NORTHRIM BANCORP INC
Form 10-Q
August 10, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q
(Mark One)
þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2015
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from_____to____
Commission File Number 000-33501
NORTHRIM BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

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

(907) 562-0062

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨ Yes ý No
The number of shares of the issuer's Common Stock, par value $1 per share, outstanding at August 10, 2015 was 6,854,413.

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PART I. FINANCIAL INFORMATION

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

ITEM 1. FINANCIAL STATEMENTS

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

(In Thousands, Except Share Data)	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$44,017	$36,036
Interest bearing deposits in other banks	60,054	36,020
Investment securities available for sale	225,868	281,730
Investment securities held to maturity	2,197	2,201
Total portfolio investments	228,065	283,931
Investment in Federal Home Loan Bank stock	1,817	3,404
Loans held for sale	73,593	43,866
Loans	974,849	924,504
Allowance for loan losses	(17,418)	(16,723)
Net loans	957,431	907,781
Purchased receivables, net	14,048	15,254
Accrued interest receivable	3,399	3,373
Other real estate owned, net	2,807	4,607
Premises and equipment, net	37,942	35,643
Goodwill	22,334	22,334
Other intangible assets, net	1,555	1,701
Other assets	53,269	55,399
Total assets	$1,500,331	$1,449,349
LIABILITIES		
Deposits:		
Demand	$455,358	$403,523
Interest-bearing demand	173,952	185,114
Savings	129,938	122,588
Alaska CDs	97,592	99,736
Money market	232,877	226,574
Certificates of deposit less than $100,000	57,390	58,249
Certificates of deposit greater than $100,000	91,610	83,963
Total deposits	1,238,717	1,179,747
Securities sold under repurchase agreements	17,895	19,843
Borrowings	22,309	26,304
Junior subordinated debentures	18,558	18,558
Other liabilities	31,770	40,456
Total liabilities	1,329,249	1,284,908
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value, 2,500,000 shares authorized, none issued or outstanding	—	—
Common stock, $1 par value, 10,000,000 shares authorized, 6,854,413 and 6,854,189 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	6,854	6,854
Additional paid-in capital	61,965	61,729

Retained earnings	101,343	95,493
Accumulated other comprehensive income	643	247
Total Northrim BanCorp shareholders' equity	170,805	164,323
Noncontrolling interest	277	118
Total shareholders' equity	171,082	164,441
Total liabilities and shareholders' equity	$1,500,331	$1,449,349

See notes to consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, Except Per Share Data)	2015	2014	2015	2014
Interest Income				
Interest and fees on loans	$14,135	$13,082	$27,602	$23,953
Interest on investment securities available for sale	759	750	1,644	1,480
Interest on investment securities held to maturity	25	22	48	45
Interest on deposits in other banks	24	41	35	90
Total Interest Income	14,943	13,895	29,329	25,568
Interest Expense				
Interest expense on deposits, borrowings and junior subordinated debentures	748	484	1,502	924
Net Interest Income	14,195	13,411	27,827	24,644
Provision for loan losses	376	(1,136)	702	(1,136)
Net Interest Income After Provision for Loan Losses	13,819	14,547	27,125	25,780
Other Operating Income				
Mortgage banking income	7,839	—	15,122	—
Employee benefit plan income	931	878	1,708	1,754
Electronic banking income	700	604	1,322	1,104
Service charges on deposit accounts	568	607	1,058	1,083
Purchased receivable income	562	484	1,151	965
Gain on sale of securities, net	16	349	130	446
Equity in earnings from RML	—	355	—	224
Other income	947	829	1,607	1,264
Total Other Operating Income	11,563	4,106	22,098	6,840
Other Operating Expense				
Salaries and other personnel expense	11,125	6,839	21,675	12,759
Occupancy expense	1,594	1,112	3,198	1,989
Professional and outside services	791	219	1,542	624
Marketing expense	642	394	1,259	1,008
Change in fair value, RML earn-out liability	587	—	2,089	—
Equipment expense	428	359	862	657
Insurance expense	345	284	669	469
Software expense	337	354	649	614
Internet banking expense	227	213	447	413
Intangible asset amortization expense	72	81	145	133
Merger and acquisition expense	—	312	—	705
Reserve for (recovery from) purchased receivables	(18)	243	(72)	206
OREO (income) expense, net rental income and gains on sale	(121)	(9)	176	(247)
Other operating expense	1,744	1,219	3,575	2,258
Total Other Operating Expense	17,753	11,620	36,214	21,588
Income Before Provision for Income Taxes	7,629	7,033	13,009	11,032
Provision for income taxes	2,686	2,569	4,433	3,866
Net Income	4,943	4,464	8,576	7,166
Less: Net income attributable to the noncontrolling interest	162	95	234	139
Net Income Attributable to Northrim BanCorp, Inc.	$4,781	$4,369	$8,342	$7,027

Earnings Per Share, Basic	$0.70	$0.64	$1.22	$1.05
Earnings Per Share, Diluted	$0.69	$0.63	$1.20	$1.04
Weighted Average Shares Outstanding, Basic	6,854,338	6,829,897	6,854,264	6,683,897
Weighted Average Shares Outstanding, Diluted	6,941,671	6,919,568	6,938,879	6,774,434

See notes to consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Net income	$4,943	$4,464	$8,576	$7,166
Other comprehensive income (loss), net of tax:				
Securities available for sale:				
Unrealized gains (losses) arising during the period	($152)	$612	$736	$707
Reclassification of net gains included in net income (net tax expense of $7 and $143 for the second quarter of 2015 and 2014, respectively and $53 and $183 for the first six months of 2015 and 2014, respectively)	(9)	(206)	(77)	(263)
Income tax expense related to unrealized gains	58	(221)	(263)	(260)
Other comprehensive income (loss)	(103)	185	396	184
Comprehensive income	4,840	4,649	8,972	7,350
Less: comprehensive income attributable to the noncontrolling interest	162	95	234	139
Comprehensive income attributable to Northrim BanCorp, Inc.	$4,678	$4,554	$8,738	$7,211

See notes to consolidated financial statements

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

(In Thousands)	Common Stock Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest	Total
Balance as of January 1, 2014	6,538	$6,538	$54,089	$82,855	$669	$167	$144,318
Purchase of Alaska Pacific	290	290	7,156	—	—	—	7,446
Cash dividend declared	—	—	—	(4,770)	—	—	(4,770)
Stock-based compensation expense	—	—	360	—	—	—	360
Exercise of stock options	26	26	28	—	—	—	54
Excess tax benefits from stock based payment arrangements	—	—	96	—	—	—	96
Distributions to noncontrolling interest	—	—	—	—	—	(508)	(508)
Other comprehensive loss, net of tax	—	—	—	—	(422)	—	(422)
Net income attributable to the noncontrolling interest	—	—	—	—	—	459	459
Net income attributable to Northrim BanCorp, Inc.	—	—	—	17,408	—	—	17,408
Twelve Months Ended December 31, 2014	6,854	$6,854	$61,729	$95,493	$247	$118	$164,441
Cash dividend declared	—	—	—	(2,492)	—	—	(2,492)
Stock-based compensation expense	—	—	237	—	—	—	237
Excess tax benefits from share-based payment arrangements	—	—	(1)	—	—	—	(1)
Distributions to noncontrolling interest	—	—	—	—	—	(75)	(75)
Other comprehensive income, net of tax	—	—	—	—	396	—	396
Net income attributable to the noncontrolling interest	—	—	—	—	—	234	234
Net income attributable to Northrim BanCorp, Inc.	—	—	—	8,342	—	—	8,342
Six Months Ended June 30, 2015	6,854	$6,854	$61,965	$101,343	$643	$277	$171,082

See notes to consolidated financial statements

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

	Six Months Ended June 30,	
(In Thousands)	2015	2014
Operating Activities:		
Net income	$8,576	$7,166
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Gain on sale of securities, net	(130)	(446)
Depreciation and amortization of premises and equipment	1,122	900
Amortization of software	90	90
Intangible asset amortization	145	133
Amortization of investment security premium, net of discount accretion	(119)	(85)
Deferred tax liability	(685)	(859)
Stock-based compensation	237	189
Excess tax benefits from share-based payment arrangements	1	—
Deferral of loan fees and costs, net	(92)	419
Provision (benefit) for loan losses	702	(1,136)
Reserve for (recovery from) purchased receivables	(72)	206
Purchases of loans held for sale	—	(75,877)
Proceeds from the sale of loans held for sale	363,096	72,989
Origination of loans held for sale	(392,823)	—
Gain on sale of other real estate owned	(136)	(368)
Impairment on other real estate owned	268	45
Equity in undistributed earnings from mortgage affiliate	—	145
Net changes in assets and liabilities:		
(Increase) in accrued interest receivable	(26)	(407)
Decrease (increase) in other assets	2,352	(557)
Decrease in other liabilities	(8,731)	(2,998)
Net Cash (Used) by Operating Activities	(26,225)	(451)
Investing Activities:		
Investment in securities:		
Purchases of investment securities available for sale	(59,196)	(92,934)
Proceeds from sales/maturities of securities available for sale	115,917	140,085
Purchases of domestic certificates of deposit	—	(3,500)
Proceeds from maturities of domestic certificates of deposit	3,500	3,500
Proceeds from redemption of FHLB stock	1,587	95
Alaska Pacific acquisition, net of cash received	—	6,367
(Increase) decrease in purchased receivables, net	1,278	(1,561)
Increase in loans, net	(50,597)	(19,052)
Proceeds from sale of other real estate owned	1,971	1,599
Elliott Cove divestiture, net of cash received	219	—
Decrease in loan to Elliott Cove, net	—	49
Purchases of premises and equipment	(3,421)	(2,414)
Net Cash (Used) Provided by Investing Activities	11,258	32,234
Financing Activities:		
Increase (decrease) in deposits	58,970	(24,895)
Decrease in securities sold under repurchase agreements	(1,948)	(1,367)
Decrease in borrowings	(3,995)	(4,341)

Distributions to noncontrolling interest	(75)	(179)
Proceeds from the issuance of common stock	—	64
Cash dividends paid	(2,470)	(2,273)
Net Cash Provided (Used) by Financing Activities	50,482	(32,991)

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Net Change in Cash and Cash Equivalents	35,515	(1,208)
Cash and Cash Equivalents at Beginning of Period	68,556	85,591
Cash and Cash Equivalents at End of Period	$104,071	$84,383
Supplemental Information:		
Income taxes paid	$4,011	$1,877
Interest paid	$1,556	$858
Noncash commitments to invest in Low Income Housing Tax Credit Partnerships	$55	$8,518
Transfer of loans to other real estate owned	$337	$1,158
Transfer of premises to other real estate owned	$—	$904
Cash dividends declared but not paid	$22	$17
Acquisitions:		
Assets acquired	$—	$167,199
Liabilities assumed	$—	$153,172

See notes to consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and corresponding footnotes have been prepared by Northrim BanCorp, Inc. (the "Company") in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. The year-end Consolidated Balance Sheet data was derived from the Company's audited financial statements. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Company owns a 100% interest in Residential Mortgage Holding Company, LLC ("RML"), the parent company of Residential Mortgage, LLC ("Residential Mortgage") and a 50.1% interest in Northrim Benefits Group, LLC ("NBG") and consolidates their balance sheets and income statements into its financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain immaterial reclassifications have been made to prior year amounts to maintain consistency with the current year with no impact on net income or total shareholders' equity. The Company determined that it operates in two primary operating segments: Community Banking and Home Mortgage Lending. Prior to December 2014, the Company operated in a single segment: Community Banking. The Company has evaluated events and transactions through August 10, 2015 for potential recognition or disclosure. Operating results for the interim period ended June 30, 2015, are not necessarily indicative of the results anticipated for the year ending December 31, 2015. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

2. Significant Accounting Policies and Recent Accounting Pronouncements

The Company's significant accounting policies are discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

In January 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. ASU 2014-01 permits an entity to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and should be applied prospectively. The Company adopted ASU 2014-01 in its consolidated financial statements as of January 1, 2015. As a result, amortization expense related to the Company's investments in low income housing tax credit partnerships has been included in the line item entitled "Provision for income taxes" in the Consolidated Statements of Income for all periods presented.

In February 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"). The amendments to the Codification in ASU 2015-02 affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. The amendments in this update affect the following areas: 1) the effect of related parties on the primary beneficiary determination, 2) evaluating fees paid to a decision maker or a service provider as a variable interest, 3) the effect of fee arrangements on the primary beneficiary determination, and 4) certain investment funds. This ASU is effective for the Company's financial statements for annual and interim periods beginning on or after December 15, 2015, and must be applied prospectively. The Company does not believe that the adoption of this standard will have a material impact on the Company's consolidated financial position or results of operations.

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The amendments to the Codification in ASU 2015-03 identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. This ASU is effective for the Company's financial statements for annual and interim periods beginning on or after December 15, 2015, and must be applied prospectively. The Company does not believe that the adoption of this standard will have a material impact on the Company's consolidated financial position or results of operations.

In June 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-10, Technical Corrections and Improvements ("ASU 2015-10"). The amendments to the Codification in ASU 2015-10 cover a wide range of topics in the

Codification. The amendments generally fall into one of the following types: amendments related to differences between original guidance and the codification, guidance clarification and reference corrections, simplification, and minor improvements. The amendments in this Update represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Additionally, some of the amendments will make the Codification easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the Codification. This ASU is effective for the Company’s financial statements for annual and interim periods beginning on or after December 15, 2015, and must be applied prospectively. The Company does not believe that the adoption of this standard will have a material impact on the Company’s consolidated financial position or results of operations.

3. Business Combinations

Alaska Pacific Bancshares, Inc.

On April 1, 2014, the Company completed the acquisition of 100% of the outstanding shares of Alaska Pacific Bancshares, Inc. ("Alaska Pacific") for a total purchase price of $13.9 million, which was comprised of the issuance of 290,212 shares of the Company’s common stock (at a volume weighted average closing price of $25.66 per share) and $6.4 million in cash. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting and were recorded at their estimated fair values as of the April 1, 2014 acquisition date. Estimated fair values recorded in the transaction were subject to change for up to one year after the closing date of the acquisition. The primary reason for the acquisition was to expand the Company's geographic footprint in Alaska.

The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain of $170,000 and a core deposit intangible of $623,000, or 0.5% of core deposits. The bargain purchase gain represents the excess of the estimated fair value of the net assets acquired in excess of the purchase price and is included in Other Income in the Consolidated Statements of Income in this Form 10-Q. This acquisition resulted in a bargain purchase gain primarily due to the inclusion of certain adjustments to the purchase price for potential risks identified by the Company during the due diligence and price negotiation stages of the acquisition that were concluded in October of 2013. The Company has concluded that the potential risks identified at that time do not represent a liability to the Company and, accordingly, they have not been allocated any value in the application of the acquisition method of accounting.

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

(In Thousands)	Alaska Pacific April 1, 2014	
Cost basis net assets	$14,733	
Cash payment made	(6,423	)
Common stock issued	(7,446	)
Fair value adjustments:		
Net loans	(1,137	)
Premises and equipment	547	
Other intangible assets	623	
Mortgage servicing rights	(119	)
Deposits	(844	)
Other	236	
Bargain purchase gain	$170	

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

(In Thousands)	Alaska Pacific April 1, 2014
Assets Acquired:	
Cash and equivalents	$12,956
Investment securities	7,240
Loans	138,432
Premises and equipment	3,436
Other intangibles	623
Mortgage servicing rights	1,170
Other real estate owned	1,709
Other assets	1,645
Total assets acquired	$167,211
Liabilities Assumed:	
Deposits	$151,438
Other liabilities	1,734
Total liabilities assumed	$153,172

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

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

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

Purchased credit impaired loans at acquisition are presented below:

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

The acquisition of Alaska Pacific is not considered significant to the Company’s financial statements. The operations of Alaska Pacific are included in our operating results from April 1, 2014, and the Company estimates that these operations added revenue of $3.9 million, non-interest expense of $2.7 million, and net income of $1.2 million, before taxes, for the six months ended June 30, 2015. Alaska Pacific’s results of operations prior to the acquisition are not included in our operating results. Additionally, merger-related costs of $615,000 for the six months ended June 30, 2014 were incurred and expensed in connection with the acquisition of Alaska Pacific and recognized within the merger and acquisition expense on the Consolidated Statements of Income.

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

(In Thousands, except earnings per share data)	Six Months Ended June 30, 2014			
	Company	Alaska Pacific[1]	Pro Forma Adjustments	Pro Forma Combined
Net interest and other income	$31,484	$2,095	($10)[2]	$33,569
Net income attributable to Northrim BanCorp, Inc.	7,027	(1,282)	123[3]	5,868
Earnings Per Share, Basic	$1.05			$0.84
Earnings Per Share, Diluted	$1.04			$0.83
Weighted Average Shares Outstanding, Basic	6,683,897			6,974,109
Weighted Average Shares Outstanding, Diluted	6,774,434			7,064,646

1 Alaska Pacific represents results from January 1 to March 31 for 2014.

2 Amount of amortization/ accretion of the fair value adjustments on loans and certificates of deposit.

3 Amount of amortization/accretion of the fair value adjustments on loans and certificates of deposit, bargain purchase gain, amortization of core deposit intangible, and the change in the provision for income taxes.

Residential Mortgage Holding Company, LLC

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

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

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

The purchase agreement provides for these earn-out payments as a portion of the purchase price to be paid to the sellers in future periods, contingent on future events. Therefore the Company included an estimate of the acquisition-date fair value of the contingent consideration of $7.3 million as part of the cost of the combination. The accounting treatment of the contingent consideration to be paid to those of the sellers who continue employment with the Company was evaluated to determine whether the amounts represent purchase consideration or a separate transaction, such as post-transaction employee compensation. Factors evaluated require significant judgment and include, among other factors; consideration of the terms of continuing employment, levels of post-transaction compensation, ownership interest of the sellers/employees, linkage of the contingent consideration to the transaction date combination valuation, and any other agreements or matters related to the transaction.
Based on an evaluation of the factors surrounding the transaction and the terms of the purchase agreement, the amount due under the earn-out provision was accounted for as acquisition consideration. The Company concluded that the contingent consideration to be paid to the sellers/employees was a significant component of the transaction date valuation of the acquired business. The calculation of the contingent payment was based upon factors established at the date of the transaction to be paid upon meeting the established earnings criteria of RML. The post transaction employment arrangements of the continuing employees are at market rates, and the formula for determining the contingent consideration is consistent with the business valuation methodologies, based upon a multiplier of earnings recognized from RML for five twelve month periods following the acquisition.

For the six month period ended June 30, 2015, the Company recorded an adjustment to increase the contingent liability by $2.2 million. The increase in the contingent liability resulted from the excess of RML's pretax income from December 1, 2014 through the end of the second quarter of 2015 over and above estimates made at the close of the purchase of RML. The adjustment to the contingent liability for estimated future earn-out payments is recorded in the line item titled "Change in fair value, RML earn-out liability" in other operating expense on the Consolidated

Statements of Income. The total contingent liability as of June 30, 2015 is $9.5 million.

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

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

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

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

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

The operations of RML are included in our operating results from December 1, 2014, and added revenue of $15.4 million, non-interest expense of $10.9 million, and net income of $4.6 million, before taxes, for the six month period ended June 30, 2015. RML’s results of operations prior to the December 1, 2014 acquisition are included in our operating results under the equity method. Additionally, merger-related costs of $90,000 for the six-month period ended June 30, 2014 were incurred and expensed in connection with the acquisition of RML and recognized within the merger and acquisition expense on the Consolidated Statements of Income.

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

(In Thousands, except earnings per share data)	Six Months Ended June 30, 2014			
	Company	RML[1]	Pro Forma Adjustments	Pro Forma Combined
Net interest and other income	$31,484	$11,171 [2]	($198) [3]	$42,457
Net income attributable to Northrim BanCorp, Inc.	7,027	1,760	2,857 [4]	11,644
Earnings Per Share, Basic	$1.05			$1.74
Earnings Per Share, Diluted	$1.04			$1.72
Weighted Average Shares Outstanding, Basic	6,683,897			6,683,897
Weighted Average Shares Outstanding, Diluted	6,774,434			6,774,434

[1] RML represents results from January 1 to June 30.
[2] 2014 amount is comprised of net interest income of $160,000 and $11.0 million of other income.
[3] Amount of accretion of the fair value adjustments on loans and income recognized under the equity method prior to the December 2014 acquisition.
[4] Amount of accretion of the fair value adjustments on loans, income recognized under the equity method, gain on acquisition, earn out accretion, and the change in the provision for income taxes.

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

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

(In Thousands, except earnings per share data)	Six Months Ended June 30, 2014				
	Company	Alaska Pacific[1]	RML[2]	Pro Forma Adjustments	Pro Forma Combined
Net interest and other income	$31,484	$2,095	$11,171 [3]	($218) [4]	$44,532
Net income attributable to Northrim BanCorp, Inc.	7,027	(1,282)	1,760	2,980 [5]	10,485
Earnings Per Share, Basic	$1.05				$1.50
Earnings Per Share, Diluted	$1.04				$1.48
Weighted Average Shares Outstanding, Basic	6,683,897				6,974,109
Weighted Average Shares Outstanding, Diluted	6,774,434				7,064,646

[1] Alaska Pacific represents results from January 1 to March 31 for 2014.
[2] RML represents results from January 1 to June 30.
[3] 2014 amount is comprised of net interest income of $160,000 and $11.0 million of other income.
[4] Amount of amortization/ accretion of the fair value adjustments on loans and certificates of deposit for Alaska Pacific and amount of accretion of the fair value adjustments on loans and income recognized under the equity method prior to the December 2014 acquisition for RML.

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

4. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with other banks, banker's acceptances, commercial paper, securities purchased under agreement to resell, federal funds sold, and securities with maturities of less than 90 days at acquisition. As of June 30, 2015, the Company had no certificate of deposit in another bank with original maturity greater than 90 days. Cash and cash equivalent balances placed with the Federal Reserve of San Francisco is the only concentration representing more than 10% of the Company's equity.

5. Investment Securities

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

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
Securities available for sale				
U.S. Treasury and government sponsored entities	$172,748	$549	$52	$173,245
Municipal securities	11,191	187	5	11,373
U.S. Agency mortgage-backed securities	924	3	1	926
Corporate bonds	38,971	326	—	39,297
Preferred stock	1,008	19	—	1,027
Total securities available for sale	$224,842	$1,084	$58	$225,868
Securities held to maturity				
Municipal securities	$2,197	$74	$—	$2,271
Total securities held to maturity	$2,197	$74	$—	$2,271
December 31, 2014				
Securities available for sale				
U.S. Treasury and government sponsored entities	$226,624	$105	$539	$226,190
Municipal securities	11,843	285	4	12,124
U.S. Agency mortgage-backed securities	1,024	6	1	1,029
Corporate bonds	38,820	415	—	39,235
Preferred stock	2,999	153	—	3,152
Total securities available for sale	$281,310	$964	$544	$281,730
Securities held to maturity				
Municipal securities	$2,201	$107	$—	$2,308
Total securities held to maturity	$2,201	$107	$—	$2,308

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2015 and December 31, 2014 were as follows:

	Less Than 12 Months		More Than 12 Months		Total	
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2015:						
Securities Available for Sale						
U.S. Treasury and government sponsored entities	$56,109	$52	$—	$—	$56,109	$52
Municipal Securities	3,142	4	81	1	3,223	5
Mortgage-backed Securities	325	1	—	—	325	1
Total	$59,576	$57	$81	$1	$59,657	$58
December 31, 2014:						
Securities Available for Sale						
U.S. Treasury and government sponsored entities	$165,004	$539	$—	$—	$165,004	$539
Municipal Securities	567	4	—	—	567	4
Mortgage-backed Securities	117	1	—	—	117	1
Total	$165,688	$544	$—	$—	$165,688	$544

There were twenty and twenty-nine available-for-sale securities with unrealized losses as of June 30, 2015 and December 31, 2014, respectively, that have been in a loss position for less than twelve months. There were two and no securities as of June 30, 2015 and December 31, 2014 that have been in an unrealized loss position for more than twelve months. The contractual terms of the investments in a loss position do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company does not intend to sell, nor is it required to sell these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

At June 30, 2015, $57.5 million in securities, or 25%, of the investment portfolio was pledged for deposits and borrowings, as compared to $54.1 million, or 19%, at December 31, 2014. We held no securities of any single issuer (other than government sponsored entities) that exceeded 10% of our shareholders' equity at June 30, 2015 and December 31, 2014.

The amortized cost and fair values of debt securities at June 30, 2015, are distributed by contractual maturity as shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Although preferred stock has no stated maturity, it is aggregated in the calculation of weighted average yields presented below in the category of investments that mature in ten years or more.

(In Thousands)	Amortized Cost	Fair Value	Weighted Average Yield	
US Treasury and government sponsored entities				
1-5 years	$172,748	$173,245	1.19	%
Total	$172,748	$173,245	1.19	%
U.S. Agency mortgage-backed securities				
1-5 years	$44	$44	2.19	%
5-10 years	271	271	3.14	%
Over 10 years	609	611	2.87	%
Total	$924	$926	2.91	%
Corporate bonds				
Within 1 year	$10,623	$10,733	1.92	%
1-5 years	28,348	28,564	1.24	%
Total	$38,971	$39,297	1.43	%
Preferred stock				
Over 10 years	$1,008	$1,027	4.15	%
Total	$1,008	$1,027	4.15	%
Municipal securities				
Within 1 year	$661	$671	2.63	%
1-5 years	7,817	7,951	2.45	%
5-10 years	4,910	5,022	4.54	%
Total	$13,388	$13,644	3.22	%

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

(In Thousands)	Proceeds	Gross Gains	Gross Losses
2015			
Available for sale securities	$2,621	$130	$—
2014			
Available for sale securities	$23,588	$450	$4

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

(In Thousands)	2015	2014
US Treasury and government sponsored entities	$1,120	$775
U.S. Agency mortgage-backed securities	13	9
Other	344	488
Total taxable interest income	$1,477	$1,272
Municipal securities	$167	$208
Total tax-exempt interest income	$167	$208
Total	$1,644	$1,480

6. Loans Held for Sale

The Company acquired the remaining 76.5% of RML on December 1, 2014. RML originates 1-4 family residential mortgages and sells them to the secondary market. These loans are shown as loans held for sale on the Company's Consolidated Balance Sheet. RML originated $392.8 million and sold $363.1 million in loans during the six-month period ending June 30, 2015. Prior to December 1, 2014, the Company had a 23.5% ownership interest in RML and purchased residential loans from them. The Company then sold these loans in the secondary market. The Company purchased $75.9 million and sold $73.0 million in loans from RML during the six-month period ending June 30, 2014.

7. Loans

The following table presents total portfolio loans by portfolio segment and class of financing receivable, based on our asset quality rating ("AQR") criteria:

(In Thousands)	Commercial	Real estate construction one-to-four family	Real estate construction other	Real estate term owner occupied	Real estate term non-owner occupied	Real estate term other	Consumer secured by 1st deeds of trust	Consumer other	Total
June 30, 2015									
AQR Pass	$318,663	$38,233	$101,683	$105,213	$291,900	$38,139	$28,658	$30,397	$952,886
AQR Special Mention	765	—	—	751	2,077	223	194	85	4,095
AQR Substandard	14,753	—	—	5,281	1,636	149	476	32	22,327
AQR Doubtful	—	—	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—	—	—
Subtotal	$334,181	$38,233	$101,683	$111,245	$295,613	$38,511	$29,328	$30,514	$979,308
Less: Unearned origination fees, net of origination costs									(4,459)
Total loans									$974,849
December 31, 2014									
AQR Pass	$291,020	$34,651	$91,195	$103,049	$282,774	$36,705	$31,118	$31,399	$901,911
AQR Special Mention	11,618	—	—	5,817	2,095	39	396	47	20,012
AQR Substandard	3,905	191	—	606	1,747	150	486	47	7,132
AQR Doubtful	—	—	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—	—	—
Subtotal	$306,543	$34,842	$91,195	$109,472	$286,616	$36,894	$32,000	$31,493	$929,055
Less: Unearned origination fees, net of origination costs									(4,551)
Total loans									$924,504

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

Nonaccrual loans totaled $5.0 million and $4.7 million at June 30, 2015 and December 31, 2014, respectively. Nonaccrual loans at the periods indicated, by segment, are presented below:

(In Thousands)	June 30, 2015	December 31, 2014
Commercial	$3,049	$2,031
Real estate construction one-to-four family	—	191
Real estate term owner occupied	43	135
Real estate term non-owner occupied	1,636	1,746
Real estate term other	—	39
Consumer secured by 1st deeds of trust	312	485
Consumer other	—	47
Total	$5,040	$4,674

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

(In Thousands)	30-59 Days Past Due Still Accruing	60-89 Days Past Due Still Accruing	Greater Than 90 Days Still Accruing	Nonaccrual	Total Past Due	Current	Total
June 30, 2015							
AQR Pass	$79	$57	$—	$—	$136	$952,750	$952,886
AQR Special Mention	189	—	—	—	189	3,906	4,095
AQR Substandard	—	4	—	5,040	5,044	17,283	22,327
AQR Doubtful	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—
Subtotal	$268	$61	$—	$5,040	$5,369	$973,939	$979,308
Less: Unearned origination fees, net of origination costs							(4,459)
Total							$974,849
December 31, 2014							
AQR Pass	$696	$545	$—	$—	$1,241	$900,670	$901,911
AQR Special Mention	—	—	—	—	—	20,012	20,012
AQR Substandard	40	—	—	4,674	4,714	2,418	7,132
AQR Doubtful	—	—	—	—	—	—	—
AQR Loss	—	—	—	—	—	—	—
Subtotal	$736	$545	$—	$4,674	$5,955	$923,100	$929,055
Less: Unearned origination fees, net of origination costs							(4,551)
Total							$924,504

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

At June 30, 2015 and December 31, 2014, the recorded investment in loans that are considered to be impaired was $26.3 million and $11.3 million, respectively. The following table presents information about impaired loans by class as of the periods indicated:

(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
June 30, 2015			
With no related allowance recorded			
Commercial - AQR special mention	$163	$163	$—
Commercial - AQR substandard	11,992	12,137	—
Real estate construction other - AQR pass	731	731	—
Real estate term owner occupied- AQR pass	764	764	—
Real estate term owner occupied- AQR substandard	5,238	5,238	—
Real estate term non-owner occupied- AQR pass	540	540	—
Real estate term non-owner occupied- AQR special mention	2,070	2,070	—
Real estate term non-owner occupied- AQR substandard	1,636	1,636	—
Real estate term other - AQR substandard	149	149	—
Consumer secured by 1st deeds of trust - AQR pass	79	79	—
Consumer secured by 1st deeds of trust - AQR substandard	439	439	—
Subtotal	$23,801	$23,946	$—
With an allowance recorded			
Commercial - AQR substandard	$2,544	$2,544	$265
Subtotal	$2,544	$2,544	$265
Total			
Commercial - AQR special mention	$163	$163	$—
Commercial - AQR substandard	14,536	14,681	265
Real estate construction other - AQR pass	731	731	—
Real estate term owner-occupied - AQR pass	764	764	—
Real estate term owner-occupied - AQR substandard	5,238	5,238	—
Real estate term non-owner occupied - AQR pass	540	540	—
Real estate term non-owner occupied - AQR special mention	2,070	2,070	—
Real estate term non-owner occupied - AQR substandard	1,636	1,636	—
Real estate term other - AQR substandard	149	149	—
Consumer secured by 1st deeds of trust - AQR pass	79	79	—
Consumer secured by 1st deeds of trust - AQR substandard	439	439	—
Total	$26,345	$26,490	$265

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

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

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

Three Months Ended June 30,	2015		2014	
(In Thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Commercial - AQR pass	$—	$—	$63	$1
Commercial - AQR special mention	164	3	351	9
Commercial - AQR substandard	12,315	41	2,546	4
Real estate construction other - AQR pass	743	30	—	—
Real estate term owner occupied- AQR pass	766	17	508	15
Real estate term owner occupied- AQR special mention	—	—	363	4
Real estate term owner occupied- AQR substandard	5,269	19	1,414	14
Real estate term non-owner occupied- AQR pass	541	19	614	36
Real estate term non-owner occupied- AQR special mention	2,079	44	3,234	25
Real estate term non-owner occupied- AQR substandard	1,652	—	2,055	—
Real estate term other - AQR special mention	—	—	1,161	47
Real estate term other - AQR substandard	149	3	153	4
Consumer secured by 1st deeds of trust - AQR pass	80	1	85	—
Consumer secured by 1st deeds of trust - AQR substandard	444	4	379	—
Consumer other - AQR substandard	—	—	55	—
Subtotal	$24,202	$181	$12,981	$159
With an allowance recorded				
Commercial - AQR substandard	$2,414	$—	$—	$—
Consumer secured by 1st deeds of trust - AQR substandard	—	—	351	—
Subtotal	$2,414	$—	$351	$—
Total				
Commercial - AQR pass	$—	$—	$63	$1
Commercial - AQR special mention	$164	$3	$351	$9
Commercial - AQR substandard	14,729	41	2,546	4
Real estate construction other - AQR pass	743	30	—	—
Real estate term owner-occupied - AQR pass	766	17	508	15
Real estate term owner-occupied - AQR special mention	—	—	363	4
Real estate term owner-occupied - AQR substandard	5,269	19	1,414	14
Real estate term non-owner occupied - AQR pass	541	19	614	36
Real estate term non-owner occupied - AQR special mention	2,079	44	3,234	25
Real estate term non-owner occupied - AQR substandard	1,652	—	2,055	—
Real estate term other - AQR special mention	—	—	1,161	47
Real estate term other - AQR substandard	149	3	153	4
Consumer secured by 1st deeds of trust - AQR pass	80	1	85	—
Consumer secured by 1st deeds of trust - AQR substandard	444	4	730	—
Consumer other - AQR substandard	—	—	55	—
Total Impaired Loans	$26,616	$181	$13,332	$159

Six Months Ended June 30,	2015		2014	
(In Thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Commercial - AQR pass	$—	$—	$32	$1
Commercial - AQR special mention	166	7	242	10
Commercial - AQR substandard	7,703	70	1,476	8
Real estate construction one-to-four family - AQR special mention	—	—	176	6
Real estate construction other - AQR pass	753	59	—	—
Real estate construction other - AQR special mention	—	—	409	29
Real estate term owner occupied- AQR pass	634	28	509	27
Real estate term owner occupied- AQR special mention	135	5	322	9
Real estate term owner occupied- AQR substandard	2,967	28	1,143	27
Real estate term non-owner occupied- AQR pass	544	38	616	55
Real estate term non-owner occupied- AQR special mention	2,127	88	2,113	40
Real estate term non-owner occupied- AQR substandard	2,009	—	1,033	—
Real estate term other - AQR special mention	—	—	584	47
Real estate term other - AQR substandard	149	7	154	7
Consumer secured by 1st deeds of trust - AQR pass	81	2	86	2
Consumer secured by 1st deeds of trust - AQR substandard	560	4	190	—
Consumer other - AQR substandard	—	—	58	—
Subtotal	$17,828	$336	$9,143	$268
With an allowance recorded				
Commercial - AQR special mention	$—	$—	$92	$6
Commercial - AQR substandard	2,330	—	298	—
Real estate term other - AQR substandard	141	—	—	—
Consumer secured by 1st deeds of trust - AQR substandard	—	—	268	—
Subtotal	$2,471	$—	$658	$6

Total				
Commercial - AQR pass	$—	$—	$32	$1
Commercial - AQR special mention	$166	$7	$334	$16
Commercial - AQR substandard	10,033	70	1,774	8
Real estate construction one-to-four family - AQR special mention	—	—	176	6
Real estate construction other - AQR pass	753	59	—	—
Real estate construction other - AQR special mention	—	—	409	29
Real estate term owner-occupied - AQR pass	634	28	509	27
Real estate term owner-occupied - AQR special mention	135	5	322	9
Real estate term owner-occupied - AQR substandard	2,967	28	1,143	27
Real estate term non-owner occupied - AQR pass	544	38	616	55
Real estate term non-owner occupied - AQR special mention	2,127	88	2,113	40
Real estate term non-owner occupied - AQR substandard	2,009	—	1,033	—
Real estate term other - AQR special mention	—	—	584	47
Real estate term other - AQR substandard	290	7	154	7
Consumer secured by 1st deeds of trust - AQR pass	81	2	86	2
Consumer secured by 1st deeds of trust - AQR substandard	560	4	458	—
Consumer other - AQR substandard	—	—	58	—
Total Impaired Loans	$20,299	$336	$9,801	$274

As described in Note 3 above, the Company acquired 18 purchased credit impaired loans from Alaska Pacific on April 1, 2014 subject to the requirements of FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality. This group of loans consists primarily of commercial and commercial real estate loans, and unlike a pool of consumer mortgages, it is not practicable for the Company to analyze the accretable yield of these loans. As such, the Company has elected the cost recovery method of income recognition for these loans, and thus no accretable difference has been identified for these loans. At the acquisition date, April 1, 2014, the fair value of this group of loans was $3.9 million. The carrying value of these loans as of June 30, 2015 is $2.6 million.

Loans classified as troubled debt restructurings (“TDR”) totaled $9.0 million and $7.7 million at June 30, 2015 and December 31, 2014, respectively. A TDR is a loan to a borrower that is experiencing financial difficulty that has been modified from its original terms and conditions in such a way that the Company is granting the borrower a concession that it would not grant otherwise. The Company has granted a variety of concessions to borrowers in the form of loan modifications. The modifications granted can generally be described in the following categories:

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

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

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

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

AQR pass graded loans included above in the impaired loan data are loans classified as TDRs. By definition, TDRs are considered impaired loans. All of the Company's TDRs are included in impaired loans.

The following table presents the breakout between newly restructured loans that occurred during the six months ended June 30, 2015 and restructured loans that occurred prior to 2015 that are still included in portfolio loans:

(In Thousands)	Accrual Status	Nonaccrual Status	Total Modifications
New Troubled Debt Restructurings			
Commercial - AQR substandard	$202	$1,240	$1,442
Subtotal	$202	$1,240	$1,442
Existing Troubled Debt Restructurings	$5,534	$1,979	$7,513
Total	$5,736	$3,219	$8,955

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

		June 30, 2015				
(In Thousands)	Number of Contracts	Rate Modification	Term Modification	Payment Modification	Combination Modification	Total Modifications
Pre-Modification Outstanding Recorded Investment:						
Commercial - AQR substandard	3	$—	$—	$—	$1,035	$1,035
Total	3	$—	$—	$—	$1,035	$1,035
Post-Modification Outstanding Recorded Investment:						
Commercial - AQR substandard	3	$—	$—	$—	$1,442	$1,442
Total	3	$—	$—	$—	$1,442	$1,442

The Company had no commitments to extend additional credit to borrowers whose terms have been modified in TDRs. There were no charge offs in the six months ended June 30, 2015 on loans that were later classified as TDRs. All TDRs are also classified as impaired loans and are included in the loans individually evaluated for impairment in the calculation of the Allowance. There were two TDRs with a total recorded investment of $1.4 million and a specific impairment amount totaling $111,000 at June 30, 2015 and no TDRs with specific impairment at December 31, 2014, respectively.

The loans in the following table are past due, and they are nonaccrual loans. The following table presents TDRs that occurred during the last twelve months that subsequently defaulted, for the periods ending June 30, 2015 and 2014, respectively:

		June 30, 2015		June 30, 2014
(In Thousands)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Troubled Debt Restructurings that Subsequently Defaulted:				
Real estate construction one-to-four family - AQR special mention	—	$—	1	$353
Total	—	$—	1	$353

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

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8. Allowance for Loan Losses

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

Three Months Ended June 30,	Commercial	Real estate construction one-to-four family	Real estate construction other	Real estate term owner occupied	Real estate term non-owner occupied	Real estate term other	Consumer secured by 1st deed of trust	Consumer other	Unallocated	Total
2015										
Balance, beginning of period	$6,091	$757	$1,663	$1,570	$4,794	$756	$274	$402	$640	$16,947
Charge-Offs	—	—	—	—	—	—	—	—	—	—
Recoveries	91	—	—	—	—	—	—	4	—	95
Provision (benefit)	(495)	(68)	200	(100)	94	(85)	(9)	9	830	376
Balance, end of period	$5,687	$689	$1,863	$1,470	$4,888	$671	$265	$415	$1,470	$17,418
Balance, end of period: Individually evaluated for impairment	$265	$—	$—	$—	$—	$—	$—	$—	$—	$265
Balance, end of period: Collectively evaluated for impairment	$5,422	$689	$1,863	$1,470	$4,888	$671	$265	$415	$1,470	$17,153
2014										
Balance, beginning of period	$5,657	$513	$623	$1,407	$4,293	$655	$313	$384	$2,187	$16,032
Charge-Offs	—	—	—	—	—	—	(39)	(24)	—	(63)
Recoveries	576	613	—	—	—	—	—	10	—	1,199
Provision (benefit)	(1,099)	(556)	207	(23)	(169)	(13)	(2)	—	519	(1,136)
Balance, end of period	$5,134	$570	$830	$1,384	$4,124	$642	$272	$370	$2,706	$16,032
Balance, end of period: Individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$14	$—	$—	$14
Balance, end of period: Collectively evaluated for impairment	$5,134	$570	$830	$1,384	$4,124	$642	$258	$370	$2,706	$16,018

Six Months Ended June 30,	Commercial	Real estate construction one-to-four family	Real estate construction other	Real estate term owner occupied	Real estate term non-owner occupied	Real estate term other	Consumer secured by 1st deed of trust	Consumer other	Unallocated	Total
2015										
Balance, beginning of period	$5,643	$644	$1,653	$1,580	$4,704	$656	$285	$410	$1,148	$16,723
Charge-Offs	(107)	—	—	—	—	(81)	—	—	—	(188)
Recoveries	158	—	—	—	—	17	—	6	—	181
Provision (benefit)	(7)	45	210	(110)	184	79	(20)	(1)	322	702
Balance, end of period	$5,687	$689	$1,863	$1,470	$4,888	$671	$265	$415	$1,470	$17,418
Balance, end of period: Individually evaluated for impairment	$265	$—	$—	$—	$—	$—	$—	$—	$—	$265
Balance, end of period: Collectively evaluated for impairment	$5,422	$689	$1,863	$1,470	$4,888	$671	$265	$415	$1,470	$17,153
2014										
Balance, beginning of period	$5,779	$557	$539	$1,583	$4,297	$537	$322	$390	$2,278	$16,282
Charge-Offs	(320)	—	—	—	—	—	(39)	(33)	—	(392)
Recoveries	630	625	—	—	—	—	—	23	—	1,278
Provision (benefit)	(955)	(612)	291	(199)	(173)	105	(11)	(10)	428	(1,136)
Balance, end of period	$5,134	$570	$830	$1,384	$4,124	$642	$272	$370	$2,706	$16,032
Balance, end of period: Individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$14	$—	$—	$14
Balance, end of period: Collectively evaluated for impairment	$5,134	$570	$830	$1,384	$4,124	$642	$258	$370	$2,706	$16,018

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

(In Thousands)	Commercial	Real estate construction one-to-four family	Real estate construction other	Real estate term owner occupied	Real estate term non-owner occupied	Real estate term other	Consumer secured by 1st deed of trust	Consumer other	Total
June 30, 2015									
Balance, end of period	$334,181	$38,233	$101,683	$111,245	$295,613	$38,511	$29,328	$30,514	$979,308
Balance, end of period: Individually evaluated for impairment	$14,699	$—	$731	$6,002	$4,246	$149	$518	$—	$26,345
Balance, end of period: Collectively evaluated for impairment	$319,482	$38,233	$100,952	$105,243	$291,367	$38,362	$28,810	$30,514	$952,963
December 31, 2014									
Balance, end of period	$306,543	$34,842	$91,195	$109,472	$286,616	$36,894	$32,000	$31,493	$929,055
Balance, end of period: Individually evaluated for impairment	$3,976	$191	$772	$1,332	$4,346	$150	$530	$—	$11,297
Balance, end of period: Collectively evaluated for impairment	$302,567	$34,651	$90,423	$108,140	$282,270	$36,744	$31,470	$31,493	$917,758

The following represents the balance of the Allowance for the periods indicated segregated by segment and class:

(In Thousands)	Total	Commercial	Real estate construction 1-4 family	Real estate construction other	Real estate term owner occupied	Real estate term non-owner occupied	Real estate term other	Consumer secured by 1st deeds of trust	Consumer other	Unallocated
June 30, 2015										
Individually evaluated for impairment										
AQR Substandard	$265	$265	$—	$—	$—	$—	$—	$—	$—	$—
Collectively evaluated for impairment:										
AQR Pass	15,602	5,385	689	1,863	1,444	4,888	667	262	404	—
	60	25	—	—	26	—	4	3	2	—

AQR Special Mention										
AQR Substandard	21	12	—	—	—	—	—	—	9	—
Unallocated	1,470	—	—	—	—	—	—	—	—	1,470
	$17,418	$5,687	$689	$1,863	$1,470	$4,888	$671	$265	$415	$1,470
December 31, 2014										
Individually evaluated for impairment:										
AQR Substandard	$75	$75	$—	$—	$—	$—	$—	$—	$—	$—
Collectively evaluated for impairment:										
AQR Pass	14,643	4,938	644	1,653	1,382	4,703	651	278	394	—
AQR Special Mention	832	621	—	—	198	—	5	7	1	—
AQR Substandard	25	9	—	—	—	1	—	—	15	—
Unallocated	1,148	—	—	—	—	—	—	—	—	1,148
	$16,723	$5,643	$644	$1,653	$1,580	$4,704	$656	$285	$410	$1,148

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9. Purchased Receivables

Purchased receivables are carried at their principal amount outstanding, net of a reserve for anticipated losses that have not yet been identified, and have a maturity of less than one year. Purchased receivable balances are charged against this reserve when management believes that collection of principal is unlikely. Management evaluates the adequacy of the reserve for purchased receivable losses based on historical loss experience by class of receivable and its assessment of current economic conditions. As of June 30, 2015, the Company has one class of purchased receivables. There were no purchased receivables past due at June 30, 2015 or December 31, 2014, respectively, and there were no restructured purchased receivables at June 30, 2015 or December 31, 2014.

Income on purchased receivables is accrued and recognized on the principal amount outstanding using an effective interest method except when management believes doubt exists as to the collectability of the income or principal. As of June 30, 2015, the Company is accruing income on all purchased receivable balances outstanding.

The following table summarizes the components of net purchased receivables for the periods indicated:

(In Thousands)	June 30, 2015	December 31, 2014
Purchased receivables	$14,295	$15,543
Reserve for purchased receivable losses	(247)	(289)
Total	$14,048	$15,254

The following table sets forth information regarding changes in the purchased receivable reserve for the three and six month periods ending June 30, 2015 and 2014, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2015	2014	2015	2014
Balance at beginning of period	$265	$236	$289	$273
Charge-offs	—	(239)	—	(239)
Recoveries	—	3	30	3
Charge-offs net of recoveries	—	(236)	30	(236)
Reserve for (recovery from) purchased receivables	(18)	243	(72)	206
Balance at end of period	$247	$243	$247	$243

The Company did not record any charge-offs in the first six months of 2015. The Company recorded one partial charge-off for $214,000 and one full charge-off for $25,000 in the first six months of 2014.

10. Goodwill and Intangible Assets

The Company acquired Alaska Pacific on April 1, 2014. The Company did not record goodwill related to the acquisition of Alaska Pacific. The Company recorded a core deposit intangible of $623,000 related to deposits acquired from Alaska Pacific that will be amortized over its estimated useful life of ten years using an accelerated method. See Note 3 above for further discussion of this transaction.

The Company acquired the remaining 76.5% of RML on December 1, 2014. The Company recorded $14.8 million of goodwill and $950,000 of trade name intangible as part of the acquisition of RML. These assets have indefinite useful lives and are not amortized. See Note 3 above for further discussion of this transaction.

The Company performs goodwill impairment testing annually in accordance with the policy described in Note 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. There was no indication of impairment as of June 30, 2015. The Company continues to monitor the Company’s goodwill for potential impairment on an ongoing basis. No assurance can be given that there will not be an impairment charge to earnings during 2015 for goodwill impairment, if, for example, our stock price declines and trades at a significant discount to its book value, although there are many qualitative and quantitative factors that we analyze in determining the impairment of goodwill.

11. Deposit Activities

Total deposits at June 30, 2015 and December 31, 2014 were $1.2 billion and $1.2 billion, respectively. The only deposit category with stated maturity dates is certificates of deposit. At June 30, 2015, the Company had $149.0 million in certificates of deposit as compared to certificates of deposit of $142.2 million at December 31, 2014. At June 30, 2015, $76.2 million, or 51%, of the Company's certificates of deposits are scheduled to mature over the next 12 months as compared to $81.9 million, or 58%, of total certificates of deposit at December 31, 2014.

12. Derivatives

The Company enters into commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement that effectively converts the customer's variable rate loan into a fixed rate. The Company then simultaneously enters into a corresponding swap agreement with a third party financial institution ("counterparty") in order to offset its exposure on the fixed component of the customer's interest rate swap. The Company has an agreement with its counterparty that contains a provision that provides that if the Company fails to maintain its status as a well-capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreement. This agreement also requires that the Company and the counterparty collateralize any fair value shortfalls that exceed $250,000 with eligible collateral, which includes cash and securities backed with the full faith and credit of the federal government. Similarly, the Company could be required to settle its obligations under the agreement if specific regulatory events occur, such as if the Company were issued a prompt corrective action directive or a cease and desist order, or if certain regulatory ratios fall below specified levels. The Company pledged $262,000 and zero in available for sale securities to collateralize fair value shortfalls on interest rate swap agreements as of June 30, 2015 and December 31, 2014, respectively.

The interest rate swap agreements with our customers and the counterparty are not designated as hedging instruments under the Derivatives and Hedging topic of the FASB ASC 815, rather they are accounted for as free standing derivatives with changes in fair value reported in income. The Company had interest rate swaps with an aggregate notional amount of $22.5 million and $23.6 million at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, the notional amount of interest rate swaps is made up of two swaps totaling $11.2 million, a variable to fixed rate swap to a commercial loan customer and two swaps totaling $11.2 million fixed to variable rate swap with a counterparty. Changes in fair value from these four interest rate swaps offset each other in the second quarter of 2015. The Company did not recognize any fee income related to interest rate swaps in the three month and six month periods ending June 30, 2015 or 2014, respectively. Interest rate swap income is recorded in other income on the Consolidated Statements of Income.

The Company also uses derivatives to hedge the risk of changes in the fair values of interest rate lock commitments. None of the Company's derivatives are designated as hedging instruments. Rather, they are accounted for as free-standing derivatives, or economic hedges, with changes in the fair value of the derivatives reported in income. The Company primarily utilizes forward interest rate contracts in its derivative risk management strategy.

RML enters into commitments to originate residential mortgage loans, and it enters into forward delivery contracts to sell mortgage-backed securities to broker/dealers at specific prices and dates in order to hedge the interest rate risk in its residential mortgage loan commitments. Market risk with respect to commitments to originate loans arises from changes in the value of contractual positions due to changes in interest rates. RML had commitments to originate mortgage loans held for sale totaling $87.5 million and $39.6 million at June 30, 2015 and December 31, 2014, respectively. Changes in the value of RML's interest rate derivatives are recorded in the mortgage banking income on the Consolidated Statements of Income.

The following table presents the fair value of derivatives not designated as hedging instruments at June 30, 2015 and December 31, 2014: