NORTHRIM BANCORP INC
Form 10-K
March 15, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2010

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 0-33501

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $1.00 par value
(Title of Class)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting company o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2010 (the last business day of the registrant s most recently completed second fiscal quarter) was $94,761,114.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. 6,429,476 shares of Common Stock, $1.00 par value, as of March 14, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant s Proxy Statement on Schedule 14A, relating to the registrant s annual meeting of shareholders to be held on May 19, 2011, is incorporated by reference into Part III of this Form 10-K.

Northrim BanCorp, Inc.
Annual Report on Form 10-K
December 31, 2010
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Part I

Item 1. Business

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

General

Northrim BanCorp, Inc.

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

Subsidiaries

The Company has four wholly-owned subsidiaries:

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

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

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

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

The Bank has two wholly-owned subsidiaries:

Northrim Capital Investments Co. (NCIC) is a wholly-owned subsidiary of the Bank, which holds a 24% interest in the profits and losses of a residential mortgage holding company, Residential Mortgage Holding Company LLC (RML). The predecessor of RML, Residential Mortgage LLC, was formed in 1998 and has offices throughout Alaska. RML also operates in real estate markets in the states of Washington and South Carolina through joint ventures. In March and December of 2005, NCIC purchased ownership interests totaling

50.1% in Northrim Benefits Group, LLC (NBG), an insurance brokerage company that focuses on the sale and servicing of employee benefit plans; and

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

Segments

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

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Overview and Business Strategy

We have grown to be the fourth largest commercial bank in Alaska and the third largest in Anchorage in terms of deposits, with $892.1 million in total deposits and $1.1 billion in total assets at December 31, 2010. Through our 10 branches, we are accessible to approximately 70% of the Alaska population.

> ***Anchorage:*** We have two major financial centers in Anchorage, four smaller branches, and one supermarket branch. We continue to explore future branching opportunities in this market.
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> ***Fairbanks:*** We opened our financial center in Fairbanks, Alaska s second largest city, in mid-1996. This branch has given us a strong foothold in Interior Alaska, and management believes that there is significant potential to increase our share of that market. In the second quarter of 2008, we opened another branch in Fairbanks that is located within a large newly developed retail area. In the third quarter of 2010, we consolidated the operations of our Fairbanks branches into the facility that was completed in 2008.
>
> ***Eagle River:*** We also serve Eagle River, a community outside of Anchorage. In January of 2002, we moved from a supermarket branch into a full-service branch to provide a higher level of service to this growing market.
>
> ***Wasilla:*** Wasilla is a rapidly growing market in the Matanuska Valley outside of Anchorage where we completed construction of a new financial center in December of 2002 and moved from our supermarket branch and loan production office into this new facility.

One of our major objectives is to increase our market share in Anchorage, Fairbanks, and the Matanuska Valley, Alaska s three largest urban areas. We estimate that we hold a 17% share of the commercial bank deposit market in Anchorage, 8% share of the Fairbanks market, and a 10% share of the Matanuska Valley market as of June 30, 2010. Our success will depend on our ability to manage our credit risks and control our costs while providing competitive products and services. To achieve our objectives, we are pursuing the following business strategies:

> ***Pursuing Strategic Opportunities for Additional Growth:*** We expect to seek opportunities to further our growth while maintaining a high level of credit quality. We plan to affect our growth strategy through a combination of growth at existing branch locations, new branch openings, primarily in Anchorage, Wasilla and Fairbanks, and strategic banking and non-banking acquisitions in the future. We believe that our Bank of America branch acquisition in 1999 significantly strengthened our local market position and enabled us to further capitalize on expansion opportunities resulting from the demand for a locally based banking institution providing a high level of service. Not only did the acquisition increase our size, number of branch offices, and lending capacity, but it also expanded our consumer lending, further diversifying our loan portfolio. Although to a lesser degree than the Bank of America branch acquisition, we believe that our October 2007 acquisition of Alaska First Bank & Trust, N.A. also strengthened our position in the Anchorage market. We expect to continue seeking similar opportunities to further our growth and increase our market share in the areas we serve.
>
> ***Improving Credit Quality:*** In 2007, we formed a Quality Assurance department to provide independent, detailed financial analysis of our largest, most complex loans. In addition, this department, along with the Chief Lending Officer and others in the Loan Administration department, has developed processes to analyze and manage various concentrations of credit within the overall loan portfolio. The Loan Administration department has also enhanced the procedures and processes for the analysis and reporting of problem loans along with the development of strategies to resolve them. In 2011, we plan to continue with these initiatives. In addition, we will continue to devote resources towards the reduction of our nonperforming assets and

substandard loans.

Providing Customer First Service: We believe that we provide a high level of customer service. Our guiding principle is to serve our market areas by operating with a Customer First Service philosophy, affording our customers the highest priority in all aspects of our operations. To achieve this objective, our management emphasizes the hiring and retention of competent and highly motivated employees at all levels of the organization. We had 268 full-time equivalent employees at December 31, 2010. None of our employees are covered by a collective bargaining agreement. We consider our relations with our employees to be satisfactory. Management believes that a well-trained and highly motivated core of employees allows maximum personal contact with customers in order to understand and fulfill customer needs and preferences. This Customer First Service philosophy is combined with our emphasis on personalized, local decision making.

High Performance Checking: In the first part of 2005, we launched our High Performance Checking (HPC) product consisting of several consumer checking accounts tailored to the needs of specific segments of our market, including a totally free checking product. We supported the new products with a targeted marketing program and extensive branch sales promotions. Through the concentrated efforts of our branch employees, we increased the number of our deposit accounts and the balances in them. In the fourth quarter of 2006, we introduced HPC for our business checking accounts. In 2007 through 2010, we continued to market the HPC products through a targeted mailing program and branch promotions, which

helped us to increase the number of these accounts. In 2011, we plan to continue to support the HPC consumer and business checking products.

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

Providing Competitive and Responsive Real Estate Lending: We are a significant land development and residential construction lender and an active lender in the commercial real estate market in our Alaskan markets. We believe that our willingness to provide these services in a professional and responsive manner has contributed significantly to our growth. Because of our relatively small size, our experienced senior management can be more involved with serving customers and making credit decisions, allowing us to compete more favorably for lending relationships. In 2011, we will continue to make a substantial effort to decrease our loans measured for impairment and other real estate owned (OREO), many of which consist of residential construction and land development loans. As a result of these efforts and continued projected slowness in the residential real estate market, we expect our loan balances in the residential construction sector to remain stable in 2011.

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

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

Several of our deposit services and products are:

An indexed money market deposit account;

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

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

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

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

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

receipt, cash management programs to meet the specialized needs of business customers, and courier agents who pick up noncash deposits from business customers.

Elliott Cove Capital Management LLC

As of December 31, 2010, we owned a 48% equity interest in Elliott Cove, an investment advisory services company, through our wholly - owned subsidiary, NISC. Elliott Cove began active operations in the fourth quarter of 2002 and has had operating losses since that time as it continues to build its assets under management. In addition to its ownership interest, the Company provides Elliott Cove with a line of credit that has a committed amount of $750,000 and an outstanding balance of $542,000 as of December 31, 2010.

As of March 14, 2011, there are four Northrim Bank employees who are licensed as Investment Advisor Representatives and actively selling the Elliott Cove investment products. We plan to continue to use the Elliott Cove products to strengthen our existing customer relationships and bring new customers into the Bank.

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Northrim Funding Services

In the third quarter of 2004, we formed NFS as a division of the Bank. NFS is based in Bellevue, Washington and provides short-term working capital to customers in the states of Washington and Oregon by purchasing their accounts receivable. In 2011, we expect NFS to continue to penetrate these markets and increase market share in the purchased receivables business and to continue to contribute to the Company s net income.

Alaska Economy

Our growth and operations depend upon the economic conditions of Alaska and the specific markets we serve. The economy of Alaska is dependent upon the natural resources industries, in particular oil production, fishing, forest products and mining as well as tourism, government, and U.S. military spending. According to the State of Alaska Department of Revenue, approximately 87% of the unrestricted revenues that fund the Alaska state government are generated through various taxes and royalties on the oil industry. Any significant changes in the Alaska economy and the markets we serve eventually could have a positive or negative impact on the Company.

Alaska has weathered the Great Recession better than many other states in the nation, due largely to a natural resources based economy which continues to benefit from rising commodities and energy prices. According to the Legislative Finance Division of the State of Alaska as of August 9, 2010, Alaska has more than $12 billion in liquid reserves, a projected fiscal 2011 surplus of more than $2 billion and a Permanent Fund balance of $38.5 billion, which pays an annual dividend to every Alaskan citizen. According to a December 2010 ranking by the Sovereign Wealth Fund Institute, Alaska s Permanent Fund ranks 11th in the world by assets among oil-funded Sovereign Wealth Funds and 19th among all sovereign wealth funds.

In 2010, employment in Alaska rose by a modest 1,900 jobs, or 0.6%, according to the preliminary report from the Alaska Department of Labor. Alaska s unemployment rate was 8% in November 2010 as compared to 9.8% for the United States. This marks the 25th consecutive month that Alaska s unemployment rate has been lower than the national average.

Substantially all of the Company s operations are in the greater Anchorage, Matanuska Valley, and Fairbanks, areas of Alaska. Because of our geographic concentration, our operations and growth depend on economic conditions in Alaska, generally, and the greater Anchorage, Matanuska Valley, and Fairbanks areas in particular. A material portion of our loans at December 31, 2010, were secured by real estate located in greater Anchorage, Matanuska Valley, and Fairbanks, Alaska. Moreover, 10% of our revenue was derived from the residential housing market in the form of loan fees and interest on residential construction and land development loans and income from RML, our mortgage real estate affiliate. Real estate values generally are affected by economic and other conditions in the area where the real estate is located, fluctuations in interest rates, changes in tax and other laws, and other matters outside of our control. Since 2007 the Anchorage area and Fairbanks real estate markets have experienced a significant slowdown. Any further decline in real estate values in the greater Anchorage, Matanuska Valley, and Fairbanks areas could significantly reduce the value of the real estate collateral securing our real estate loans and could increase the likelihood of defaults under these loans. In addition, at December 31, 2010, $257 million, or 38%, of our loan portfolio was represented by commercial loans in Alaska. Commercial loans generally have greater risk than real estate loans.

Alaska s residents are not subject to any state income or state sales taxes, and for the past 27 years, have received annual distributions payable in October of each year from the Alaska Permanent Fund Corporation, which is supported by royalties from oil production. The distribution was $1,281 per eligible resident in 2010 for an aggregate distribution of approximately $858 million. The Anchorage Economic Development Corporation estimates that, for most Anchorage households, distributions from the Alaska Permanent Fund exceed other Alaska taxes to which those

households are subject (primarily real estate taxes).

Alaska is strategically located on the Pacific Rim, within nine hours by air from 95% of the industrialized world, and Anchorage has become a worldwide cargo and transportation link between the United States and international business in Asia and Europe. Key sectors of the Alaska economy are the oil industry, government and military spending, and the construction, fishing, forest products, tourism, mining, air cargo, and transportation industries, as well as medical services.

The petroleum industry plays a significant role in the economy of Alaska. Royalty payments and tax revenue related to North Slope oil fields provide 87% of the unrestricted revenue used primarily to fund state government operations according to the State of Alaska Department of Revenue. State revenues are sensitive to volatile oil prices and production levels have been in decline for 20 years; however, high oil prices have been sustained for several years now, despite the global recession. This has allowed the state government to continue to increase operating and capital budgets and add to its reserves. The long-run growth of the Alaska economy will most likely be determined by large scale natural resource development projects. Several multi-billion dollar projects are progressing or can potentially advance in the near term. Some of these projects include: a large diameter natural gas pipeline extending through Canada; related gas exploration at Point Thomson by Exxon and partners; exploration for new wells offshore in the Outer Continental Shelf by Shell and Conoco Phillips; potential oil and gas activities in the Arctic National Wildlife Refuge; copper, gold and molybdenum production at the Pebble and Donlon Creek mines; and energy development in the National Petroleum

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Reserve Alaska. Because of their size, each of these projects faces tremendous challenges. Contentious political decisions need to be made by government regulators, issues need to be resolved in the court system, and multi-billion dollar financial commitments need to be made by the private sector if they are to advance. If none of these projects moves forward in the next ten years, then state revenues will decline with falling oil production from older fields on the North Slope. The decline in state revenues will likely have a negative effect on Alaska s economy.

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

Tourism is another major employment sector of the Alaska economy. In 2010, according to the Alaska Travel Industry Association (ATIA), several cruise lines chose to deploy ships out of Alaska waters for the 2010 summer season which negatively impacted Alaska. However, the ATIA has recently reported that visitor numbers in 2010 increased slightly over 2009, and that increased tourism advertising is planned for 2011.

Competition

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

In the late 1980s, eight of the thirteen commercial banks and savings and loan associations in Alaska failed, resulting in the largest commercial banks gaining significant market share. Currently, there are eight commercial banks operating in Alaska. At June 30, 2010, the date of the most recently available information, we had approximately a 17% share of the Anchorage commercial bank deposits, approximately 8% in Fairbanks, and 10% in the Matanuska Valley.

The following table sets forth market share data for the commercial banks having a presence in the greater Anchorage area as of June 30, 2010, the most recent date for which comparative deposit information is available.

Financial Institution	Number of Branches	Total Deposits	Market Share of Deposits

		(Dollars in Thousands)	
Northrim Bank	8(1)	$ 728,841	17%
Wells Fargo Bank Alaska	14	1,990,627	46%
First National Bank Alaska	10	924,999	21%
Key Bank	4	695,568	16%
Total	36	$ 4,340,035	100%

(1) Does not reflect our Fairbanks or Wasilla branches

Supervision and Regulation

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the BHC Act) registered with and subject to examination by the Board of Governors of the Federal Reserve System (the FRB). The Company s bank subsidiary is an Alaska-state chartered commercial bank and is subject to examination, supervision, and regulation by the Alaska Department of Commerce, Community and Economic Development, Division of Banking, Securities and Corporations (the

Division). The FDIC insures Northrim Bank s deposits and in that capacity also regulates Northrim Bank. The Company s affiliated investment company, Elliott Cove, and its affiliated investment advisory and wealth management company, Pacific Portfolio Consulting LLC, are subject to and regulated under the Investment Advisors Act of 1940 and applicable state investment advisor rules and regulations. The Company s affiliated trust company, Pacific Portfolio Trust Company, is regulated as a non-depository trust company under the banking laws of the State of Washington.

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

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

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

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

There are various legal restrictions on the extent to which a bank holding company and certain of its nonbank subsidiaries can borrow or otherwise obtain credit from banking subsidiaries or engage in certain other transactions with or involving those banking subsidiaries. With certain exceptions, federal law imposes limitations on, and requires collateral for, extensions of credit by insured depository institutions, such as Northrim Bank, to their non-bank affiliates, such as the Company.

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

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

from engaging in what they consider to be unsafe and unsound practices.

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

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

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

The Company and Northrim Bank are subject to risk-based capital and leverage guidelines issued by federal banking agencies for banks and bank holding companies. These agencies are required by law to take specific prompt corrective actions with

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

Federal banking agencies have established minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. The regulations set forth the definitions of capital, risk-weighted and average assets. As of December 15, 2010, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. Management believes, as of December 31, 2010, that the Company and Northrim Bank met all capital adequacy requirements for a well-capitalized institution.

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

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

Management intends to maintain a Tier 1 risk-based capital ratio for the Bank in excess of 10% in 2011, exceeding the FDIC s well-capitalized capital requirement classification. The dividends that the Bank pays to the Company are limited to the extent necessary for the Bank to meet the regulatory requirements of a well-capitalized bank.

The capital ratios for the Company exceed those for the Bank primarily because the $18 million trust preferred securities offerings that the Company completed in the second quarter of 2003 and in the fourth quarter of 2005 are included in the Company s capital for regulatory purposes, although they are accounted for as a liability in its financial statements. The trust preferred securities are not accounted for on the Bank s financial statements nor are they included in its capital (although the Company did contribute to the Bank a portion of the cash proceeds from the sale of those securities). As a result, the Company has $18 million more in regulatory capital than the Bank at December 31, 2010

and 2009, which explains most of the difference in the capital ratios for the two entities.

Northrim Bank is required to file periodic reports with the FDIC and the Division and is subject to periodic examinations and evaluations by those regulatory authorities. These examinations must be conducted every 12 months, except that certain well-capitalized banks may be examined every 18 months. The FDIC and the Division may each accept the results of an examination by the other in lieu of conducting an independent examination.

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

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

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

The Company is also subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act). Among other things, the USA PATRIOT Act requires financial institutions, such as the Company and Northrim Bank, to adopt and implement specific policies and procedures designed to prevent and defeat money laundering. Management believes the Company is in compliance with the USA PATRIOT Act as in effect on December 31, 2010.

On October 3, 2008, the U.S. Congress passed, and the President signed into law, the Emergency Economic Stabilization Act of 2008 (the Stabilization Act). Among other things, the Stabilization Act temporarily increased the amount of insurance coverage of deposit accounts held at FDIC-insured depository institutions, including the Bank, from $100,000 to $250,000. This coverage was permanently increased effective in July 2010.

On October 14, 2008, using the systemic risk exception to the FDIC Improvement Act of 1991, the U.S. Treasury authorized the FDIC to provide a 100% guarantee of newly-issued senior unsecured debt and deposits in non-interest bearing transaction accounts at FDIC insured institutions. The Company elected to participate in this program as it pertains to the 100% guarantee of non-interest bearing transaction accounts by the FDIC. Banks participating in the transaction account guarantee program are required to pay an additional 10 basis points in insurance fees on the amounts guaranteed by the program. This transaction account guarantee program is scheduled to expire on January 1, 2013. The Company elected not to participate in the part of the program that guarantees newly-issued senior unsecured debt.

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

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law which, among other things, limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. This law may require many banks to raise new Tier 1 capital and will effectively close the trust-preferred securities markets from offering new issuances in the future. Since the Company had less than $15 billion in assets at December 31, 2009, under the Dodd-Frank Act, the Company will be able to continue to include its existing trust preferred securities in Tier 1 capital.

Available Information

The Company s annual report on Form 10-K and quarterly reports on Form 10-Q, as well as its Form 8-K filings, which are filed with the Securities and Exchange Commission (SEC), are accessible free of charge at our Website at

http://www.northrim.com as soon as reasonably practicable after filing with the SEC. By making this reference to our Website, the Company does not intend to incorporate into this report any information contained in the Website. The Website should not be considered part of this report.

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

Item 1A. Risk Factors

An investment in the Company s common stock is subject to risks inherent to the Company s business. The material risks and uncertainties that management believes affect the Company are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company s business operations. This report is qualified in its entirety by these risk factors.

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

We operate in a highly regulated environment and changes of or increases in banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect us.

We are subject to extensive regulation, supervision and examination by federal and state banking authorities. In addition, as a publicly-traded company, we are subject to regulation by the Securities and Exchange Commission. Any change in applicable regulations or federal or state legislation or in policies or interpretations or regulatory approaches to compliance and enforcement, income tax laws and accounting principles could have a substantial impact on us and our operations. Changes in laws and regulations may also increase our expenses by imposing additional fees or taxes or restrictions on our operations. Additional legislation and regulations that could significantly affect our authority and operations may be enacted or adopted in the future, which could have a material adverse effect on our financial condition and results of operations. Failure to appropriately comply with any such laws, regulations or principles could result in sanctions by regulatory agencies, or damage to our reputation, all of which could adversely affect our business, financial condition or results of operations.

In that regard, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted in July 2010. Among other provisions, the new legislation creates a new Bureau of Consumer Financial Protection with broad powers to regulate consumer financial products such as credit cards and mortgages, creates a Financial Stability Oversight Council comprised of the heads of other regulatory agencies, will lead to new capital requirements from federal banking agencies, places new limits on electronic debt card interchange fees, and will require the Securities and Exchange Commission and national stock exchanges to adopt significant new corporate governance and executive compensation reforms. The new legislation and regulations are expected to increase the overall costs of regulatory compliance and limit certain sources of revenue.

Further, regulators have significant discretion and authority to prevent or remedy practices that they deem to be unsafe or unsound, or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. Recently, these powers have been utilized more frequently due to the serious national economic conditions we are facing. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations. Additionally, our business is affected significantly by the fiscal and monetary policies of the U.S. federal government and its agencies, including the Federal Reserve Board.

We cannot accurately predict the full effects of recent legislation or the various other governmental, regulatory, monetary, and fiscal initiatives which have been and may be enacted on the financial markets and on the Company. The terms and costs of these activities, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity, and a continuation or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, and the trading price of our common stock.

We may be adversely impacted by the unprecedented volatility in the financial markets.

Dramatic declines in the national housing market in 2008 and 2009, with falling home prices and increasing foreclosures, unemployment and under-employment have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative and cash securities, in turn, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to

fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility, and widespread reduction of business activity generally. Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where we operate. Similarly, declining real estate values can adversely impact the carrying value of real estate secured loans. The downturn in the economy, the slowdown in the real estate market, and declines in some real estate values had a direct and adverse effect on our financial condition and results of operations in 2008 and 2009. While we experienced some stabilization in the economy in 2010, we do not expect that the difficult conditions in the financial markets are likely to improve significantly in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market

conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

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

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

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

Declines in the residential housing market would have a negative impact on our residential housing market income.

The Company earns revenue from the residential housing market in the form of interest income and fees on loans and earnings from RML. A slowdown in the residential sales cycle in our major markets and a constriction in the availability of mortgage financing have negatively impacted real estate sales, which has resulted in customers inability to repay loans. In 2011, the Company expects that its revenues from the residential housing market in the form of interest income and fees on loans and earnings from RML will be lower than 2010 because of a decline in refinance activity at RML and a flat residential housing market; however, declines in these areas may have a material adverse effect on our financial condition through a decline in interest income and fees.

Our loan loss allowance may not be adequate to cover future loan losses, which may adversely affect our earnings.

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

We have a significant concentration in real estate lending. The sustained downturn in real estate within our markets has had and is expected to continue to have a negative impact on our results of operations.

Approximately 71% of the Bank s loan portfolio at December 31, 2010 consisted of loans secured by commercial and residential real estate located in Alaska. In recent years the slowdown in the residential sales cycle in our major markets and a constriction in the availability of mortgage financing have negatively impacted residential real estate sales, which has resulted in customers inability to repay loans. During 2008, we experienced a significant increase in non-performing assets relating to our real estate lending, primarily in our residential real estate portfolio. Although non-performing assets decreased from December 31, 2008 to December 31, 2010, we will see a further increase in non-performing assets if more borrowers fail to perform according to loan terms and if we take possession of real estate properties. Additionally, if real estate values decline, the value of real estate collateral securing our loans could

be significantly reduced. If any of these effects continue or become more pronounced, loan losses will increase more than we expect and our financial condition and results of operations would be adversely impacted.

Further, approximately 46% of the Bank s loan portfolio at December 31, 2010 consisted of commercial real estate loans. Nationally, delinquencies in these types of portfolios have increased significantly in recent years. While our investments in these types of loans have not been as adversely impacted as residential construction and land development loans, there can be no assurance that the credit quality in these portfolios will remain stable. Commercial construction and commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to significantly greater risk of loss compared to an adverse development with respect to a consumer loan. These trends may continue and may result in losses that exceed the estimates that are currently included in our loan loss allowance, which could adversely affect our financial conditions and results of operations.

Real estate values may continue to decrease leading to additional and greater than anticipated loan charge-offs and valuation write downs on our other real estate owned (OREO) properties.

Real estate owned by the Bank and not used in the ordinary course of its operations is referred to as other real estate owned or OREO property. We foreclose on and take title to the real estate serving as collateral for defaulted loans as part of our

business. At December 31, 2010, the Bank held $10.4 million of OREO properties, many of which relate to residential construction and land development loans. Increased OREO balances lead to greater expenses as we incur costs to manage and dispose of the properties. Our ability to sell OREO properties is affected by public perception that banks are inclined to accept large discounts from market value in order to quickly liquidate properties. Any decrease in market prices may lead to OREO write downs, with a corresponding expense in our statement of operations. We evaluate OREO property values periodically and write down the carrying value of the properties if the results of our evaluations require it. Further write-downs on OREO or an inability to sell OREO properties could have a material adverse effect on our results of operations and financial condition.

Changes in market interest rates could adversely impact the Company.

Our earnings are impacted by changing interest rates. Changes in interest rates affect the demand for new loans, the credit profile of existing loans, the rates received on loans and securities, and rates paid on deposits and borrowings. The relationship between the rates received on loans and securities and the rates paid on deposits and borrowings is known as the net interest margin. Exposure to interest rate risk is managed by monitoring the repricing frequency of our rate-sensitive assets and rate-sensitive liabilities over any given period. Although we believe the current level of interest rate sensitivity is reasonable, significant fluctuations in interest rates could potentially have an adverse affect on our business, financial condition and results of operations.

Our financial performance depends on our ability to manage recent and possible future growth.

Our financial performance and profitability will depend on our ability to manage recent and possible future growth. Although we believe that we have substantially integrated the business and operations of past acquisitions, there can be no assurance that unforeseen issues relating to the acquisitions will not adversely affect us. Any future acquisitions and continued growth may present operating and other problems that could have an adverse effect on our business, financial condition, and results of operations. Accordingly, there can be no assurance that we will be able to execute our growth strategy or maintain the level of profitability that we have experienced in the past.

Our concentration of operations in the Anchorage, Matanuska Susitna Valley, and Fairbanks areas of Alaska makes us more sensitive to downturns in those areas.

Substantially all of our business is derived from the Anchorage, Matanuska Valley, and Fairbanks areas of Alaska. The majority of our lending has been with Alaska businesses and individuals. At December 31, 2010, approximately 71% of the Bank s loans are secured by real estate and 29% are for general commercial uses, including professional, retail, and small businesses, respectively. Substantially all of these loans are collateralized and repayment is expected from the borrowers cash flow or, secondarily, the collateral. Our exposure to credit loss, if any, is the outstanding amount of the loan if the collateral is proved to be of no value. These areas rely primarily upon the natural resources industries, particularly oil production, as well as tourism, government and U.S. military spending for their economic success. Our business is and will remain sensitive to economic factors that relate to these industries and local and regional business conditions. As a result, local or regional economic downturns, or downturns that disproportionately affect one or more of the key industries in regions served by the Company, may have a more pronounced effect upon its business than they might on an institution that is less geographically concentrated. The extent of the future impact of these events on economic and business conditions cannot be predicted; however, prolonged or acute fluctuations could have a material and adverse impact upon our results of operation and financial condition.

The financial services business is intensely competitive and our success will depend on our ability to compete effectively.

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

We may be unable to attract and retain key employees and personnel.

We will be dependent for the foreseeable future on the services of R. Marc Langland, our Chairman of the Board and Chief Executive Officer of the Company; Joseph M. Beedle, our President of Northrim Bank; Christopher N. Knudson, our Executive Vice President and Chief Operating Officer; Joseph M. Schierhorn, our Executive Vice President and Chief Financial Officer; Steven L. Hartung, our Executive Vice President and Chief Credit Officer. While we maintain Keyman life insurance on the lives of Messrs. Langland, Beedle, Knudson, and Schierhorn in the amounts of $2.5 million, $2 million, $2.1 million, and $1 million,

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respectively, we may not be able to timely replace Mr. Langland, Mr. Beedle, Mr. Knudson, or Mr. Schierhorn with a person of comparable ability and experience should the need to do so arise, causing losses in excess of the insurance proceeds. Currently, we do not maintain Keyman life insurance on the life of Mr. Hartung. The unexpected loss of key employees could have a material adverse effect on our business and possibly result in reduced revenues and earnings.

A failure of a significant number of our borrowers, guarantors and related parties to perform in accordance with the terms of their loans would have an adverse impact on our results of operations.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following sets forth information about our branch locations:

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

Item 3. Legal Proceedings

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

Part II

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

Our common stock trades on the Nasdaq Stock Market under the symbol, NRIM. We are aware that large blocks of our stock are held in street name by brokerage firms. At March 14, 2011, the number of shareholders of record of our common stock was 153.

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010				
High	$ 17.20	$ 17.58	$ 17.96	$ 19.32
Low	$ 15.38	$ 15.48	$ 15.35	$ 16.49
2009				
High	$ 11.70	$ 15.23	$ 15.83	$ 17.30
Low	$ 6.86	$ 9.65	$ 13.31	$ 14.92

In 2010 we paid cash dividends of $0.10 per share in the first and second quarters and $0.12 per share in the third and fourth quarters. In 2009 we paid cash dividends of $0.10 per share each quarter. Cash dividends totaled $2.8 million, $2.6 million, and $4.2 million in 2010, 2009, and 2008, respectively. On February 18, 2011, the Board of Directors approved payment of a $0.12 per share dividend on March 18, 2011, to shareholders of record on March 10, 2011. The Company and the Bank are subject to restrictions on the payment of dividends pursuant to applicable federal and state banking regulations. The dividends that the Bank pays to the Company are limited to the extent necessary for the Bank to meet the regulatory requirements of a well-capitalized bank. Given the fact that the Bank remains well-capitalized , the Company expects to receive dividends from the Bank.

Repurchase of Securities

The Company did not repurchase any of its common stock during the fourth quarter of 2010.

Equity Compensation Plan Information

The following table sets forth information regarding securities authorized for issuance under the Company s equity plans as of December 31, 2010. Additional information regarding the Company s equity plans is presented in Note 18 of the *Notes to Consolidated Financial Statements* included in Item 8 of this report.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	351,703	$13.70	300,545
Total	351,703	$13.70	300,545

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Stock Performance Graph

The graph shown below depicts the total return to shareholders during the period beginning after December 31, 2005, and ending December 31, 2010. The definition of total return includes appreciation in market value of the stock, as well as the actual cash and stock dividends paid to shareholders. The comparable indices utilized are the Russell 3000 Index, representing approximately 98% of the U.S. equity market, and the SNL Financial Bank Stock Index, comprised of publicly traded banks with assets of $500 million to $1 billion, which are located in the United States. The graph assumes that the value of the investment in the Company s common stock and each of the three indices was $100 on December 31, 2005, and that all dividends were reinvested.

Total Return Performance

	Period Ending					
Index	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Northrim BanCorp, Inc.	100.00	121.42	104.43	52.43	88.55	103.99
Russell 3000	100.00	115.71	121.66	76.27	97.89	114.46
SNL Bank $1B-$5B	100.00	115.72	84.29	69.91	50.11	56.81

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Item 6. Selected Financial Data

	2010	2009	2008	2007	2006
	Unaudited (In Thousands Except Per Share Amounts)				
Net interest income	$44,213	$46,421	$45,814	$49,830	$47,522
Provision for loan losses	5,583	7,066	7,199	5,513	2,564
Other operating income	12,377	13,084	11,354	9,844	7,766
Other operating expense	37,624	41,357	40,394	34,953	31,476
Income before income taxes	13,383	11,082	9,575	19,208	21,248
Income taxes	3,918	2,967	3,122	7,260	7,978
Net Income	9,465	8,115	6,453	11,948	13,270
Less: Net income attributable to noncontrolling interest	399	388	370	290	296
Net income attributable to Northrim Bancorp	$9,066	$7,727	$6,083	$11,658	$12,974
Earnings per share:					
Basic	$1.42	$1.22	$0.96	$1.82	$2.02
Diluted	1.40	1.20	0.95	1.80	1.99
Cash dividends per share	0.44	0.40	0.66	0.57	0.45
Assets	$1,054,529	$1,003,029	$1,006,392	$1,014,714	$925,620
Portfolio loans	671,812	655,039	711,286	714,801	717,056
Deposits	892,136	853,108	843,252	867,376	794,904
Long-term debt	4,766	4,897	15,986	1,774	2,174
Junior subordinated debentures	18,558	18,558	18,558	18,558	18,558
Shareholders equity	117,122	111,020	104,648	101,391	95,418
Book value per share	$18.21	$17.42	$16.53	$16.09	$15.61
Tangible book value per share	$16.86	$16.01	$15.06	$14.51	$14.48
Net interest margin (tax equivalent)[1]	4.92%	5.33%	5.26%	5.89%	5.89%
Efficiency ratio[2]	65.96%	68.96%	70.05%	58.01%	56.06%
Return on assets	0.90%	0.79%	0.62%	1.24%	1.46%
Return on equity	7.87%	7.08%	5.85%	11.70%	14.45%
Equity/assets	11.11%	11.07%	10.40%	10.00%	10.31%
Dividend payout ratio	31.41%	33.18%	68.93%	30.54%	21.43%
Nonperforming loans/portfolio loans	1.70%	2.67%	3.66%	1.59%	0.92%
Net charge-offs/average loans	0.66%	1.00%	0.86%	0.86%	0.16%
Allowance for loan losses/portfolio loans	2.14%	2.00%	1.81%	1.64%	1.69%
Nonperforming assets/assets	2.07%	3.47%	3.84%	1.56%	0.79%

Tax rate	29%	27%	34%	38%	38%
Number of banking offices	10	11	11	10	10
Number of employees (FTE)	268	295	290	302	277

(1) Tax-equivalent net interest margin is a non-GAAP performance measurement in which interest income on non-taxable investments and loans is presented on a tax-equivalent basis using a combined federal and state statutory rate of 41.11% in both 2010 and 2009.

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

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Reconciliation of Selected Financial Data to GAAP Financial Measures [(1)]

Years Ended December 31,	2010	2009	2008	2007	2006
			(In Thousands)		
Net interest income[(2)]	$44,213	$46,421	$45,814	$49,830	$47,522
Noninterest income	12,377	13,084	11,354	9,844	7,766
Noninterest expense	37,624	41,357	40,394	34,953	31,476
Less intangible asset amortization	299	323	347	337	482
Adjusted noninterest expense	$37,325	$41,034	$40,047	$34,616	$30,994
Efficiency ratio	65.96%	68.96%	70.05%	58.01%	56.06%

(1) These unaudited schedules provide selected financial information concerning the Company that should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this report.

(2) Amount represents net interest income before provision for loan losses.

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

This discussion highlights key information as determined by management but may not contain all of the information that is important to you. For a more complete understanding, the following should be read in conjunction with the Company s audited consolidated financial statements and the notes thereto as of December 31, 2010, 2009, and 2008 included elsewhere in this report.

Note Regarding Forward-Looking Statements

This annual report on Form 10-K includes forward-looking statements, which are not historical facts. These forward-looking statements describe management s expectations about future events and developments such as future operating results, growth in loans and deposits, continued success of the Company s style of banking, and the strength of the local economy. All statements other than statements of historical fact, including statements regarding industry prospects and future results of operations or financial position, made in this report are forward-looking. We use words such as anticipate, believe, expect, intend and similar expressions in part to help identify forward-looking statemen Forward-looking statements reflect management s current plans and expectations and are inherently uncertain. Our actual results may differ significantly from management s expectations, and those variations may be both material and adverse. Forward-looking statements are subject to various risks and uncertainties that may cause our actual results to differ materially and adversely from our expectations as indicated in the forward-looking statements. These risks and uncertainties include: the general condition of, and changes in, the Alaska economy; factors that impact our net interest margin; and our ability to maintain asset quality. Further, actual results may be affected by competition on price and other factors with other financial institutions; customer acceptance of new products and services; the regulatory environment in which we operate; and general trends in the local, regional and national banking industry and economy. Many of these risks, as well as other risks that may have a material adverse impact on our operations and business, are identified Item 1A. Risk Factors, and in our filings with the SEC. However, you should be aware that these factors are not an exhaustive list, and you should not assume these are the only factors that may cause our actual results to differ from our expectations. In addition, you should note that we do not intend to update any of the forward-looking statements or the uncertainties that may adversely impact those statements, other than as required by law.

Executive Overview

The Company s net income increased 17% to $9.1 million, or $1.40 per diluted share, for the year ended December 31, 2010 from $7.7 million, or $1.20 per diluted share, for the year ended December 31, 2009, reflecting continuing improvement in credit quality, increased gains from sales of other real estate owned (OREO), and lower expenses.

Our provision for loan losses in 2010 decreased by $1.5 million, or 21%, to $5.6 million from $7.1 million in 2009 as our net charge-offs decreased from $6.9 million in 2009 to $4.3 million in 2010. In addition our nonperforming loans at December 31, 2010 decreased by $6.1 million, or 35%, from $17.5 million at December 31, 2009 to $11.4 million.

Other operating expenses decreased $3.7 million, or 9% in 2010 to $37.6 million from $41.3 million in 2009 primarily due to decreased expenses related to other real estate owned and increased gains on sale and rental income from other real estate owned. The gains on sale and rental income generated from other real estate owned are included as negative expense items in the non-interest expense section of the Consolidated Statement of Income.

The Company continued to maintain strong capital ratios with Tier 1 Capital/risk adjusted assets of 14.08% at December 31, 2010 as compared to 13.98% a year ago. The Company s tangible common equity to tangible assets at year end 2010 was 10.36%, up from 10.26% at year end 2009.

Nonperforming assets were reduced 37% year-over-year to $21.8 million at December 31, 2010 or 2.07% of total assets, compared to $34.8 million or 3.47% of total assets at December 31, 2009.

The allowance for loan losses (Allowance) totaled 2.14% of total portfolio loans at December 31, 2010, compared to 2.00% at December 31, 2009. The Allowance to nonperforming loans also increased to 126.21% at December 31, 2010 from 74.94% at December 31, 2009.

The cash dividend paid on December 17, 2010, rose 20% to $0.12 per diluted share from $0.10 per diluted share paid in the fourth quarter of 2009.

The Company s total assets grew 5% to $1.1 billion at December 31, 2010 from $1.0 billion at December 31, 2009, with an increase in overnight and portfolio investments offsetting reductions in other real estate owned and relatively flat loan growth. While loans increased 3% at December 31, 2010, average loans were down 6% year over year at $646.7 million for 2010, reflecting soft demand in the commercial lending market in Alaska.

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Critical Accounting Estimates

The preparation of the consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that our estimates and assumptions are reasonable; however, actual results may differ significantly from these estimates and assumptions which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and on our results of operations for the reporting periods.

The accounting policies that involve significant estimates and assumptions by management, which have a material impact on the carrying value of certain assets and liabilities, are considered critical accounting policies. We believe that our most critical accounting policies upon which our financial condition depends, and which involve the most complex or subjective decisions or assessments are as follows:

Allowance for loan losses: The Company maintains an Allowance to reflect inherent losses from its loan portfolio as of the balance sheet date. In determining its total Allowance, the Company first estimates a specific allocated allowance for impaired loans. This analysis is based upon a specific analysis for each impaired loan that is collateral dependent, including appraisals on loans secured by real property, management s assessment of the current market, recent payment history, and an evaluation of other sources of repayment. The Company obtains appraisals on real and personal property that secure its loans during the loan origination process in accordance with regulatory guidance and its loan policy. The Company obtains updated appraisals on loans secured by real or personal property based upon its assessment of changes in the current market or particular projects or properties, information from other current appraisals, and other sources of information. The Company uses the information provided in these updated appraisals along with its evaluation of all other information available on a particular property as it assesses the collateral coverage on its performing and nonperforming loans and the impact that may have on the adequacy of its Allowance.

The Company then estimates a general allocated allowance for all other loans that were not impaired as of the balance sheet date using a formula-based approach that includes average historical loss factors that are adjusted for qualitative factors. The Company has identified the following segments and classes of loans not considered impaired for purposes of establishing the allocated portion of the general reserve of the Allowance. The Company first disaggregates the overall loan portfolio in the following segments: commercial, real estate construction, real estate term, and home equity lines and other consumer loans. Then the Company further disaggregates each segment into the following classes, which are also known as risk classifications: excellent, good, satisfactory, watch, special mention, substandard, doubtful and loss. After the portfolio has been disaggregated into these segments and classes, the Company calculates a general reserve for each segment and class based on the average three year loss history for each segment and class. This general reserve is then adjusted for qualitative factors, by segment and class. Qualitative factors are based on management s assessment of current trends that may cause losses inherent in the current loan portfolio to differ significantly from historical losses. Some factors that management considers in determining the qualitative adjustment to the general reserve include, national and local economic trends, business conditions, underwriting policies and standards, trends in local real estate markets, effects of various political activities, peer group data, and internal factors such as underwriting policies and expertise of the Company s employees.

Finally, the Company assesses the overall adequacy of the Allowance based on several factors including the level of the Allowance as compared to total loans and nonperforming loans in light of current economic conditions. This portion of the Allowance is deemed unallocated because it is not allocated to any segment or class of the loan portfolio. This portion of the Allowance provides for coverage of credit losses inherent in the loan portfolio but not captured in the credit loss factors that are utilized in the risk rating-based component or in the specific impairment component of the Allowance and acknowledges the inherent imprecision of all loss prediction models.

The unallocated portion of the Allowance is based upon management s evaluation of various factors that are not directly measured in the determination of the allocated portions of the Allowance. Such factors include uncertainties in identifying triggering events that directly correlate to subsequent loss rates, uncertainties in economic conditions, risk factors that have not yet manifested themselves in loss allocation factors, and historical loss experience data that may not precisely correspond to the current portfolio. In addition, the unallocated reserve may be further adjusted based upon the direction of various risk indicators. Examples of such factors include the risk as to current and prospective economic conditions, the level and trend of charge offs or recoveries, and the risk of heightened imprecision or inconsistency of appraisals used in estimating real estate values. Although this allocation process may not accurately predict credit losses by loan type or in aggregate, the total allowance for credit losses is available to absorb losses that may arise from any loan type or category. Due to the subjectivity involved in the determination of the unallocated portion of the Allowance, the relationship of the unallocated component to the total Allowance may fluctuate from period to period.

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

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

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

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

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

At December 31, 2010, the Company performed its annual impairment test and concluded that no potential impairment existed at that time. The Company continues to monitor the Company s goodwill for potential impairment on an ongoing basis. No assurance can be given that we will not charge earnings during 2011 for goodwill impairment, if, for example, our stock price declines significantly, although there are many factors that we analyze in determining the impairment of goodwill.

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

Reductions in the carrying value of other real estate owned subsequent to acquisition are determined based on management s estimate of the fair value of individual properties. Significant inputs into this estimate include estimated costs to complete projects as well as our assessment of current market conditions.

Results of Operations

Net Income

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

We earned net income of $9.1 million in 2010, compared to net income of $7.7 million in 2009, and $6.1 million in 2008. During these periods, net income per diluted share was $1.40, $1.20, and $0.95, respectively. The increase in 2010 was due to decreases in other operating expenses and the provision for loan losses of $3.7 million and $1.5 million, respectively. These decreases were partially offset by decreases in net interest income and other operating income of $2.2 million and $681,000, respectively, as well as an increase in the provision for income taxes of $951,000.

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Net Interest Income

Net interest income is the difference between interest income from loan and investment securities portfolios and interest expense on customer deposits and borrowings. Net interest income in 2010 was $44.2 million, compared to $46.4 million in 2009 and $45.8 million in 2008. The decrease in 2010 was primarily due to lower average loan balances, coupled with a slightly lower yield on loans in 2010 as compared to 2009 which was only partially offset by decreased interest expense from lower average interest rates on both deposits and borrowings. The slight increase in 2009 was the result of decreased interest expense over and above the decrease in interest income as compared to 2008 which was largely due to decreases in interest rates.

Changes in net interest income result from changes in volume and spread, which in turn affect our margin. For this purpose, volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities, spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, and margin refers to net interest income divided by average interest-earning assets. Changes in net interest income are influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities. During the fiscal years ended December 31, 2010, 2009, and 2008, average interest-earning assets were $904.2 million, $876.1 million, and $876.9 million, respectively. During these same periods, net interest margins were 4.89%, 5.30%, and 5.22%, respectively, which reflects the changes in our balance sheet mix. Our average yield on interest-earning assets was 5.50% in 2010, 6.11% in 2009, and 6.81% in 2008, while the average cost of interest-bearing liabilities was 0.88% in 2010, 1.14% in 2009, and 2.11% in 2008.

Our net interest margin decreased in 2010 from 2009 mainly due to the fact that in 2010, the mix of average interest-earning assets included lower average loan balances and higher average balances in securities and short term investments as compared to 2009. Loans have a significantly higher yield than securities and short term investments, so the shift in average balances in these asset categories significantly impacts the overall yield on interest-earnings assets. Net interest margin increased in 2009 from 2008 mainly due to the fact that the cost of interest-bearing liabilities decreased by 97 basis points while the yield on interest-earning assets decreased by 70 basis points. This decrease was further amplified due to the decrease in the average balance of our interest-bearing deposits in 2009 as compared to 2008.

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

Years Ended December 31,	2010			2009			2008		
	Average outstanding balance	Interest earned/ paid[(1)]	Yield/ rate	Average outstanding balance	Interest earned/ paid[(1)]	Yield/ rate	Average outstanding balance	Interest earned/ paid[(1)]	Yield/ rate
	(In Thousands)								
Assets:									
Loans[(2)]	$646,677	$44,926	6.95%	$688,347	$48,830	7.09%	$702,117	$53,287	7.59%
Securities	187,155	4,594	2.45%	144,713	4,499	3.11%	134,705	5,493	4.08%
Short term investments	70,336	178	0.25%	43,041	161	0.37%	40,082	936	2.34%
Total interest-earning assets	904,168	49,698	5.50%	876,101	53,490	6.11%	876,904	59,716	6.81%
Noninterest-earning assets	106,398			105,578			108,140		
Total assets	$1,010,566			$981,679			$985,044		
Liabilities and Shareholders Equity:									
Deposits:									
Interest-bearing demand accounts	$125,360	$176	0.14%	$115,065	$170	0.15%	$97,171	$578	0.59%
Money market accounts	132,264	673	0.51%	127,651	740	0.58%	187,779	3,306	1.76%
Savings accounts	183,636	1,120	0.61%	169,812	1,240	0.73%	187,225	3,444	1.84%
Certificates of deposit	147,081	2,704	1.84%	173,777	3,651	2.10%	145,153	4,851	3.34%
Total interest-bearing deposits	588,341	4,673	0.79%	586,305	5,801	0.99%	617,328	12,179	1.97%
Borrowings	34,341	812	2.36%	35,935	1,268	3.53%	41,567	1,723	4.15%
Total interest-bearing liabilities	622,682	5,485	0.88%	622,240	7,069	1.14%	658,895	13,902	2.11%
Demand deposits and other noninterest-bearing liabilities	272,645			250,342			222,247		

Total liabilities	895,327		872,582		881,142	
Shareholders equity	115,239		109,097		103,902	
Total liabilities and shareholders equity	$1,010,566		$981,679		$985,044	
Net interest income		$44,213		$46,421		$45,814
Net interest margin(3)		4.89%		5.30%		5.22%

(1) Interest income includes loan fees. Loan fees recognized during the period and included in the yield calculation totalled $2.6 million, $2.7 million and $3.1 million for 2010, 2009 and 2008, respectively.

(2) Nonaccrual loans are included with a zero effective yield. Average nonaccrual loans included in the computation of the average loans were $13.8 million, $19.1 million, and $13.2 million in 2010, 2009 and 2008, respectively.

(3) The net interest margin on a tax equivalent basis was 4.92%, 5.33%, and 5.26%, respectively, for 2010, 2009, and 2008.

The following table sets forth the changes in consolidated net interest income attributable to changes in volume and to changes in interest rates. Changes attributable to the combined effect of volume and interest rate have been allocated proportionately to the changes due to volume and the changes due to interest rate.

	2010 compared to 2009			2009 compared to 2008		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest Income:						
Loans	$(2,911)	$(993)	$(3,904)	$(1,029)	$(3,428)	$(4,457)
Securities	337	(243)	95	452	(1,446)	(994)
Short term investments	35	(18)	17	75	(850)	(775)
Total interest income	$(2,538)	$(1,254)	$(3,792)	$(502)	$(5,724)	$(6,226)
Interest Expense:						
Deposits:						
Interest-bearing demand accounts	$13	$(7)	$6	$132	$(540)	$(408)
Money market accounts	29	(95)	(67)	(829)	(1,737)	(2,566)
Savings accounts	118	(238)	(120)	(294)	(1,911)	(2,205)
Certificates of deposit	(522)	(425)	(947)	1,363	(2,562)	(1,199)
Total interest on deposits	(362)	(766)	(1,128)	372	(6,750)	(6,378)
Borrowings	(54)	(401)	(456)	(216)	(238)	(454)
Total interest expense	$(416)	$(1,168)	$(1,584)	$156	$(6,988)	$(6,832)

Provision for Loan Losses

The provision for loan losses in 2010 was $5.6 million, compared to $7.1 million in 2009 and $7.2 million in 2008. We decreased the provision for loan losses in 2010 primarily because net charge offs decreased from $6.9 million in 2009 to $4.3 million in 2010. Additionally, impaired loans decreased to $18.3 million at December 31, 2010 from $46.3 million at December 31, 2009. These decreases were partially offset in the provision for loans losses by an increase in gross loans, which grew to $671.8 million at December 31, 2010 from $655 million at December 31, 2009. We decreased the provision for loan losses slightly in 2009 due to decreases in nonperforming loans and impaired loans. Nonperforming loans decreased $8.5 million to $17.5 million at December 31, 2009 from $26 million at December 31, 2008, and impaired loans decreased by $33.4 million to $46.3 million at December 31, 2009 from

$79.7 million at December 31, 2008. See the Allowance for Loan Loss section under Financial Condition for further discussion of these decreases. In addition, net loan charge-offs were 0.66%, 1% and 0.86% of average loans in 2010, 2009, and 2008, respectively. See Note 6 of the Notes to Consolidated Financial Statements included in Item 8 of this report for further discussion of the change in the Allowance.

Other Operating Income

Total other operating income decreased $681,000, or 5%, in 2010, after increasing $1.7 million, or 15%, in 2009. The following table separates the more routine (operating) sources of other income from those that can fluctuate significantly from period to period:

Years Ended December 31,	2010	$ Change	% Change	2009	$ Change	% Change	2008
			(In Thousands)				
Other Operating Income							
Deposit service charges	$2,636	$(347)	-12%	$2,983	$(300)	-9%	$3,283
Employee benefit plan income	1,900	161	9%	1,739	288	20%	1,451
Purchased receivable income	1,839	(267)	-13%	2,106	(454)	-18%	2,560
Electronic banking fees	1,758	216	14%	1,542	349	29%	1,193
Equity in earnings from RML	1,401	(948)	-40%	2,349	1,754	295%	595
Rental income	810	(40)	-5%	850	387	84%	463
Merchant credit card transaction fees	484	78	19%	406	(45)	-10%	451
Loan service fees	401	(107)	-21%	508	32	7%	476
Equity in loss from Elliott Cove	(1)	114	-99%	(115)	(9)	8%	(106)
Other income	500	4	1%	496	(346)	-41%	842
Operating sources	11,728	(1,136)	-9%	12,864	1,656	15%	11,208
Gain on sale of securities available for sale, net	649	429	195%	220	74	51%	146
Other sources	649	429	195%	$220	74	51%	146
Total other operating income	$12,377	$(707)	-5%	$13,084	$1,730	15%	$11,354

2010 Compared to 2009

Other operating income decreased in 2010 primarily due to the decreases in earnings from RML, deposit service charges, and purchased receivable income. Earnings from RML have fluctuated with activity in the housing market, which has been affected by local economic conditions and changes in mortgage interest rates. Earnings from RML decreased in 2010 as refinance activity, which reached nearly record highs in 2009, began to slow. The Company expects that its income from RML will decrease in 2011 as compared to 2010 as the refinance activity continues to decrease. Deposit service charges decreased in 2010 because of decreases in fees collected on nonsufficient funds transactions due to a decrease in the number of overdraft transactions processed in 2010 as compared to 2009. The Company expects continued decreases in deposit services charges in 2011 due to recent changes in regulations that restrict the Company s ability to assess service charges on point-of-sale transactions unless its customers request this

service. This legislation was effective starting in the third quarter of 2010. Lastly, although year end purchased receivable balances in 2010 exceed those of 2009, income from the Company s purchased receivable products decreased in 2010 due to decreases in the average purchased receivable balances outstanding during the year. The Company expects the income level from this product to increase as the Company adds new customers in this line of business.

The decreases in other operating income noted above were partially offset by increases in net gains on the sale of securities available for sale, electronic banking fees, and employee benefit plan income. The increase in the Company s electronic banking fees in 2010 resulted from additional fees collected from increased point-of-sale transactions. Point-of-sale fees have increased as overall usage of this type of transaction has increased. The Company expects income from electronic banking fees to decrease in the future due to restrictions on point-of-sale revenues contained in the recently passed Dodd-Frank Act. Finally, the Company owns 50.1% of NBG through its wholly-owned subsidiary NCIC. As such, the Company consolidates the balance sheet and income statement of NBG into its financial statements. The increase in income from employee benefit plan income from NBG in 2010 is a reflection of NBG s ability to continue to provide additional products and services to an increasing client base. We expect employee benefit plan income from NBG to continue to increase as NBG s business continues to grow.

2009 Compared to 2008

Other operating income increased in 2009 primarily due to increased earnings from RML. As noted above, earnings from RML have fluctuated with activity in the housing market, and 2009 marked a near record year for refinance activity in the Anchorage area. Other significant increases in other operating income in 2009 included increased rental income and electronic banking fees. The increase in rental income was the result of the purchase of the Company s main office facility through NBL in July 2008. Similar

to 2010, increased electronic banking fees resulted from an increase in point-of-sale transactions in 2009 as compared to the prior year.

The increases in other income in 2009 noted above were partially offset by decreases in service charge income, purchased receivable income, and other income. The decrease in service charge income in 2009 was primarily the result of a decrease in fees collected on nonsufficient funds transactions due to a decrease in the number of overdraft transactions processed in 2009. Purchased receivable income decreased in 2009 primarily due to the fact that in the second quarter of 2009, two of the Company s purchased receivable customers sold all or a portion of their businesses and used those proceeds to repay substantially all of their purchased receivable balances. Other income decreased in 2009 as a result of decreases in the Company s commissions from the sale of Elliott Cove products and losses incurred by the Company s affiliate PWA.

Other Operating Expense

Other operating expense decreased $3.7 million, or 9%, in 2010, and increased $963,000, or 2%, in 2009. The following table breaks out the other operating expense categories:

Years Ended December 31,	2010	$ Change	% Change	2009	$ Change	% Change	2008
				(In Thousands)			
Other Operating Expense							
Salaries and other personnel expense	$21,637	$(537)	-2%	$22,174	$1,178	6%	$20,996
Occupancy	3,704	17	0%	3,687	288	8%	3,399
Insurance expense	1,902	(813)	-30%	2,715	936	53%	1,779
Marketing	1,782	465	35%	1,317	(241)	-15%	1,558
Professional and outside services	1,315	(483)	-27%	1,798	(60)	-3%	1,858
Equipment	1,116	(102)	-8%	1,218	(15)	-1%	1,233
Software expense	741	(78)	-10%	819	(20)	-2%	839
Amortization of low income housing tax investments	861	79	10%	782	83	12%	699
Internet banking expense	622	64	11%	558	46	9%	512
Impairment on purchased receivables, net	402	236	142%	166	(27)	-14%	193
Intangible asset amortization	299	(24)	-7%	323	(24)	-7%	347
OREO expense, net rental income and gains on sale:							
OREO operating expense	882	109	14%	773	172	29%	601
Impairment on OREO	246	(579)	-70%	825	(1,133)	-58%	1,958
Rental income on OREO	(610)	(584)	2246%	(26)	(25)	2500%	(1)
Gains on sale of OREO	(1,663)	(1,210)	267%	(453)	(408)	907%	(45)
Subtotal	(1,145)	(2,264)	-202%	1,119	(1,394)	-55%	2,513
Prepayment penalty on long term debt	-	(718)	-100%	718	718	NA	

Other expenses	4,388	425	11%	3,963	(505)	-11%	4,468
Total other operating expense	$37,624	$(3,733)	-9%	$41,357	$963	2%	$40,394

2010 Compared to 2009

Other operating expense decreased in 2010 primarily due to decreased net costs related to OREO properties, and decreased insurance expense, prepayment penalties for long term debt, salaries and other personnel expenses, and professional and outside services. Gains on the sale of OREO increased significantly in 2010 due to an increase in overall sales activity and $422,000 in previously deferred gain that was recognized in 2010 related to one commercial property that was sold in 2007. Rental income on OREO also increased significantly in 2010 as the result of the transfer of a large condominium development into OREO in December 2009. Impairment expense on OREO decreased significantly in 2010. Impairment charges arise from adjustments to the Company s estimate of the fair value of certain properties based on changes in estimated costs to complete the projects and overall market conditions in the Anchorage, Matanuska-Susitna Valley, and Fairbanks markets. Insurance expense decreased in 2010 mainly due to decreased FDIC insurance premiums that was primarily the result of the one time special assessment that the Company incurred in the second quarter of 2009, as well as a decrease in the rate assessed on the Company in 2010. Prepayment penalties on long term debt decreased in 2010 because the Company did not prepay any debt in 2010. Salaries and other personnel expense decreased in 2010 primarily due to a decrease in the Company s workforce. Additionally, stock-based compensation expense decreased in 2010

due to decreases in the number of stock options vested in 2010 as compared to 2009. Lastly, professional and outside services decreased in 2010 due to decreases in audit and accounting consulting fees.

The decreases in operating expenses were partially offset by increases in marketing expense and in other expenses. Marketing costs increased in 2010 due to increases in advertising expenses and charitable contributions. Other expenses increased due to increased hardware costs related to the Company s telephone system, the reserve for unfunded commitments, operational losses, and losses on the sale of repossessed assets.

2009 Compared to 2008

Other operating expenses increased in 2009 primarily due to increased salaries and other personnel expenses, insurance expense, and prepayment penalties on long term debt. Salaries and other personnel expense increased in 2009 as a result of an increase in deferred compensation expense as the Company s liability under this plan increased due to market increases on plan assets. The Company incurs a liability to pay deferred compensation according to the level of assets held in variable annuity life insurance plans on certain key executives. As the value of these assets increased in 2009, the Company s liability and expenses for that plan also increased during the year. Additionally, group medical and dental costs increased in 2009 due to increased medical claims. Lastly, stock-based compensation expense increased in 2009 due to increases in the weighted average fair values for restricted stock units. Insurance expense increased in 2009, as noted above, primarily due to the increase in FDIC insurance expense, which was partially offset by a decrease in Keyman insurance expense that arose from increases in the cash surrender value of assets held under the Company s policies. Finally, the Company incurred a prepayment penalty when it paid off two long term borrowings from the Federal Home Loan Bank of Seattle totaling $9.9 million in September of 2009. The borrowing had an average remaining life of over 8 years. There were no early payoffs of borrowings in 2010 or 2008. See the Borrowings section under Liabilities below for further discussion of the payoff of long term debit in 2009.

The increases in other operating expenses were partially offset by net costs related to OREO and other expenses. Net costs related to OREO decreased primarily due to the decrease in impairment on OREO in 2009 as compared to 2008. Additionally, gains on the sale of OREO in 2009 increased due to an increase in sales volume. Other expenses decreased in 2009 primarily due to decreased costs related to taxes, insurance, and other loan collateral expenses associated with the loan collection process. Additionally, ATM and debit card processing expenses decreased as compared to 2008.

Income Taxes

The provision for income taxes increased $951,000, or 32%, to $3.9 million in 2010. This increase is due primarily to the 21% increase in income before income taxes. Additionally, the effective tax rate increased to 29% in 2010 from 27% in 2009. This increase is the result of a decrease in tax exempt income on investments and tax credits relative to the level of taxable income. The provision for income taxes decreased $155,000, or less than 1%, to $3.0 million in 2009. The effective tax rate for 2009 decreased to 27% in 2009 from 33% in 2008. The decrease in the tax rate for 2009 was primarily due to increased tax exempt income on investments and tax credits relative to the level of taxable income.

Financial Condition

Investment Securities Portfolio

Our investment portfolio consists primarily of government sponsored entity securities, corporate bonds, and municipal securities. Investment securities totaled $222.1 million at December 31, 2010, reflecting an increase of $34.7 million, or 19%, from year-end 2009 as our deposits have continued to increase while loan demands remains relatively flat.

The average maturity of the investment portfolio was approximately two years at December 31, 2010.

The composition our investment securities portfolio reflects management s investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of interest income. The investment securities portfolio also mitigates interest rate and credit risk inherent in the loan portfolio, while providing a vehicle for the investment of available funds, a source of liquidity (by pledging as collateral or through repurchase agreements), and collateral for certain public funds deposits.

Our investment portfolio is divided into two classes: securities available for sale and securities held to maturity. Available for sale securities are carried at fair value with any unrealized gains or losses reflected as an adjustment to shareholders equity. Securities held to maturity are carried at amortized cost. Investment securities designated as available for sale comprised 96% of the portfolio and are available to meet liquidity requirements.

Both available for sale and held to maturity securities may be pledged as collateral to secure public deposits. At December 31, 2010 and 2009, $26.2 million and $17.7 million in securities were pledged for deposits and borrowings, respectively.

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Pledged securities increased at December 31, 2010 as compared to December 31, 2009 because the Company had higher balances in securities sold under repurchase agreements, which are secured by pledged securities, at December 31, 2010.

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

December 31,	Amortized Cost	Fair Value
	(In thousands)	
Securities Available for Sale:		
2010:		
U.S. Treasury & government sponsored entities	$164,604	$164,685
Muncipal Securities	9,503	9,624
U.S. Agency Mortgage-backed Securities	71	73
Corporate Bonds	38,732	39,628
Total	$212,910	$214,010
2009:		
U.S. Treasury & government sponsored entities	$141,371	$142,000
Muncipal Securities	6,184	6,270
U.S. Agency Mortgage-backed Securities	85	87
Corporate Bonds	28,242	29,802
Total	$175,882	$178,159
2008:		
U.S. Treasury & government sponsored entities	$110,882	$112,584
Muncipal Securities	5,054	4,881
U.S. Agency Mortgage-backed Securities	345	361
Corporate Bonds	23,203	23,184
Total	$139,484	$141,010
Securities Held to Maturity:		
2010:		
Municipal Securities	$6,125	$6,286

Total	$6,125	$6,286
2009:		
Municipal Securities	$7,285	$7,516
Total	$7,285	$7,516
2008:		
Municipal Securities	$9,431	$9,502
Total	$9,431	$9,502

For the periods ending December 31, 2010 and 2009, we held Federal Home Loan Bank (FHLB) stock with a book value approximately equal to its market value in the amounts of $2.0 million for each year. The Company evaluated its investment in FHLB stock for other-than-temporary impairment as of December 31, 2010, consistent with its accounting policy. Based on the Company s evaluation of the underlying investment, including the long-term nature of the investment, the liquidity position of the FHLB of Seattle, the actions being taken by the FHLB of Seattle to address its regulatory capital situation, and the Company s intent and

ability to hold the investment for a period of time sufficient to recover the par value, the Company did not recognize an other-than-temporary impairment loss. Even though the Company did not recognize an other-than-temporary impairment loss during the twelve-month period ending December 31, 2010, continued deterioration in the FHLB of Seattle s financial position may result in future impairment losses.

The following table sets forth the market value, maturities and weighted average pretax yields of our investment portfolio for the periods indicated as of December 31, 2010:

	Maturity				
	Within 1 Year	1-5 Years	5-10 Years	Over 10 Years	Total
			(In Thousands)		
Securities Available for Sale:					
U.S. Treasury & government sponsored entities					
Balance	$32,124	$132,561	$	$	$164,685
Weighted Average Yield	2.50%	0.93%	0.00%	0.00%	1.24%
Municipal Securities					
Balance		3,108	4,309	2,207	9,624
Weighted Average Yield	0.00%	2.33%	4.32%	4.75%	3.77%
U.S. Agency Mortgage-backed Securities					
Balance			73		73
Weighted Average Yield	0.00%	0.00%	4.45%	0.00%	4.45%
Corporate Bonds					
Balance	10,109	14,929	14,590		39,628
Weighted Average Yield	5.18%	2.67%	2.17%	0.00%	3.13%
Total					
Balance	42,233	150,598	18,972	2,207	214,010
Weighted Average Yield	3.14%	1.13%	2.66%	4.75%	1.70%
Securities Held to Maturity:					
Municipal Securities					
Balance	$2,325	$1,532	$2,429	$	$6,286
Weighted Average Yield	3.84%	4.15%	4.16%	0.00%	4.04%

At December 31, 2010, we held no securities of any single issuer (other than government sponsored entities) that exceeded 10% of our shareholders equity.

Loans

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

and to individuals. From our inception, we have emphasized commercial, land development and home construction, and commercial real estate lending. These types of lending have provided us with needed market opportunities and higher net interest margins than other types of lending. However, they also involve greater risks, including greater exposure to changes in local economic conditions, than certain other types of lending.

All of our loans and credit lines are subject to approval procedures and amount limitations. These limitations apply to the borrower s total outstanding indebtedness and commitments to us, including the indebtedness of any guarantor. Generally, we are permitted to make loans to one borrower of up to 15% of the unimpaired capital and surplus of the Bank. The loan-to-one-borrower limitation for the Bank was $21 million at December 31, 2010. At December 31, 2010, the Company had four relationships whose total direct and indirect commitments exceeded $21 million; however, no individual direct relationship exceeded the limit. See Management s Discussion and Analysis of Financial Condition and Results of Operations Provision for Loan Losses.

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

Loans increased to $671.8 million at December 31, 2010, compared to $655 million at December 31, 2009, and $711.3 million December 31, 2008. Though average loan balances for 2010 decreased from 2009, generally year end loan volumes were either up or consistent with 2009 across all categories. Total loans represented 64% and 65% of total assets at December 31, 2010 and 2009, respectively.

The following table sets forth at the dates indicated our loan portfolio composition by type of loan, excluding loans held for sale:

per 31,	2010		2009		2008		2007		2006	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	P o
					(In Thousands)					
rcial loans	$256,971	38.25%	$248,205	37.89%	$293,249	41.23%	$284,956	39.87%	$287,281	4
ate loans:										
ction	62,620	9.32%	62,573	9.55%	100,438	14.12%	138,070	19.32%	153,059	2
ate term	312,128	46.46%	301,816	46.08%	268,864	37.80%	243,245	34.03%	237,599	3
quity lines er er	43,264	6.44%	45,243	6.91%	51,447	7.23%	51,274	7.17%	42,140	
	674,983	100.47%	657,837	100.43%	713,998	100.39%	717,545	100.38%	720,079	10
ed loan fees rigination	(3,171)	-0.47%	(2,798)	-0.43%	(2,712)	-0.39%	(2,744)	-0.38%	(3,023)	
ns	$671,812	100.00%	$655,039	100.00%	$711,286	100.00%	$714,801	100.00%	$717,056	10

Commercial Loans: Our commercial loan portfolio includes both secured and unsecured loans for working capital and expansion. Short-term working capital loans generally are secured by accounts receivable, inventory, or equipment. We also make longer-term commercial loans secured by equipment and real estate. We also make commercial loans that are guaranteed in large part by the Small Business Administration or the Bureau of Indian Affairs and commercial real estate loans that are participated with the Alaska Industrial Development and Export Authority (AIDEA). Commercial loans represented 38% of our total loans outstanding as of December 31, 2010 and reprice more frequently than other types of loans, such as real estate loans. More frequent repricing means that interest cash flows from commercial loans are more sensitive to changes in interest rates. In a rising interest rate environment, our philosophy is to emphasize the pricing of loans on a floating rate basis, which allows these loans to reprice more frequently and to contribute positively to our net interest margin. The majority of these loans reprice to an index based upon the prime rate of interest. In 2008, the Company began to implement floors in its loans as they were originated or renewed during the year.

Commercial Real Estate: We are an active lender in the commercial real estate market. At December 31, 2010, our commercial real estate loans were $312.1 million, or 46% of our loan portfolio. These loans are typically secured by office buildings, apartment complexes or warehouses. Loan maturities range from 10 to 25 years, ordinarily subject to our right to call the loan within 10 to 15 years of its origination. The interest rate for approximately 67% of these loans originated by Northrim resets every one to five years based on the spread over an index rate, and 7% reset on either a daily or monthly basis. The indices for these loans have historically been prime or the respective Treasury rate. In 2008, the Company began to use the interest rates of the Federal Home Loan Bank of Seattle as an additional index. In addition, the Company began to implement floors in its interest rates for loans originated or renewed during the year.

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

Construction Loans: We provide construction lending for commercial real estate projects. Such loans generally are made only when there is a firm take-out commitment upon completion of the project by a third party lender. Additionally, we provide land development and residential subdivision construction loans. We originate one-to-four-family residential and condominium construction loans to builders for construction of homes.

The Company s construction loans remained consistent in 2010 and 2009 at $62.6 million, down from $100.4 million in 2008 due to the continued decrease in new construction activity. The Company expects continued slowness in residential construction in 2011 and a decrease in its construction loan balances due in part to several commercial real estate construction loans that are expected to convert to term real estate loans once construction is complete in 2011. However, due to its efforts to maintain market share, it expects its construction loan totals to remain constant in 2011.

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

Maturities and Sensitivities of Loans to Change in Interest Rates: The following table presents the aggregate maturity data of our loan portfolio, excluding loans held for sale, at December 31, 2010:

	Maturity			
	Within 1 Year	1-5 Years	Over 5 Years	Total
	(In Thousands)			
Commercial	$104,722	$102,984	$49,265	$256,971
Construction	49,855	221	12,544	62,620
Real estate term	33,246	72,111	206,771	312,128
Home equity lines and other consumer	1,203	8,733	33,328	43,264
Total	$189,026	$184,049	$301,908	$674,983
Fixed interest rate	$94,020	$90,309	$65,598	$249,927
Floating interest rate	95,006	93,740	236,310	425,056

Total	$189,026	$184,049	$301,908	$674,983

At December 31, 2010, 58% of the portfolio was scheduled to mature or reprice in 2011 with 36% scheduled to mature or reprice between 2012 and 2015.

Loans Held for Sale: During 2009, the Company entered into an agreement to purchase residential loans from our mortgage affiliate, RML, in anticipation of higher than normal refinance activity in the Anchorage market. The Company then sold these loans in the secondary market. All loans purchased and sold in 2010 and 2009 were newly originated loans that did not affect nonperforming loans. The Company purchased $70.4 million and sold $64.9 million in residential loans during 2010 and recognized $23,000 in gains related to these transactions in the 2010. The Company purchased and sold $75.1 million in residential loans during 2009 and recognized $64,000 in gains related to these transactions in the 2009. There were $5.6 million in loans held for sale as of December 31, 2010 and none held at December 31, 2009.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, accruing loans that are 90 days or more past due, restructured loans, and other real estate owned. The following table sets forth information regarding our nonperforming loans and total nonperforming assets:

December 31,	2010	2009	2008	2007	2006
			(In Thousands)		
Nonperforming loans					
Nonaccrual loans	$11,414	$12,738	$20,593	$9,673	$5,176
Accruing loans past due 90 days or more		1,000	5,411	1,665	708
Troubled debt restructuring		3,754			748
Total nonperforming loans	$11,414	$17,492	$26,004	$11,338	$6,632
Real estate owned & repossessed assets	10,403	17,355	12,617	4,445	717
Total nonperforming assets	$21,817	$34,847	$38,621	$15,783	$7,349
Allowance for loan losses to portfolio loans	2.14%	2.00%	1.81%	1.64%	1.69%
Allowance for loan losses to nonperforming loans	126%	75%	50%	104%	183%
Nonperforming loans to portfolio loans	1.70%	2.67%	3.66%	1.59%	0.92%
Nonperforming assets to total assets	2.07%	3.47%	3.84%	1.56%	0.79%

Nonaccrual, Accruing Loans 90 Days or More Past Due, and Troubled Debt Restructuring (TDR): The Company s financial statements are prepared on the accrual basis of accounting, including recognition of interest income on its loan portfolio, unless a loan is placed on a nonaccrual basis. Loans are placed on a nonaccrual basis when management believes serious doubt exists about the collectability of principal or interest. Our policy generally is to discontinue the accrual of interest on all loans 90 days or more past due unless they are well secured and in the process of collection. Cash payments on nonaccrual loans are directly applied to the principal balance. The amount of unrecognized interest on nonaccrual loans was $1.2 million, $1.4 million, and $1.9 million, in 2010, 2009, and 2008, respectively. There was no interest income included in net income for the years ended 2010, 2009 or 2008 related to nonaccrual loans. The Company had one relationship that represented more than 10% of nonaccrual loans as of December 31, 2010.

TDRs are those loans for which concessions, including the reduction of interest rates below a rate otherwise available to that borrower, have been granted due to the borrower s weakened financial condition. Interest on TDRs will be accrued at the restructured rates when it is anticipated that no loss of original principal will occur, and the interest can be collected. The Company had no loans classified as TDRs as of December 31, 2010 or December 31, 2008. At December 31, 2009 the Company had one $3.8 million loan classified as a TDR for a commercial relationship that had

been restructured in the third quarter of 2009. When this loan was restructured, it was converted into two separate loans. One of the loans was charged off, and the other loan was made at market terms. The second loan returned to performing status in 2010.

Total nonperforming loans at December 31, 2010 decreased $6.1 million from December 31, 2009 and decreased $8.5 million at December 31, 2009 from December 31, 2008. The decrease in nonperforming loans at December 31, 2010 as compared to December 31, 2009 is due to a $3.8 million decrease in TDRs, a $1.3 million decrease in nonaccrual loans, and a $1 million decrease in accruing loans past due 90 days or more. The decrease in nonperforming loans at December 31, 2009 as compared to December 31, 2008 is due to a $7.9 million decrease in nonaccrual loans and a $4.4 million decrease in accruing loans past due 90 days or more.

Loans Measured for Impairment, Other Real Estate Owned and Repossessed Assets, and Potential Problem Loans: At December 31, 2010, the Company had $18.3 million in loans measured for impairment and $10.4 million in OREO and repossessed assets as compared to $46.3 million and $17.4 million at December 31, 2009, respectively. Repossessed assets of $48,000 are recorded in other assets in the Consolidated Balance Sheet.

At December 31, 2010, management had identified potential problem loans of $8.8 million as compared to potential problem loans of $17 million at December 31, 2009. Potential problem loans are loans which are currently performing and are not included in nonaccrual, accruing loans 90 days or more past due, or restructured loans that have developed negative indications that the borrower may not be able to comply with present payment terms and which may later be included in nonaccrual, past due, or restructured loans. The $8.2 million decrease in potential problem loans at December 31, 2010 from December 31, 2009 is primarily

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due to the transfer of one land development project, one commercial real estate property and one commercial loan to nonaccrual status in 2010. Charge offs, pay downs, and upgrades, which were only partially offset by $2.7 million in additions in 2010, also contributed to the decrease in 2010.

At December 31, 2010 and 2009 the Company held $10.4 million and $17.4 million, respectively, as OREO and repossessed assets. At December 31, 2010, OREO and repossessed assets consist of $4.7 million in condominiums, $4.4 million in residential lots in various stages of development, $1.2 million in single family residences, $99,000 in commercial property and $48,000 in artwork. All OREO property is located in Alaska. The Bank initiates foreclosure proceedings to recover and sell collateral pledged by a debtor to secure a loan based on various events of default and circumstances related to loans that are secured by either commercial or residential real property. These events and circumstances include delinquencies, the Company s relationship with the borrower, and the borrower s ability to repay the loan via a source other than the collateral. If the loan has not yet matured, the debtors may cure the events of default up to the time of sale to retain their interest in the collateral. Failure to cure the defaults will result in the debtor losing ownership interest in the property, which is taken by the creditor, or high bidder at a foreclosure sale.

During 2010, additions to OREO totaled $3.1 million and included $1.7 million in residential lots, $1.2 million in single family residences, $189,000 in condominiums, and $252,000 in other properties. During 2010, the Company received approximately $11.1 million in proceeds for the sale of OREO which included $8.8 million from the sale of condominiums, $1.8 million from the sale of residential lots, $228,000 from the sale of single family residences, and $319,000 from the sale of other properties.

The Company recognized $1.3 million in gains and $120,000 in losses on the sale of seventy-nine individual OREO properties in 2010. The Company also recognized $522,000 in gains on sales previously deferred, for a net gain of $1.7 million for the year ended December 31, 2010. The Company had deferred $153,000 in gains on the sale of OREO properties at December 31, 2010. The Company recognized $548,000 in gains and $101,000 in losses on the sale of fifty individual OREO properties in 2009. The Company also amortized $6,000 in deferred gain on a 2007 sale for a net gain of $453,000 for the year ended December 31, 2009. The Company had deferred $522,000 in gains on the sale of OREO properties at December 31, 2009.

The Company made loans to facilitate the sale of OREO of $6.1 million and $2.6 million in 2010 and 2009. The Company did not make any loans to facilitate the sale of OREO in 2008. Our underwriting policies and procedures for loans to facilitate the sale of other real estate owned are no different than our standard loan policies and procedures.

The Company recognized impairments of $250,000, $825,000 and $2 million in 2010, 2009, and 2008, respectively, due to adjustments to the Company s estimate of the fair value of certain properties based on changes in estimated costs to complete the projects and changes in the Anchorage and Fairbanks real estate markets.

The following summarizes OREO activity for the periods indicated:

December 31,	2010	2009	2008
		(In Thousands)	
Balance, beginning of the year	$17,355	$12,617	$4,445
Transfers from loans	2,841	12,441	9,395
Investment in other real estate owned	235	1,699	3,273
Proceeds from the sale of other real estate owned	(11,124)	(9,120)	(2,583)

Gain on sale of other real estate owned, net	1,663	453	45
Deferred gain on sale of other real estate owned	(369)	90	
Impairment on other real estate owned	(246)	(825)	(1,958)
Balance, End of Year	$10,355	$17,355	$12,617

Allowance for Loan Losses and Reserve for Unfunded Commitments

The Company maintains an Allowance to reflect losses inherent in the loan portfolio. The Allowance is increased by provisions for loan losses and loan recoveries and decreased by loan charge-offs. The size of the Allowance is determined through quarterly assessments of probable estimated losses in the loan portfolio. Our methodology for making such assessments and determining the adequacy of the Allowance includes the following key elements:

A specific allocation for impaired loans. Management determined the fair value of the majority of these loans based on the underlying collateral values. This analysis is based upon a specific analysis for each impaired loan, including appraisals on loans secured by real property, management s assessment of the current market, recent payment history, and an

evaluation of other sources of repayment. In-house evaluations of fair value are used in the impairment analysis in some situations. Inputs to the in-house evaluation process include information about sales of comparable properties in the appropriate markets and changes in tax assessed values. The Company obtains appraisals on real and personal property that secure its loans during the loan origination process in accordance with regulatory guidance and its loan policy. The Company obtains updated appraisals on loans secured by real or personal property based upon its assessment of changes in the current market or particular projects or properties, information from other current appraisals, and other sources of information. Appraisals may be adjusted downward by the Company based on our evaluation of the facts and circumstances on a case by case basis. External appraisals may be discounted when management believes that the absorption period used in the appraisal is unrealistic, when expected liquidation costs exceed those included in the appraisal, or when management s evaluation of deteriorating market conditions warrant an adjustment. Additionally, the Company may also adjust appraisals in the above circumstances between appraisal dates. The Company uses the information provided in these updated appraisals along with its evaluation of all other information available on a particular property as it assesses the collateral coverage on its performing and nonperforming loans and the impact that may have on the adequacy of its Allowance. The specific allowance for impaired loans, as well as the overall Allowance, may increase based on the Company s assessment of updated appraisals. See Note 21 of the *Notes to Consolidated Financial Statements* included in Item 8 of this report for further discussion of the Company s estimation of the fair value of impaired loans.

When the Company determines that a loss has occurred on an impaired loan, a charge-off equal to the difference between carrying value and fair value is recorded. If a specific allowance is deemed necessary for a loan, and then that loan is partially charged off, the loan remains classified as a nonperforming loan after the charge-off is recognized. Loans measured for impairment based on collateral value and all other loans measured for impairment are accounted for in the same way. The total charge-off rate for nonperforming loans as of December 31, 2010 and 2009 was 24% and 18%, respectively.

A general allocation. The Company has identified segments and classes of loans not considered impaired for purposes of establishing the general allocation allowance. The Company determined the disaggregation of the loan portfolio into segments and classes based on our assessment of how different pools of loans with like characteristics in the portfolio behave over time. This determination is based on historical experience and management s assessment of how current facts and circumstances are expected to affect the loan portfolio.

The Company first disaggregates the loan portfolio into the following segments: commercial, construction, real estate term, and home equity lines and other consumer loans. Then the Company further disaggregates each of these segments into the following classes, which are also known as risk classifications: excellent, good, satisfactory, watch, special mention, substandard, doubtful, and loss. The Company had $62.6 million in construction loans at December 31, 2010, and $20.8 million of those loans have interest reserves as of December 31, 2010. Management does not consider construction loans with interest reserves to be a material component of the portfolio for purposes of the Allowance calculation.

After the portfolio has been disaggregated into segments and classes, the Company calculates a general reserve for each segment and class based on the average three year loss history for each segment and class. This general reserve is then adjusted for qualitative factors by segment and class.

An unallocated reserve. The unallocated portion of the Allowance provides for other credit losses inherent in our loan portfolio that may not have been contemplated in the specific and general components of the Allowance, and it acknowledges the inherent imprecision of all loss prediction models. The unallocated component is reviewed periodically based on trends in credit losses and overall economic conditions.

At December 31, 2010, the unallocated allowance as a percentage of the total Allowance was 14%. The unallocated allowance as a percentage of the total Allowance was 55% at December 31, 2009 and 41% at December 31, 2008 as reported in the Company s Form 10-K for the year ended December 31, 2009. The decrease in the unallocated allowance as a percentage of the total Allowance at December 31, 2010 is due in part to an enhancement to the Company s methodology. The Company refined its method of estimating the Allowance in the third quarter of 2010. The Company elected this enhanced method of estimating the Allowance because we believe that it more accurately allocates expected losses by loan segment and class. The Company performed a retrospective review of the Allowance as of December 31, 2009, March 31, 2010 and June 30, 2010 and determined that this refinement does not have an effect on the Company s financial position, results of operations, or earnings per share for any period; rather, the refined method of estimating the Allowance changes how the total Allowance is allocated among the Company s loan types and the unallocated portion of the Allowance.

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The following table summarizes what the comparative data regarding the Allowance would have looked like at the periods indicated if the Company had used the enhanced methodology to calculate the Allowance at December 31, 2009:

	December 31, 2010				December 31, 2009			
Allowance applicable to:	Total	Impaired Loans	Formula-based Amounts	Other	Total	Impaired Loans	Formula-based Amounts	Other
				(In Thousands)				
Commercial	$6,374	$274	$6,100	$	$4,964	$850	$4,114	$
Construction	1,035	73	962		2,156	869	1,287	
Real estate term	4,270	36	4,234		2,680	143	2,537	
Home equity lines and other consumer	741		741		501	1	500	
Unallocated	1,986			1,986	2,807			2,807
Total	$14,406	$383	$12,037	$1,986	$13,108	$1,863	$8,438	$2,807

Under the enhanced methodology, the unallocated allowance as a percentage of the total Allowance at December 31, 2010 is 14%, and at December 31, 2009 it would have been 21%. The decrease in the unallocated allowance in 2010 as compared to 2009 under the enhanced methodology is due to a decrease in management s assessment of the overall inherent risk in the portfolio. Nonperforming assets decreased to $21.8 million at December 31, 2010 from $34.8 million at December 31, 2009 and $38.6 million at December 31, 2008. Additionally, the net charge off rate decreased to 0.66% for 2010 from 1.00% in 2009 and 0.86% in 2008.

The following table shows the allocation of the Allowance for the periods indicated and includes allocations calculated under the enhanced methodology for 2010. Allocations shown for 2009, 2008, 2007 and 2006 were calculated using the legacy methodology and were reported as such in prior years:

December 31,	2010		2009		2008		2007		2006	
Allowance applicable to:	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]
					(In Thousands)					
Commercial	$6,374	38%	$3,962	38%	$5,558	41%	$6,496	40%	$8,208	40%
Construction	1,035	9%	1,365	9%	1,736	14%	940	19%	330	21%
Real estate term	4,270	46%	565	47%	306	38%	1,661	34%	964	33%
Home equity lines and other consumer	741	7%	50	6%	61	7%	16	7%	6	6%
Unallocated	1,986	0%	7,166	0%	5,239	0%	2,622	0%	2,617	0%

Total	$14,406	100%	$13,108	100%	$12,900	100%	$11,735	100%	$12,125	100%

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

The following table sets forth information regarding changes in our Allowance for the periods indicated:

December 31,	2010	2009	2008	2007	2006
			(In Thousands)		
Balance at beginning of period	$13,108	$12,900	$11,735	$12,125	$10,706
Charge-offs:					
Commercial loans	(3,919)	(3,372)	(4,187)	(4,291)	(2,545)
Construction loans	(1,519)	(1,308)	(1,004)	(2,982)	
Real estate loans	(342)	(2,478)	(1,402)	(599)	
Home equity and other consumer loans	(322)	(509)	(132)	(45)	(72)
Total charge-offs	(6,102)	(7,667)	(6,725)	(7,917)	(2,617)
Recoveries:					
Commercial loans	1,490	736	577	1,723	1,086
Construction loans	4	7	61	50	
Real estate loans	232	11	3		355
Home equity and other consumer loans	91	55	50	21	31
Total recoveries	1,817	809	691	1,794	1,472
Charge-offs net of recoveries	(4,285)	(6,858)	(6,034)	(6,123)	(1,145)
Allowance aquired with Alaska First acquisition				220	
Provision for loan losses	5,583	7,066	7,199	5,513	2,564
Balance at end of period	$14,406	$13,108	$12,900	$11,735	$12,125
Ratio of net charge-offs to average loans outstanding during the period	0.66%	1.00%	0.86%	0.86%	0.16%

The decrease in real estate charge-offs in 2010 as compared to 2009 and the increase in 2009 as compared to 2008 is related to one borrower. The increase in real estate charge-offs in 2008 as compared to 2007 related to two borrowers. The decrease in the provision for loan losses in 2010 as compared to 2009 is due primarily to the decrease in net charge-offs for the year. This was partially offset by an increase in the provision for loan losses to account for the

increase in gross loans.

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

Purchased Receivables

We purchase accounts receivable from our business customers and provide them with short-term working capital. We provide this service to our customers in Alaska and in Washington and Oregon through NFS. Our purchased receivable activity is guided by policies that outline risk management, documentation, and approval limits. The policies are reviewed and approved annually by the Board of Directors.

Our purchased receivable balances increased in 2010 to $16.5 million, as compared to $7.3 million in 2009. This increase is primarily due to a large funding for one purchased receivable customer that occurred in the fourth quarter of 2010. The Company expects that purchased receivable balances will increase in the future as NFS continues to expand its customer base.

Deposits

Deposits are our primary source of funds. Total deposits increased 5% to $892.1 million at December 31, 2010 from $853.1 million at December 31, 2009. Our deposits generally are expected to fluctuate according to the level of our market share, economic conditions, and normal seasonal trends.

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

December 31,	2010		2009		2008	
	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid
			(In Thousands)			
Interest-bearing demand accounts	$125,360	0.14%	$115,065	0.15%	$97,171	0.59%
Money market accounts	132,264	0.51%	127,651	0.58%	187,779	1.76%
Savings accounts	183,636	0.61%	169,812	0.73%	187,225	1.84%
Certificates of deposit	147,081	1.84%	173,777	2.10%	145,153	3.34%
Total interest-bearing accounts	588,341	0.79%	586,305	0.99%	617,328	1.97%
Noninterest-bearing demand accounts	264,853		241,547		212,447	
Total average deposits	$853,194		$827,852		$829,775	

Certificates of Deposit: The only deposit category with stated maturity dates is certificates of deposit. At December 31, 2010, we had $138.2 million in certificates of deposit, of which $103.7 million, or 75%, are scheduled to mature in 2011. At December 31, 2010, the Company s certificates of deposit decreased to $138.2 million as compared to $144.9 million at December 31, 2009 as customers moved from certificates of deposit to other interest-bearing accounts. The aggregate amount of certificates of deposit in amounts of $100,000 or more at December 31, 2010, and 2009, was $84.3 million and $80.2 million, respectively. The following table sets forth the amount outstanding of certificates of deposits in amounts of $100,000 or more by time remaining until maturity and percentage of total deposits:

	Year Ending December 31, 2010	
	Time Certificates of Deposits of $100,000 or More	
	Amount	Percent of Total Deposits
	(In Thousands)	

Amounts maturing in:		
Three months or less	$18,412	22%
Over 3 through 6 months	10,502	12%
Over 6 through 12 months	34,848	41%
Over 12 months	20,553	24%
Total	$84,315	100%

The Company is also a member of the Certificate of Deposit Account Registry System (CDARS) which is a network of approximately 3,000 banks throughout the United States. The CDARS system was founded in 2003 and allows participating banks to exchange FDIC insurance coverage so that 100% of the balance of their customers certificates of deposit are fully subject to FDIC insurance. At December 31, 2010, the Company had no CDARS certificates of deposits as compared to $3.3 million at December 31, 2009.

Alaska Certificates of Deposit: The Alaska Certificate of Deposit (Alaska CD) is a savings deposit product with an open-ended maturity, interest rate that adjusts to an index that is tied to the two-year United States Treasury Note, and limited withdrawals. The total balance in the Alaska CD at December 31, 2010, was $100.3 million, a decrease of $4.5 million as compared to the balance of $104.8 million at December 31, 2009 as customers moved from the Alaska CD account to other interest-bearing accounts.

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Alaska Permanent Fund: The Alaska Permanent Fund may invest in certificates of deposit at Alaska banks in an aggregate amount with respect to each bank, not to exceed its capital and at specified rates and terms. The depository bank must collateralize the deposit. We did not hold any certificates of deposit for the Alaska Permanent Fund at December 31, 2010 or 2009.

Borrowings

FHLB: At December 31, 2010, our maximum borrowing line from the FHLB was $120.3 million, approximately 11% of the Company s assets, subject to the FHLB s collateral requirements. FHLB advances are dependent on the availability of acceptable collateral such as marketable securities or real estate loans, although all FHLB advances are secured by a blanket pledge of the Company s assets. There was no outstanding balance on this line at December 31, 2010 or 2009. At December 31, 2008 there was $11.0 million outstanding on the line. The decrease in the outstanding balance of the line at December 31, 2009 as compared to December 31, 2008 was the result of the early pay off of the advances in September 2009. The advances had a blended rate of 5.05% and an average remaining life of over 8 years and resulted in a prepayment penalty of $718,000 in 2009.

Federal Reserve Bank: The Company entered into a note agreement with the Federal Reserve Bank on December 27, 1996 for the payment of tax deposits. See Other Short-term Borrowings below for additional detail regarding this agreement.

The Federal Reserve Bank is holding $91.2 million of loans as collateral to secure advances made through the discount window on December 31, 2010. There were no discount window advances outstanding at December 31, 2010 and 2009.

Other Long-term Borrowings: The Company purchased its main office facility for $12.9 million on July 1, 2008. In this transaction, the Company, through NBL, assumed an existing loan secured by the building in an amount of approximately $5.1 million. At December 31, 2010, the outstanding balance on this loan was $4.8 million. This loan has a maturity date of April 1, 2014.

Other Short-term Borrowings: The Company entered into a note agreement with the Federal Reserve Bank on December 27, 1996 for the payment of tax deposits. Under this agreement, the Company takes in tax payments from customers and reports these payments to the Federal Reserve Bank. The Federal Reserve has the option to call the tax deposits at any time. The balance at December 31, 2010, and 2009, was $620,000 and $690,000, respectively, which was secured by investment securities.

Securities sold under agreements to repurchase were $12.9 million and $6.7 million, respectively, for December 31, 2010 and 2009. The average balance outstanding of securities sold under agreements to repurchase during 2010 and 2009 was $10.2 million and $4.3 million, respectively, and the maximum outstanding at any month-end was $14.2 million and $9.1 million, respectively, during the same time periods. The securities sold under agreements to repurchase are held by the Federal Home Loan Bank under the Company s control.

The Company did not have any other short-term borrowings at December 31, 2010 and December 31, 2009. There were no short-term (original maturity of one year or less) borrowings for which the average balance outstanding during 2010, 2009 and 2008 exceeded 30% of shareholders equity at December 31, 2010, December 31, 2009, and December 31, 2008.

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Contractual Obligations

The following table references contractual obligations of the Company for the periods indicated:

	Payments Due by Period				
	Within 1 Year	1-3 Years	3-5 Years	Over 5 Years	Total
	(In Thousands)				
December 31, 2010:					
Certificates of deposit	$103,704	$34,137	$332	$	$138,173
Short-term debt obligations	13,494				13,494
Long-term debt obligations	141	304	4,321		4,766
Junior subordinated debentures				18,558	18,558
Operating lease obligations	748	1,076	781	4,381	6,986
Other long-term liabilities	317				317
Total	$118,404	$35,517	$5,434	$22,939	$182,294
December 31, 2009:					
Certificates of deposit	$100,099	$44,251	$479	$22	$144,851
Short-term debt obligations	7,423				7,423
Long-term debt obligations	132	287	4,478		4,897
Junior subordinated debentures				18,558	18,558
Operating lease obligations	888	1,450	863	4,735	7,936
Other long-term liabilities	412				412
Total	$108,954	$45,988	$5,820	$23,315	$184,077

Long-term debt obligations consist of (a) $4.8 million amortizing note that was assumed by NBL on July 1, 2008, when the Company s main office facility was purchased that matures on April 1, 2014 and bears interest at 5.95%, (b) $8.2 million junior subordinated debentures that were originated on May 8, 2003, mature on May 15, 2033, and bear interest at a rate of 90-day LIBOR plus 3.15%, adjusted quarterly, and (c) $10.3 million junior subordinated debentures that were originated on December 16, 2005, mature on March 15, 2036, and bear interest at a rate of 90-day LIBOR plus 1.37%, adjusted quarterly. The operating lease obligations are more fully described in Note 20 of the Company s Financial Statements attached to this report. Other long-term liabilities consist of amounts that the Company owes for its investments in Delaware limited partnerships that develop low-income housing projects throughout the United States. The Company purchased a $3 million interest in U.S.A. Institutional Tax Credit Fund LVII L.P. (USA 57) in December 2006. The investment in USA 57 is expected to be fully funded in 2011.

Off-Balance Sheet Arrangements Commitments and Contingent Liabilities

The Company is a party to financial instruments with off-balance sheet risk. Among the off-balance sheet items entered into in the ordinary course of business are commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the balance sheet. Certain commitments are collateralized. We apply the same credit standards to these commitments as in all of our lending activities and include these commitments in our lending risk evaluations.

As of December 31, 2010 we had commitments to extend credit of $181.3 million which were not reflected on our balance sheet. Commitments to extend credit are agreements to lend to customers. These commitments have specified interest rates and generally have fixed expiration dates but may be terminated by the Company if certain conditions of the contract are violated. Collateral held relating to these commitments varies, but generally includes real estate, inventory, accounts receivable, and equipment. Our exposure to credit loss under commitments to extend credit is represented by the amount of these commitments. Since many of the commitments are expected to expire without being drawn upon, these total commitment amounts do not necessarily represent future cash requirements. For additional information regarding the Company s off-balance sheet arrangement, see Note 19 and Liquidity and Capital Resources below.

As of December 31, 2010 we had standby letters of credit of $19.1 million which were not reflected on our balance sheet. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third

party. Credit risk arises in these transactions from the possibility that a customer may not be able to repay the Company upon default of performance. Collateral held for standby letters of credit is based on an individual evaluation of each customer s creditworthiness.

Our total unfunded lending commitments at December 31, 2010, which includes commitments to extend credit and standby letters of credit, were $200.4 million, and we do not expect that all of these loans are likely to be fully drawn upon at any one time. The Company has established a reserve for losses related to these commitments that is recorded in other liabilities on the consolidated balance sheets.

Liquidity and Capital Resources

The Company is a single bank holding company and its primary ongoing source of liquidity is from dividends received from the Bank. Such dividends arise from the cash flow and earnings of the Bank. Banking regulations and regulatory authorities may limit the amount of, or require the Bank to obtain certain approvals before paying dividends to the Company. Given that the Bank is currently well-capitalized , the Company expects to continue to receive dividends from the Bank.

The Bank manages its liquidity through its Asset and Liability Committee. Our primary sources of funds are customer deposits and advances from the Federal Home Loan Bank of Seattle. These funds, together with loan repayments, loan sales, other borrowed funds, retained earnings, and equity are used to make loans, to acquire securities and other assets, and to fund deposit flows and continuing operations. The primary sources of demands on our liquidity are customer demands for withdrawal of deposits and borrowers demands that we advance funds against unfunded lending commitments. Our total unfunded commitments to fund loans and letters of credit at December 31, 2010, were $200.4 million, and we do not expect that all of these loans are likely to be fully drawn upon at any one time. Additionally, as noted above, our total deposits at December 31, 2010, were $892.1 million.

As shown in the Consolidated Statements of Cash Flows, net cash provided by operating activities was $18.3 million, $10 million, and $16.3 million for 2010, 2009 and 2008, respectively. The primary source of cash provided by operating activities was positive net income in each of these periods. Net cash of $60.9 million and $27 million was used in investing activities in 2010 and 2008 as the Company invested available cash primarily in available for sale securities. Net cash provided by investing activities was $30.4 million in 2009 as the Company collected funds from loan pay offs. The $41.9 million of cash provided by financing activities in 2010 primarily consisted of the $39 million increase in deposits during 2010. Net cash used in financing activities in 2009 of $11.5 million was the result of the pay down of borrowings taken on in 2008, which was partially offset by increased deposit balances. Net cash used in financing activities in 2008 of $15.2 million resulted from decreases in deposits and securities sold under repurchase agreements in 2008, which was partially offset by increased borrowings.

The sources by which we meet the liquidity needs of our customers are current assets and borrowings available through our correspondent banking relationships and our credit lines with the Federal Reserve Bank and the FHLB. At December 31, 2010, our current assets were $318.4 million and our funds available for borrowing under our existing lines of credit were $192.3 million. Given these sources of liquidity and our expectations for customer demands for cash and for our operating cash needs, we believe our sources of liquidity to be sufficient in the foreseeable future. However, continued deterioration in the FHLB of Seattle s financial position may result in impairment in the value of our FHLB stock, the requirement that the Company contribute additional funds to recapitalize the FHLB of Seattle, or a reduction in the Company s ability to borrow funds from the FHLB of Seattle, impairing the Company s ability to meet liquidity demands.

On February 18, 2011, the Board of Directors approved payment of a $0.12 per share dividend on March 18, 2011, to shareholders of record on March 10, 2011. This dividend is consistent with the Company s dividends that were

declared and paid in 2010.

In September 2002, our Board of Directors approved a plan whereby we would periodically repurchase for cash up to approximately 5%, or 306,372, of our shares of common stock in the open market. In August of 2004, the Board of Directors amended the stock repurchase plan and increased the number of shares available under the program by 5% of total shares outstanding, or 304,283 shares. In June of 2007, the Board of Directors amended the stock repurchase plan and increased the number of shares available under the program by 5% of total shares outstanding, or 305,029 shares. We have purchased 688,442 shares of our stock under this program through December 31, 2010 at a total cost of $14.2 million at an average price of $20.65, which leaves a balance of 227,242 shares available under the stock repurchase program. We intend to continue to repurchase our stock from time to time depending upon market conditions, but we can make no assurances that we will continue this program or that we will repurchase all of the authorized shares.

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The stock repurchase program had an effect on earnings per share because it decreased the total number of shares outstanding in 2007 and 2006 by 137,500 and 17,500 shares respectively. The Company did not repurchase any of its shares in 2010, 2009 or 2008. The table below shows this effect on diluted earnings per share.

Years Ending:	Diluted EPS as Reported	Diluted EPS without Stock Repurchase
2010	$1.40	$1.25
2009	$1.20	$1.08
2008	$0.95	$0.85
2007	$1.80	$1.64
2006	$1.99	$1.83

On May 8, 2003, the Company s newly formed subsidiary, Northrim Capital Trust 1, issued trust preferred securities in the principal amount of $8 million. These securities carry an interest rate of 90-day LIBOR plus 3.15% per annum that was initially set at 4.45% adjusted quarterly. The securities have a maturity date of May 15, 2033, and are callable by the Company on or after May 15, 2008. These securities are treated as Tier 1 capital by the Company s regulators for capital adequacy calculations. The interest cost to the Company of the trust preferred securities was $283,000 in 2010. At December 31, 2010, the securities had an interest rate of 3.44%.

On December 16, 2005, the Company s newly formed subsidiary, Northrim Statutory Trust 2, issued trust preferred securities in the principal amount of $10 million. These securities carry an interest rate of 90-day LIBOR plus 1.37% per annum that was initially set at 5.86% adjusted quarterly. The securities have a maturity date of March 15, 2036, and are callable by the Company on or after March 15, 2011. These securities are treated as Tier 1 capital by the Company s regulators for capital adequacy calculations. The interest cost to the Company of these securities was $173,000 in 2010. At December 31, 2010, the securities had an interest rate of 1.67%.

Our shareholders equity at December 31, 2010, was $117.1 million, as compared to $111 million at December 31, 2009. The Company earned net income of $9.1 million during 2010 and issued 56,000 shares through the exercise of stock options. The Company did not repurchase any shares of its common stock in 2010. At December 31, 2010, the Company had 6.4 million shares of its common stock outstanding.

We are subject to minimum capital requirements. Federal banking agencies have adopted regulations establishing minimum requirements for the capital adequacy of banks and bank holding companies. The requirements address both risk-based capital and leverage capital. We believe as of December 31, 2010, that the Company and Northrim Bank met all applicable capital adequacy requirements for a well-capitalized institution by regulatory standards.

The FDIC has in place qualifications for banks to be classified as well-capitalized. As of December 15, 2010, the most recent notification from the FDIC categorized Northrim Bank as well-capitalized. There were no conditions or events since the FDIC notification that we believe have changed Northrim Bank s classification.

The table below illustrates the capital requirements for the Company and the Bank and the actual capital ratios for each entity that exceed these requirements. Based on recent turmoil in the financial markets and the elevated level of the Company s loans measured for impairment and OREO, management intends to maintain a Tier 1 risk-based capital ratio for the Bank in excess of 10% in 2011, exceeding the FDIC s well-capitalized capital requirement classification.

The capital ratios for the Company exceed those for the Bank primarily because the $8 million trust preferred securities offering that the Company completed in the second quarter of 2003 and another offering of $10 million completed in the fourth quarter of 2006 are included in the Company s capital for regulatory purposes although they are accounted for as a long-term debt in our financial statements. The trust preferred securities are not

accounted for on the Bank s financial statements nor are they included in its capital. As a result, the Company has $18 million more in regulatory capital than the Bank, which explains most of the difference in the capital ratios for the two entities.

December 31, 2010	Adequately - Capitalized	Well - Capitalized	Actual Ratio BHC	Actual Ratio Bank
Tier 1 risk-based capital	4.00%	6.00%	14.08%	13.11%
Total risk-based capital	8.00%	10.00%	15.33%	14.36%
Leverage ratio	4.00%	5.00%	12.15%	11.30%

(See Note 20 of the Consolidated Financial Statements for a detailed discussion of the capital ratios.)

Effects of Inflation and Changing Prices: The primary impact of inflation on our operations is increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution s performance than the effects of general levels of inflation. Although interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services, increases in inflation generally have resulted in increased interest rates, which could affect the degree and timing of the repricing of our assets and liabilities. In addition, inflation has an impact on our customers ability to repay their loans.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The disclosures in this item are qualified by the Risk Factors set forth in Item 1A and the Section entitled Note Regarding Forward-Looking Statements included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations in this report and any other cautionary statements contained herein.

Our results of operations depend substantially on our net interest income. Like most financial institutions, our interest income and cost of funds are affected by general economic conditions, levels of market interest rates, and by competition, and in addition, our community banking focus makes our results of operations particularly dependent on the Alaska economy.

The purpose of asset/liability management is to provide stable net interest income growth by protecting our earnings from undue interest rate risk, which arises from changes in interest rates and changes in the balance sheet mix, and by managing the risk/return relationships between liquidity, interest rate risk, market risk, and capital adequacy. We maintain an asset/liability management policy that provides guidelines for controlling exposure to interest rate risk by setting a target range and minimum for the net interest margin and running simulation models under different interest rate scenarios to measure the risk to earnings over the next 12-month period.

In order to control interest rate risk in a rising interest rate environment, our philosophy is to shorten the average maturity of the investment portfolio and emphasize the pricing of new loans on a floating rate basis in order to achieve a more asset sensitive position, thereby allowing quicker repricings and maximizing net interest income. Conversely, in a declining interest rate environment, our philosophy is to lengthen the average maturity of the investment portfolio and emphasize fixed rate loans, thereby becoming more liability sensitive. In each case, the goal is to exceed our

targeted net interest income range without exceeding earnings risk parameters.

Our excess liquidity not needed for current operations has generally been invested in short-term assets or securities, primarily securities issued by government sponsored entities. The securities portfolio contributes to our profits and plays an important part in the overall interest rate management. The primary tool used to manage interest rate risk is determination of mix, maturity, and repricing characteristics of the loan portfolios. The loan and securities portfolios must be used in combination with management of deposits and borrowing liabilities and other asset/liability techniques to actively manage the applicable components of the balance sheet. In doing so, we estimate our future needs, taking into consideration historical periods of high loan demand and low deposit balances, estimated loan and deposit increases, and estimated interest rate changes.

Although analysis of interest rate gap (the difference between the repricing of interest-earning assets and interest-bearing liabilities during a given period of time) is one standard tool for the measurement of exposure to interest rate risk, we believe that because interest rate gap analysis does not address all factors that can affect earnings performance it should not be used as the primary indicator of exposure to interest rate risk and the related volatility of net interest income in a changing interest rate environment. Interest rate gap analysis is primarily a measure of liquidity based upon the amount of change in principal amounts of assets and liabilities outstanding, as opposed to a measure of changes in the overall net interest margin.

The following table sets forth the estimated maturity or repricing, and the resulting interest rate gap, of our interest-earning assets and interest-bearing liabilities at December 31, 2010. The amounts in the table are derived from internal data based upon

regulatory reporting formats and, therefore, may not be wholly consistent with financial information appearing elsewhere in the audited financial statements that have been prepared in accordance with generally accepted accounting principles. The amounts shown below could also be significantly affected by external factors such as changes in prepayment assumptions, early withdrawals of deposits, and competition.

	Estimated maturity or repricing at December 31, 2010			
	Within 1 year	1-5 years	^{3}5 years	Total
		(In Thousands)		
Interest -Earning Assets:				
Overnight investments	$50,080	$	$	$50,080
Investment securities	68,309	142,863	10,966	222,138
Loans:				
Commercial	190,396	59,375	1,993	251,764
Real estate construction	47,718	807	11,806	60,331
Real estate term	130,865	171,168	6,568	308,601
Loans held for sale	5,558			5,558
Home equity line and other consumer	16,611	14,210	12,052	42,873
Total interest-earning assets	$509,537	$388,423	$43,385	$941,345
Percent of total interest-earning assets	54%	41%	5%	100%
Interest-Bearing Liabilities:				
Interest-bearing demand accounts	$138,072	$	$	$138,072
Money market accounts	149,104			149,104
Savings accounts	177,726			177,726
Certificates of deposit	101,707	36,466		138,173
Short-term borrowings	13,495			13,495
Long-term borrowings	1,208	3,557		4,765
Junior subordinated debentures	18,558			18,558
Total interest-bearing liabilities	$599,870	$40,023	$	$639,893
Percent of total interest-bearing liabilities	94%	6%	0%	100%
Interest sensitivity gap	$(90,333)	$348,400	$43,385	$301,452
Cumulative interest sensitivity gap	$(90,333)	$258,067	$301,452	
Cumulative interest sensitivity gap as a percentage of total assets	-9%	24%	29%	

As stated previously, certain shortcomings, including those described below, are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market interest rates. Additionally, certain assets have features that restrict changes in their interest rates, both on a short-term basis and over the lives of the assets. Further, in the event of a change in market interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables as can the relationship of rates between different loan and deposit categories. Moreover, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an increase in market interest rates.

We utilize a simulation model to monitor and manage interest rate risk within parameters established by our internal policy. The model projects the impact of a 100 basis point increase and a 100 basis point decrease, from prevailing interest rates, on the balance sheet over a period of 12 months. Generalized assumptions are made on how investment securities, classes of loans and various deposit products might respond to the interest rate changes. These assumptions are inherently uncertain, and as a result, the

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model cannot precisely estimate net interest income nor precisely predict the impact of higher or lower interest rates on net interest income. Actual results would differ from simulated results due to factors such as timing, magnitude and frequency of rate changes, customer reaction to rate changes, changes in market conditions and management strategies, among other factors.

As indicated in the table above, at December 31, 2010, the Company s interest-bearing liabilities reprice or mature faster than the Company s earning assets by a margin of $90.3 million over the next 12 months. Based on the results of the simulation models at December 31, 2010, we expect an increase in net interest income of $385,000 over a 12-month period if interest rates decreased an immediate 100 basis points. The results were limited since interest rates were already at a low point and a further decrease resulted in some indexes being nonexistent. Conversely, we expect a slight decrease of $120,000 in net interest income over a 12-month period if interest rates increased an immediate 100 basis points. The decrease in net interest income of $120,000 in a 100 basis point immediate increase in interest rates showed that loans priced with floors will not experience the full impact of a 100 basis point increase until interest rates increase beyond 100 basis points.

Item 8. Financial Statements and Supplementary Data

The following reports, audited consolidated financial statements and the notes thereto are set forth in this Annual Report on Form 10-K on the pages indicated:

Report of the Independent Registered Public Accounting Firms	44
Consolidated Balance Sheets at December 31, 2010 and 2009	46
For the Years Ended December 2010, 2009 and 2008:	
Consolidated Statements of Income	47
Consolidated Statements of Changes in Shareholder_s Equity and Comprehensive Income	48
Consolidated Statements of Cash Flows	49
Notes to Consolidated Financial Statements	50

Report of Independent Registered Public Accounting Firm

The Board of Directors of
Northrim BanCorp, Inc.:

We have audited the accompanying consolidated balance sheet of Northrim BanCorp, Inc. and subsidiaries (the Company) as of December 31, 2010, and the related consolidated statements of operations, shareholders equity and comprehensive income, and cash flows for the year ended December 31, 2010. We also have audited the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risks. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northrim BanCorp, Inc. and subsidiaries as of December 31, 2010, and the results of their operations and their cash flows for the year ended December 31, 2010, in conformity with accounting principles

generally accepted in the United States of America. Also in our opinion, Northrim BanCorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Moss Adams LLP

Bellingham, Washington
March 14, 2011

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Northrim BanCorp, Inc.:

We have audited the accompanying balance sheet of Northrim BanCorp, Inc. and subsidiaries (the Company) as of December 31, 2009 and the related consolidated statements of income, shareholders equity and comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northrim BanCorp, Inc. and subsidiaries as of December 31, 2009 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Anchorage, Alaska
March 15, 2010

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Consolidated Financial Statements

NORTHRIM BANCORP, INC.
Consolidated Balance Sheets
December 31, 2010 and 2009

	2010	2009
	(In Thousands Except Share Amounts)	
Assets		
Cash and due from banks	$15,953	$19,395
Overnight investments	50,080	47,326
Investment securities available for sale	214,010	178,159
Investment securities held to maturity	6,125	7,285
Total Portfolio Investments	220,135	