)	2015		2014	
Operating Activities:				
Net income	$14,107		$11,063	
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Gain on sale of securities, net	(134	)	(461	)
Gain on sale of premises and equipment	—		(1,115	)
Depreciation and amortization of premises and equipment	1,670		1,355	
Amortization of software	136		136	
Intangible asset amortization	218		214	
Amortization of investment security premium, net of discount accretion	(196	)	(126	)
Deferred tax liability	(314	)	(1,503	)
Stock-based compensation	357		254	
Excess tax benefits from share-based payment arrangements	(5	)	(5	)
Deferral of loan fees and costs, net	(203	)	627	
Provision (benefit) for loan losses	1,378		(1,136	)
Reserve for (recovery from) purchased receivables	(95	)	447	
Purchases of loans held for sale	—		(117,225	)
Proceeds from the sale of loans held for sale	571,494		118,201	
Origination of loans held for sale	(594,225	)	—	
Gain on sale of other real estate owned	(136	)	(470	)
Impairment on other real estate owned	360		45	
Equity in undistributed earnings from mortgage affiliate	—		(239	)
Net changes in assets and liabilities:				
(Increase) in accrued interest receivable	(103	)	(754	)
Decrease in other assets	3,836		1,685	
Decrease in other liabilities	(5,937	)	(2,606	)
Net Cash (Used) Provided by Operating Activities	(7,792	)	8,387	
Investing Activities:				
Investment in securities:				
Purchases of investment securities available for sale	(107,873	)	(156,014	)
Proceeds from sales/maturities of securities available for sale	156,491		173,239	
Proceeds from calls/maturities of securities held to maturity	1,285		—	
Purchases of domestic certificates of deposit	—		(3,500	)
Proceeds from maturities of domestic certificates of deposit	3,500		13,500	
Proceeds from redemption of FHLB stock	1,588		129	
Alaska Pacific acquisition, net of cash received	—		6,367	
Decrease in purchased receivables, net	1,617		1,250	
Increase in loans, net	(50,359	)	(28,899	)
Proceeds from sale of other real estate owned	1,971		1,828	
Elliott Cove divestiture, net of cash received	219		—	
Decrease in loan to Elliott Cove, net	—		189	
Purchases of premises and equipment	(5,461	)	(4,104	)
Net Cash (Used) Provided by Investing Activities	2,978		3,985	
Financing Activities:				

Increase in deposits	85,172	37,206
Increases (decrease) in securities sold under repurchase agreements	13,570	(1,212)
Decrease in borrowings	(13,846)	(4,352)
Distributions to noncontrolling interest	(402)	(341)
Proceeds from the issuance of common stock	97	75
Excess tax benefits from share-based payment arrangements	5	5

Cash dividends paid	(3,772)	(3,503)
Net Cash Provided (Used) by Financing Activities	80,824	27,878
Net Change in Cash and Cash Equivalents	76,010	40,250
Cash and Cash Equivalents at Beginning of Period	68,556	85,591
Cash and Cash Equivalents at End of Period	$144,566	$125,841
Supplemental Information:		
Income taxes paid	$4,136	$3,627
Interest paid	$2,174	$1,408
Noncash commitments to invest in Low Income Housing Tax Credit Partnerships	$55	$8,518
Transfer of loans to other real estate owned	$1,133	$1,158
Transfer of premises to other real estate owned	$—	$904
Cash dividends declared but not paid	$34	$23
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 and corresponding footnotes 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. The year-end Consolidated Balance Sheet data was derived from the Company's audited financial statements. Accordingly, they do not include all of the information and footnotes required by Generally Accepted Accounting Principles ("GAAP") for complete financial statements. The Company owns a 100% interest in Residential Mortgage Holding Company, LLC ("RML"), the parent company of Residential Mortgage, LLC ("Residential Mortgage") and a 50.1% interest in Northrim Benefits Group, LLC ("NBG") and consolidates their balance sheets and income statements into its financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain immaterial 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 in two primary operating segments: Community Banking and Home Mortgage Lending. Prior to December 2014, the Company operated in a single segment: Community Banking. The Company has evaluated events and transactions through November 6, 2015 for potential recognition or disclosure. Operating results for the interim period ended September 30, 2015, are not necessarily indicative of the results anticipated for the year ending December 31, 2015. 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, 2014.

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, 2014.
In January 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. ASU 2014-01 permits an entity to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and should be applied prospectively. The Company adopted ASU 2014-01 in its consolidated financial statements as of January 1, 2015. As a result, amortization expense related to the Company's investments in low income housing tax credit partnerships has been included in the line item entitled "Provision for income taxes" in the Consolidated Statements of Income for all periods presented.
In February 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-02, Amendments to the Consolidation Analysis (“ASU 2015-02”). The amendments to the Codification in ASU 2015-02 affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. The amendments in this update affect the following areas: 1) the effect of related parties on the primary beneficiary determination, 2) evaluating fees paid to a decision maker or a service provider as a variable interest, 3) the effect of fee arrangements on the primary beneficiary determination, and 4) certain investment funds. This ASU is effective for the Company’s financial statements for annual and interim periods beginning on or after December 15, 2015, 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 April 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The amendments to the Codification in ASU 2015-03 identify, evaluate, and

improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. This ASU is effective for the Company’s financial statements for annual and interim periods beginning on or after December 15, 2015, 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 August 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-14, Revenue from Contracts with Customers (“ASU 2015-14”). The amendments to the Codification in ASU 2015-14 defer the effective date of Update 2014-09

for all entities by one year. This ASU is effective for the Company's financial statements for annual and interim periods beginning on or after December 15, 2017, 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 September 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-16, Business Combinations ("ASU 2015-16"). The amendments to the Codification in ASU 2015-16 require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for fiscal years beginning on or after December 15, 2015, 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
Alaska Pacific Bancshares, Inc.
On April 1, 2014, the Company completed the acquisition of 100% of the outstanding shares of Alaska Pacific Bancshares, Inc. ("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 were 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 $170,000 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 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	236
Bargain purchase gain	$170

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
Loans	138,432
Premises and equipment	3,436
Other intangibles	623
Mortgage servicing rights	1,170
Other real estate owned	1,709
Other assets	1,645
Total assets acquired	$167,211
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 the Company estimates that these operations added revenue of $6.7 million, non-interest expense of $3.9 million, and net income of $2.8 million, before taxes, for the nine months ended September 30, 2015. Alaska Pacific's results of operations prior to the acquisition are not included in our operating results. Additionally, merger-related costs of $1.3 million for the nine months ended September 30, 2014 were incurred and expensed in connection with the acquisition of Alaska Pacific and recognized within the merger and acquisition expense on the Consolidated Statements of Income.

The following table presents unaudited pro forma results of operations for the nine month period ended September 30, 2014 as if the acquisition of Alaska Pacific had occurred on January 1, 2014. 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, 2014.

(In Thousands, except earnings per share data)	Nine Months Ended September 30, 2014			
	Company	Alaska Pacific[1]	Pro Forma Adjustments	Pro Forma Combined
Net interest and other income	$50,143	$2,095	($10)[2]	$52,228
Net income attributable to Northrim BanCorp, Inc.	10,734	(1,282)	101[3]	9,553
Earnings Per Share, Basic	$1.59			$1.36
Earnings Per Share, Diluted	$1.57			$1.34
Weighted Average Shares Outstanding, Basic	6,733,175			7,023,387
Weighted Average Shares Outstanding, Diluted	6,822,288			7,112,500

[1] Alaska Pacific represents results from January 1 to March 31 for 2014.
[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 core deposit intangible, and the change in the provision for income taxes.

Residential Mortgage Holding Company, LLC

On December 1, 2014, the Company completed the acquisition of 76.5% of the equity interest in RML, the parent company of Residential Mortgage, in a cash transaction valued at $29.5 million, resulting in RML becoming an indirect wholly-owned subsidiary of the Company. The primary reason for the acquisition was to expand the Company's presence in the mortgage lending business in Alaska. The fair value of the Company's 23.5% equity interest in RML immediately prior to the acquisition was $9.0 million. The Company recorded a $3.0 million gain in the fourth quarter of 2014 as a result of remeasuring the Company's equity interest in RML immediately prior to the acquisition, which was included in the Company's Consolidated Statements of Income in the line item entitled "Gain on purchase of mortgage affiliate". The Company utilized a market value approach to value its equity interest in RML which included analysis of current trading values and historical acquisition multiples of comparable mortgage companies. The consideration transferred or transferable to the former owners of RML and 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 December 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 application of the acquisition method of accounting resulted in the recognition of goodwill in the amount of $14.8 million and a trade name intangible of $950,000. RML holds a 30% equity interest in Homestate Mortgage LLC.

The former owners of RML (the "sellers") will receive additional cash proceeds (the "earn-out" payments) based on the adjusted pretax earnings of RML for each of the twelve months periods ending November 30, 2015, 2016, 2017, 2018 and 2019. The Company recorded a $7.3 million liability as of December 1, 2014 as part of its purchase accounting for future earn-out payments. Per the purchase agreement, the earn-out payments are calculated as follows:

First tier earn-out payment	Adjusted pretax earnings greater than $1,000,000 and less than or equal to $2,000,000	Payment will be calculated as product of amount of adjusted pretax earnings times 40%
Second tier earn-out payment	Adjusted pretax earnings greater than $2,000,000 and less than or equal to $3,000,000	The first tier earn-out payment, plus the product of amount of adjusted pretax earnings greater than $2,000,000 and less than $3,000,000 times 50%
Third tier earn-out payment	Adjusted pretax earnings greater than $3,000,000 and less than or equal to $4,000,000	The first tier plus the second tier earn-out payment, plus the product of amount of adjusted pretax earnings greater than $3,000,000 and less than $4,000,000 times 70%
Fourth tier earn- out payment	Adjusted pretax earnings greater than $4,000,000 and less than or equal to $6,000,000	The first, second and third tier earn-out payment, plus the product of amount of adjusted pretax earnings greater than $4,000,000 and less than $6,000,000 times 85%
Fifth tier earn-out payment	Adjusted pretax earnings greater than $6,000,000	The first, second, third and fourth tier earn-out payment, plus the product of amount of adjusted pretax earnings greater than $6,000,000 times 55%

The purchase agreement provides for these earn-out payments as a portion of the purchase price to be paid to the sellers in future periods, contingent on future events. Therefore the Company included an estimate of the acquisition-date fair value of the contingent consideration of $7.3 million as part of the cost of the combination. The accounting treatment of the contingent consideration to be paid to those of the sellers who continue employment with the Company was evaluated to determine whether the amounts represent purchase consideration or a separate transaction, such as post-transaction employee compensation. Factors evaluated require significant judgment and include, among other factors; consideration of the terms of continuing employment, levels of post-transaction compensation, ownership interest of the sellers/employees, linkage of the contingent consideration to the transaction date combination valuation, and any other agreements or matters related to the transaction.

Based on an evaluation of the factors surrounding the transaction and the terms of the purchase agreement, the amount due under the earn-out provision was accounted for as acquisition consideration. The Company concluded that the contingent consideration to be paid to the sellers/employees was a significant component of the transaction date valuation of the acquired business. The calculation of the contingent payment was based upon factors established at the date of the transaction to be paid upon meeting the established earnings criteria of RML. The post transaction employment arrangements of the continuing employees are at market rates, and the formula for determining the contingent consideration is consistent with the business valuation methodologies, based upon a multiplier of earnings recognized from RML for five twelve month periods following the acquisition.

For the nine month period ended September 30, 2015, the Company recorded an adjustment to increase the contingent liability by $2.9 million. The increase in the contingent liability resulted from the excess of RML's pretax income from December 1, 2014 through the end of the third quarter of 2015 over and above estimates made at the close of the purchase of RML. The adjustment to the contingent liability for estimated future earn-out payments is recorded in the line item titled "Change in fair value, RML earn-out liability" in other operating expense on the Consolidated

Statements of Income. The total contingent liability as of September 30, 2015 is $10.3 million.

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

(In Thousands)	RML December 1, 2014	
Cost basis net assets	$11,915	
Cash payment made	(18,240	)
Cash surrender value of life insurance paid	(3,896	)
Liability for future earn out payments	(7,318	)
Fair value adjustments:		
Loans	(360	)
Trade name intangible	950	
Rate lock derivative asset	960	
Investment in Homestate Mortgage, LLC	1,490	
Other	(311	)
Goodwill	($14,810	)

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

(In Thousands)	RML December 1, 2014
Assets Acquired:	
Cash and equivalents	$10,828
Net loans	41,304
Premises and equipment	255
Trade name intangible	950
Rate lock derivative asset	960
Investment in Homestate Mortgage LLC	3,000
Other real estate owned	270
Other assets	10,291
Total assets acquired	$67,858
Liabilities Assumed:	
Borrowings	$37,541
Other liabilities	6,625
Total liabilities assumed	$44,166

The acquisition of RML is not considered significant to the Company’s financial statements under Regulation S-X; however, the Company has determined that the acquisition results in a new reporting segment, Home Mortgage Lending.

The operations of RML are included in our operating results from December 1, 2014, and added revenue of $23.8 million, non-interest expense of $16.4 million, and net income of $7.4 million, before taxes, for the nine month period ended September 30, 2015. RML’s results of operations prior to the December 1, 2014 acquisition are included in our operating results under the equity method. Additionally, merger-related costs of $430,000 for the nine-month period ended September 30, 2014 were incurred and expensed in connection with the acquisition of RML and recognized within the merger and acquisition expense on the Consolidated Statements of Income.

The following table presents unaudited pro forma results of operations for the nine month period ended September 30, 2014 as if the acquisition of RML had occurred on January 1, 2014. 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, 2014.

(In Thousands, except earnings per share data)	Nine Months Ended September 30, 2014			
	Company	RML[1]	Pro Forma Adjustments	Pro Forma Combined
Net interest and other income	$50,143	$17,978 [2]	($569) [3]	$67,552
Net income attributable to Northrim BanCorp, Inc.	10,734	3,172	2,625 [4]	16,531
Earnings Per Share, Basic	$1.59			$2.46
Earnings Per Share, Diluted	$1.57			$2.42
Weighted Average Shares Outstanding, Basic	6,733,175			6,733,175
Weighted Average Shares Outstanding, Diluted	6,822,288			6,822,288

[1] RML represents results from January 1 to September 30.
[2] 2014 amount is comprised of net interest income of $244,000 and $17.7 million of other income.
[3] Amount of accretion of the fair value adjustments on loans and income recognized under the equity method prior to the December 2014 acquisition.
[4] Amount of accretion of the fair value adjustments on loans, income recognized under the equity method, gain on acquisition, earn out accretion, and the change in the provision for income taxes.

Prior to December 1, 2014, the Company accounted for RML under the equity method of accounting. As of December 1, 2014, the Company owns 100% interest in RML and consolidates RML's activity into the Company's Consolidated Financial Statements.

The following table presents unaudited combined pro forma results of operations for the nine month period ended September 30, 2014 as if the acquisition of Alaska Pacific and RML had occurred on January 1, 2014. 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 acquisitions actually occurred on January 1, 2014.

(In Thousands, except earnings per share data)	Nine Months Ended September 30, 2014				
	Company	Alaska Pacific[1]	RML[2]	Pro Forma Adjustments	Pro Forma Combined
Net interest and other income	$50,143	$2,095	$17,978 [3]	($597) [4]	$69,619
Net income attributable to Northrim BanCorp, Inc.	10,734	(1,282)	3,172	2,726 [5]	15,350
Earnings Per Share, Basic	$1.59				$2.19
Earnings Per Share, Diluted	$1.57				$2.16
Weighted Average Shares Outstanding, Basic	6,733,175				7,023,387
Weighted Average Shares Outstanding, Diluted	6,822,288				7,112,500

[1] Alaska Pacific represents results from January 1 to March 31 for 2014.
[2] RML represents results from January 1 to September 30.
[3] 2014 amount is comprised of net interest income of $244,000 and $17.7 million of other income.
[4] Amount of amortization/ accretion of the fair value adjustments on loans and certificates of deposit for Alaska Pacific and amount of accretion of the fair value adjustments on loans and income recognized under the equity method prior to the December 2014 acquisition for RML.

[5] Amount of amortization/accretion of the fair value adjustments on loans and certificates of deposit, bargain purchase gain, amortization of core deposit intangible, and the change in the provision for income taxes for Alaska Pacific and amount of accretion of the fair value adjustments on loans, income recognized under the equity method, gain on acquisition, earn out accretion, and the change in the provision for income taxes for RML.

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 September 30, 2015, the Company had no certificate of deposit in another bank with original maturity 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
September 30, 2015				
Securities available for sale				
U.S. Treasury and government sponsored entities	$181,920	$859	$5	$182,774
Municipal securities	10,932	172	13	11,091
U.S. Agency mortgage-backed securities	875	3	4	874
Corporate bonds	38,309	228	—	38,537
Preferred stock	998	—	1	997
Total securities available for sale	$233,034	$1,262	$23	$234,273
Securities held to maturity				
Municipal securities	$904	$68	$—	$972
Total securities held to maturity	$904	$68	$—	$972
December 31, 2014				
Securities available for sale				
U.S. Treasury and government sponsored entities	$226,624	$105	$539	$226,190
Municipal securities	11,843	285	4	12,124
U.S. Agency mortgage-backed securities	1,024	6	1	1,029
Corporate bonds	38,820	415	—	39,235
Preferred stock	2,999	153	—	3,152
Total securities available for sale	$281,310	$964	$544	$281,730
Securities held to maturity				
Municipal securities	$2,201	$107	$—	$2,308
Total securities held to maturity	$2,201	$107	$—	$2,308

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 September 30, 2015 and December 31, 2014 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
September 30, 2015:						
Securities Available for Sale						
U.S. Treasury and government sponsored entities	$3,621	$5	$39	$—	$3,660	$5
Municipal Securities	2,145	13	—	—	2,145	13
Mortgage-backed Securities	508	3	80	1	588	4
Preferred Stock	996	1	—	—	996	1
Total	$7,270	$22	$119	$1	$7,389	$23
December 31, 2014:						
Securities Available for Sale						
U.S. Treasury and government sponsored entities	$165,004	$539	$—	$—	$165,004	$539
Municipal Securities	567	4	—	—	567	4
Mortgage-backed Securities	117	1	—	—	117	1
Total	$165,688	$544	$—	$—	$165,688	$544

There were twelve and twenty-nine available-for-sale securities with unrealized losses as of September 30, 2015 and December 31, 2014, respectively, that have been in a loss position for less than twelve months. There were three and no securities as of September 30, 2015 and December 31, 2014 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 September 30, 2015, $64.0 million in securities, or 27%, of the investment portfolio was pledged for deposits and borrowings, as compared to $54.1 million, or 19%, at December 31, 2014. We held no securities of any single issuer (other than government sponsored entities) that exceeded 10% of our shareholders' equity at September 30, 2015 and December 31, 2014.

The amortized cost and fair values of debt securities at September 30, 2015, 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	$181,920	$182,774	1.26	%
Total	$181,920	$182,774	1.26	%
U.S. Agency mortgage-backed securities				
1-5 years	$37	$36	1.99	%
5-10 years	250	248	3.04	%
Over 10 years	588	590	2.82	%
Total	$875	$874	2.85	%
Corporate bonds				
Within 1 year	$17,233	$17,388	1.99	%
1-5 years	21,076	21,149	1.07	%
Total	$38,309	$38,537	1.48	%
Preferred stock				
Over 10 years	$998	$997	6.02	%
Total	$998	$997	6.02	%
Municipal securities				
Within 1 year	$658	$666	2.64	%
1-5 years	6,289	6,434	2.11	%
5-10 years	4,889	4,963	4.54	%
Total	$11,836	$12,063	3.14	%

The proceeds and resulting gains and losses, computed using specific identification, from sales of investment securities for the nine months ending September 30, 2015 and 2014, respectively, are as follows:

(In Thousands)	Proceeds	Gross Gains	Gross Losses
2015			
Available for sale securities	$3,633	$134	$—
2014			
Available for sale securities	$24,102	$465	$4

A summary of interest income for the nine months ending September 30, 2015 and 2014 on available for sale investment securities is as follows:

(In Thousands)	2015	2014
US Treasury and government sponsored entities	$1,713	$1,186
U.S. Agency mortgage-backed securities	20	17
Other	507	671
Total taxable interest income	$2,240	$1,874
Municipal securities	$248	$302
Total tax-exempt interest income	$248	$302
Total	$2,488	$2,176

6. Loans Held for Sale
The Company acquired the remaining 76.5% of RML on December 1, 2014. The Company originates 1-4 family residential mortgages through RML and sells them to the secondary market. These loans are shown as loans held for sale on the Company's Consolidated Balance Sheet. The Company originated $594.2 million and sold $571.5 million in loans during the nine-month period ending September 30, 2015. Prior to December 1, 2014, the Company had a 23.5% ownership interest in RML and purchased residential loans from them. The Company then sold these loans in the secondary market. The Company purchased $117.2 million and sold $118.2 million in loans from RML during the nine-month period ending September 30, 2014.

7. Loans
The following table presents total portfolio loans by portfolio segment and class of financing receivable, based on our asset quality rating ("AQR") 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
September 30, 2015									
AQR Pass	$309,102	$48,527	$96,037	$106,573	$290,743	$36,076	$26,964	$29,159	$943,181
AQR Special Mention	573	—	—	746	108	367	164	21	1,979
AQR Substandard	15,417	—	11,356	5,208	262	—	536	89	32,868
AQR Doubtful	—	—	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—	—	—
Subtotal	$325,092	$48,527	$107,393	$112,527	$291,113	$36,443	$27,664	$29,269	$978,028
Less: Unearned origination fees, net of origination costs									(4,348)
Total loans									$973,680
December 31, 2014									
AQR Pass	$291,020	$34,651	$91,195	$103,049	$282,774	$36,705	$31,118	$31,399	$901,911
AQR Special Mention	11,618	—	—	5,817	2,095	39	396	47	20,012
AQR Substandard	3,905	191	—	606	1,747	150	486	47	7,132
AQR Doubtful	—	—	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—	—	—
Subtotal	$306,543	$34,842	$91,195	$109,472	$286,616	$36,894	$32,000	$31,493	$929,055
Less: Unearned origination fees, net of origination costs									(4,551)
Total loans									$924,504

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 $3.7 million and $4.7 million at September 30, 2015 and December 31, 2014, respectively. Nonaccrual loans at the periods indicated, by segment, are presented below:

(In Thousands)	September 30, 2015	December 31, 2014
Commercial	$3,041	$2,031
Real estate construction one-to-four family	—	191
Real estate term owner occupied	41	135
Real estate term non-owner occupied	262	1,746
Real estate term other	—	39
Consumer secured by 1st deeds of trust	302	485
Consumer other	89	47
Total	$3,735	$4,674

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

(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
September 30, 2015							
AQR Pass	$80	$—	$—	$—	$80	$943,101	$943,181
AQR Special Mention	15	—	—	—	15	1,964	1,979
AQR Substandard	—	—	—	3,735	3,735	29,133	32,868
AQR Doubtful	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—
Subtotal	$95	$—	$—	$3,735	$3,830	$974,198	$978,028
Less: Unearned origination fees, net of origination costs							(4,348)
Total							$973,680
December 31, 2014							
AQR Pass	$696	$545	$—	$—	$1,241	$900,670	$901,911
AQR Special Mention	—	—	—	—	—	20,012	20,012
AQR Substandard	40	—	—	4,674	4,714	2,418	7,132
AQR Doubtful	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—
Subtotal	$736	$545	$—	$4,674	$5,955	$923,100	$929,055
Less: Unearned origination fees, net of origination costs							(4,551)
Total							$924,504

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 September 30, 2015 and December 31, 2014, the recorded investment in loans that are considered to be impaired was $35.0 million and $11.3 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
September 30, 2015			
With no related allowance recorded			
Commercial - AQR special mention	$160	$160	$—
Commercial - AQR substandard	14,011	14,460	—
Real estate construction other - AQR pass	721	721	—
Real estate construction other - AQR substandard	11,356	11,356	
Real estate term owner occupied- AQR pass	758	758	—
Real estate term owner occupied- AQR substandard	5,167	5,167	—
Real estate term non-owner occupied- AQR pass	493	493	—
Real estate term non-owner occupied- AQR special mention	101	101	—
Real estate term non-owner occupied- AQR substandard	262	262	—
Real estate term other - AQR special mention	148	148	—
Consumer secured by 1st deeds of trust - AQR pass	78	78	—
Consumer secured by 1st deeds of trust - AQR substandard	482	482	—
Subtotal	$33,737	$34,186	$—
With an allowance recorded			
Commercial - AQR substandard	$1,169	$1,169	$433
Consumer other - AQR substandard	80	80	80
Subtotal	$1,249	$1,249	$513
Total			
Commercial - AQR special mention	$160	$160	$—
Commercial - AQR substandard	15,180	15,629	433
Real estate construction other - AQR pass	721	721	—
Real estate construction other - AQR substandard	11,356	11,356	—
Real estate term owner-occupied - AQR pass	758	758	—
Real estate term owner-occupied - AQR substandard	5,167	5,167	—
Real estate term non-owner occupied - AQR pass	493	493	—
Real estate term non-owner occupied - AQR special mention	101	101	—
Real estate term non-owner occupied - AQR substandard	262	262	—
Real estate term other - AQR special mention	148	148	—
Consumer secured by 1st deeds of trust - AQR pass	78	78	—
Consumer secured by 1st deeds of trust - AQR substandard	482	482	—
Consumer other - AQR substandard	80	80	80
Total	$34,986	$35,435	$513

(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2014			
With no related allowance recorded			
Commercial - AQR special mention	$170	$170	$—
Commercial - AQR substandard	3,000	3,045	—
Real estate construction one-to-four family - AQR special mention	191	191	—
Real estate construction other - AQR pass	772	772	—
Real estate term owner occupied - AQR pass	501	501	—
Real estate term owner occupied - AQR special mention	273	273	—
Real estate term owner occupied - AQR substandard	558	558	—
Real estate term non-owner occupied - AQR pass	549	549	—
Real estate term non-owner occupied - AQR special mention	2,088	2,088	—
Real estate term non-owner occupied - AQR substandard	1,709	1,709	—
Real estate term other - AQR substandard	150	150	—
Consumer secured by 1st deeds of trust - AQR pass	82	82	—
Consumer secured by 1st deeds of trust - AQR special mention	448	461	—
Subtotal	$10,491	$10,549	$—
With an allowance recorded			
Commercial - AQR substandard	$806	$806	$75
Subtotal	$806	$806	$75
Total			
Commercial - AQR special mention	$170	$170	$—
Commercial - AQR substandard	3,806	3,851	75
Real estate construction one-to-four family - AQR special mention	191	191	—
Real estate construction other - AQR pass	772	772	—
Real estate term owner occupied - AQR pass	501	501	—
Real estate term owner occupied - AQR special mention	273	273	—
Real estate term owner occupied - AQR substandard	558	558	—
Real estate term non-owner occupied - AQR pass	549	549	—
Real estate term non-owner occupied - AQR special mention	2,088	2,088	—
Real estate term non-owner occupied - AQR substandard	1,709	1,709	—
Real estate term other - AQR substandard	150	150	—
Consumer secured by 1st deeds of trust - AQR pass	82	82	—
Consumer secured by 1st deeds of trust - AQR special mention	448	461	—
Total	$11,297	$11,355	$75

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

The following tables summarize our average recorded investment and interest income recognized on impaired loans for the three and nine month periods ended September 30, 2015 and 2014, respectively:

Three Months Ended September 30,	2015		2014	
(In Thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Commercial - AQR pass	$—	$—	$323	$1
Commercial - AQR special mention	161	3	358	10
Commercial - AQR substandard	13,661	155	1,661	65
Real estate construction other - AQR pass	726	13	—	—
Real estate construction other - AQR substandard	5,678	—	—	—
Real estate term owner occupied- AQR pass	761	17	505	12
Real estate term owner occupied- AQR special mention	—	—	276	6
Real estate term owner occupied- AQR substandard	5,203	85	1,218	24
Real estate term non-owner occupied- AQR pass	516	19	591	19
Real estate term non-owner occupied- AQR special mention	101	10	3,103	168
Real estate term non-owner occupied- AQR substandard	269	—	1,118	—
Real estate term other - AQR special mention	148	3	795	30
Real estate term other - AQR substandard	—	—	424	3
Consumer secured by 1st deeds of trust - AQR pass	—	—	84	1
Consumer secured by 1st deeds of trust - AQR special mention	78	1	—	—
Consumer secured by 1st deeds of trust - AQR substandard	461	2	467	—
Subtotal	$27,763	$308	$10,923	$339
With an allowance recorded				
Commercial - AQR substandard	$944	$—	$—	$—
Consumer secured by 1st deeds of trust - AQR substandard	—	—	165	—
Consumer other - AQR substandard	40	—	—	—
Subtotal	$984	$—	$165	$—

Total				
Commercial - AQR pass	$—	$—	$323	$1
Commercial - AQR special mention	161	3	358	10
Commercial - AQR substandard	14,605	155	1,661	65
Real estate construction other - AQR pass	726	13	—	—
Real estate construction other - AQR substandard	5,678	—	—	—
Real estate term owner-occupied - AQR pass	761	17	505	12
Real estate term owner-occupied - AQR special mention	—	—	276	6
Real estate term owner-occupied - AQR substandard	5,203	85	1,218	24
Real estate term non-owner occupied - AQR pass	516	19	591	19
Real estate term non-owner occupied - AQR special mention	101	10	3,103	168
Real estate term non-owner occupied - AQR substandard	269	—	1,118	—
Real estate term other - AQR special mention	148	3	795	30
Real estate term other - AQR substandard	—	—	424	3
Consumer secured by 1st deeds of trust - AQR pass	—	—	84	1
Consumer secured by 1st deeds of trust - AQR special mention	78	1	—	—
Consumer secured by 1st deeds of trust - AQR substandard	461	2	632	—
Consumer other - AQR substandard	40	—	—	—
Total Impaired Loans	$28,747	$308	$11,088	$339

Nine Months Ended September 30,	2015		2014	
(In Thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Commercial - AQR pass	$—	$—	$130	$2
Commercial - AQR special mention	165	10	281	20
Commercial - AQR substandard	9,711	225	1,538	72
Real estate construction one-to-four family - AQR special mention	—	—	116	6
Real estate construction other - AQR pass	744	72	—	—
Real estate construction other - AQR special mention	—	—	271	29
Real estate construction other - AQR substandard	1,913	—	—	—
Real estate term owner occupied- AQR pass	677	46	508	39
Real estate term owner occupied- AQR special mention	90	5	307	15
Real estate term owner occupied- AQR substandard	3,720	113	1,168	51
Real estate term non-owner occupied- AQR pass	534	57	607	74
Real estate term non-owner occupied- AQR special mention	1,444	97	2,447	209
Real estate term non-owner occupied- AQR substandard	1,423	—	1,062	—
Real estate term other - AQR special mention	50	3	655	77
Real estate term other - AQR substandard	99	7	245	10
Consumer secured by 1st deeds of trust - AQR pass	80	3	85	3
Consumer secured by 1st deeds of trust - AQR substandard	526	6	284	—
Consumer other - AQR substandard	—	—	38	—
Subtotal	$21,176	$644	$9,742	$607

With an allowance recorded				
Commercial - AQR special mention	$—	$—	$61	$6
Commercial - AQR substandard	1,863	—	198	—
Real estate term other - AQR substandard	93	—	—	—
Consumer secured by 1st deeds of trust - AQR substandard	—	—	234	—
Consumer other - AQR substandard	14	—	—	—
Subtotal	$1,970	$—	$493	$6
Total				
Commercial - AQR pass	$—	$—	$130	$2
Commercial - AQR special mention	165	10	342	26
Commercial - AQR substandard	11,574	225	1,736	72
Real estate construction one-to-four family - AQR special mention	—	—	116	6
Real estate construction other - AQR pass	744	72	—	—
Real estate construction other - AQR special mention	—	—	271	29
Real estate construction other - AQR substandard	1,913	—	—	—
Real estate term owner-occupied - AQR pass	677	46	508	39
Real estate term owner-occupied - AQR special mention	90	5	307	15
Real estate term owner-occupied - AQR substandard	3,720	113	1,168	51
Real estate term non-owner occupied - AQR pass	534	57	607	74
Real estate term non-owner occupied - AQR special mention	1,444	97	2,447	209
Real estate term non-owner occupied - AQR substandard	1,423	—	1,062	—
Real estate term other - AQR special mention	50	3	655	77
Real estate term other - AQR substandard	192	7	245	10
Consumer secured by 1st deeds of trust - AQR pass	80	3	85	3
Consumer secured by 1st deeds of trust - AQR substandard	526	6	518	—
Consumer other - AQR substandard	14	—	38	—
Total Impaired Loans	$23,146	$644	$10,235	$613

As described in Note 3 above, the Company acquired 18 purchased credit impaired loans from Alaska Pacific on April 1, 2014 subject to the requirements of FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality. 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. At the acquisition date, April 1, 2014, the fair value of this group of loans was $3.9 million. The carrying value of these loans as of September 30, 2015 is $1.7 million.

Loans classified as troubled debt restructurings ("TDR") totaled $5.1 million and $7.7 million at September 30, 2015 and December 31, 2014, respectively. A TDR is a loan to a borrower that is experiencing financial difficulty that has been modified from its original terms and conditions in such a way that the Company is granting the borrower a concession that it would not grant otherwise. The Company has granted a variety of concessions to borrowers in the form of loan modifications. The modifications granted can generally be described in the following categories:

Rate Modification: A modification in which the interest rate is changed.

Term Modification: A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Payment Modification: A modification in which the dollar amount of the payment is changed, or in which a loan is converted to interest only payments for a period of time is included in this category.

Combination Modification: Any other type of modification, including the use of multiple categories above.

AQR pass graded loans included above in the impaired loan data are loans classified as TDRs. By definition, TDRs are considered impaired loans. All of the Company's TDRs are included in impaired loans.
The following table presents the breakout between newly restructured loans that occurred during the nine months ended September 30, 2015 and restructured loans that occurred prior to 2015 that are still included in portfolio loans:

(In Thousands)	Accrual Status	Nonaccrual Status	Total Modifications
New Troubled Debt Restructurings			
Commercial - AQR substandard	$66	$1,317	$1,383
Subtotal	$66	$1,317	$1,383
Existing Troubled Debt Restructurings	$3,138	$583	$3,721
Total	$3,204	$1,900	$5,104

The following table presents newly restructured loans that occurred during the nine months ended September 30, 2015, by concession (terms modified):

		September 30, 2015				
(In Thousands)	Number of Contracts	Rate Modification	Term Modification	Payment Modification	Combination Modification	Total Modifications
Pre-Modification Outstanding Recorded Investment:						
Commercial - AQR substandard	4	$—	$—	$423	$900	$1,323
Total	4	$—	$—	$423	$900	$1,323
Post-Modification Outstanding Recorded Investment:						
Commercial - AQR substandard	4	$—	$—	$406	$977	$1,383
Total	4	$—	$—	$406	$977	$1,383

The Company had no commitments to extend additional credit to borrowers whose terms have been modified in TDRs. There was a $304,000 charge off in the nine months ended September 30, 2015 on a loan that was later classified as a TDR.
All TDRs are also classified as impaired loans and are included in the loans individually evaluated for impairment in the calculation of the Allowance. There were no TDRs with specific impairment at September 30, 2015 and December 31, 2014, respectively.

The Company had no TDRs that subsequently defaulted within the first twelve months of restructure, during the periods ending September 30, 2015 and December 31, 2014.

8. Allowance for Loan Losses

The following tables detail activity in the Allowance for the periods indicated:

Three Months Ended September 30,	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 deed of trust	Consumer other	Unallocated	Total
2015										
Balance, beginning of period	$5,687	$689	$1,863	$1,470	$4,888	$671	$265	$415	$1,470	$17,418
Charge-Offs	(367)	—	—	—	—	—	(28)	(5)	—	(400)
Recoveries	152	—	—	—	—	—	—	2	—	154
Provision (benefit)	308	202	(81)	54	54	(69)	31	64	113	676
Balance, end of period	$5,780	$891	$1,782	$1,524	$4,942	$602	$268	$476	$1,583	$17,848
Balance, end of period: Individually evaluated for impairment	$433	$—	$—	$—	$—	$—	$—	$80	$—	$513
Balance, end of period: Collectively evaluated for impairment	$5,347	$891	$1,782	$1,524	$4,942	$602	$268	$396	$1,583	$17,335
2014										
Balance, beginning of period	$5,134	$570	$830	$1,384	$4,124	$642	$272	$370	$2,706	$16,032
Charge-Offs	—	—	—	—	—	—	(13)	(41)	—	(54)
Recoveries	259	—	—	—	—	—	—	6	—	265
Provision (benefit)	22	64	285	177	87	254	7	53	(949)	—
Balance, end of period	$5,415	$634	$1,115	$1,561	$4,211	$896	$266	$388	$1,757	$16,243
Balance, end of period: Individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$8	$—	$—	$8
Balance, end of period: Collectively evaluated for impairment	$5,415	$634	$1,115	$1,561	$4,211	$896	$258	$388	$1,757	$16,235

Nine Months Ended September 30,	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 deed of trust	Consumer other	Unallocated	Total
2015										
Balance, beginning of period	$5,643	$644	$1,653	$1,580	$4,704	$656	$285	$410	$1,148	$16,723
Charge-Offs	(474)	—	—	—	—	(81)	(28)	(5)	—	(588)
Recoveries	310	—	—	—	—	17	—	8	—	335
Provision (benefit)	301	247	129	(56)	238	10	11	63	435	1,378
Balance, end of period	$5,780	$891	$1,782	$1,524	$4,942	$602	$268	$476	$1,583	$17,848
Balance, end of period: Individually evaluated for impairment	$433	$—	$—	$—	$—	$—	$—	$80	$—	$513
Balance, end of period: Collectively evaluated for impairment	$5,347	$891	$1,782	$1,524	$4,942	$602	$268	$396	$1,583	$17,335
2014										
Balance, beginning of period	$5,779	$557	$539	$1,583	$4,297	$537	$322	$390	$2,278	$16,282
Charge-Offs	(320)	—	—	—	—	—	(52)	(74)	—	(446)
Recoveries	889	625	—	—	—	—	—	29	—	1,543
Provision (benefit)	(933)	(548)	576	(22)	(86)	359	(4)	43	(521)	(1,136)
Balance, end of period	$5,415	$634	$1,115	$1,561	$4,211	$896	$266	$388	$1,757	$16,243
Balance, end of period: Individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$8	$—	$—	$8
Balance, end of period: Collectively evaluated for impairment	$5,415	$634	$1,115	$1,561	$4,211	$896	$258	$388	$1,757	$16,235

The following is a detail of the recorded investment in the loan portfolio, segregated by amounts evaluated individually or collectively in the Allowance at the periods indicated:

(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 deed of trust	Consumer other	Total
September 30, 2015									
Balance, end of period	$325,092	$48,527	$107,393	$112,527	$291,113	$36,443	$27,664	$29,269	$978,028
Balance, end of period: Individually evaluated for impairment	$15,340	$—	$12,077	$5,925	$856	$148	$560	$80	$34,986
Balance, end of period: Collectively evaluated for impairment	$309,752	$48,527	$95,316	$106,602	$290,257	$36,295	$27,104	$29,189	$943,042
December 31, 2014									
Balance, end of period	$306,543	$34,842	$91,195	$109,472	$286,616	$36,894	$32,000	$31,493	$929,055
Balance, end of period: Individually evaluated									