NORTHRIM BANCORP INC
Form 10-K
March 14, 2008

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT UNDER SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

Commission File Number 0-33501

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 Number)*

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

Registrant s Telephone Number, Including Area Code:
(907) 562-0062

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $1.00 Par Value
(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 C.F.R. 229.405) 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 amendments 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 common stock held by non-affiliates of registrant at June 30, 2007, was $152,994,008.

The number of shares of registrant s common stock outstanding at March 1, 2008, was 6,311,807.

Documents incorporated by reference and parts of Form 10-K into which incorporated: The portions of the Proxy Statement for Northrim BanCorp s Annual Shareholders Meeting to be held on May 1, 2008, referenced in Part III of this Form 10-K are incorporated by reference therein.

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Note Regarding Forward-Looking Statements

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements describe Northrim s management s expectations about future events and developments such as future operating results, growth in loans and deposits, continued success of Northrim 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 anticipates, believes, expects, intends and similar expressions in part to help identify forward-looking statements. Forward-looking statements reflect management s current 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 margins; and our ability to maintain asset quality. Further, actual results may be affected by our ability to compete 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 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.

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Northrim BanCorp, Inc.
About the Company

Overview

Northrim BanCorp, Inc. (the Company) is a publicly traded bank holding company with four wholly-owned subsidiaries, Northrim Bank (the Bank), a state chartered, full-service commercial bank; Northrim Investment Services Company (NISC), which we formed in November 2002 to hold the Company s equity interest in Elliott Cove Capital Management LLC, (Elliott Cove), an investment advisory services company; Northrim Capital Trust 1 (NCT1), an entity that we formed in May of 2003 to facilitate a trust preferred security offering by the Company; and Northrim Statutory Trust 2 (NST2), an entity that we formed in December of 2005 to facilitate a trust preferred security offering by the Company. We also hold a 24% interest in the profits and losses of a residential mortgage holding company, Residential Mortgage Holding Company LLC (RML Holding Company) through Northrim Bank s wholly-owned subsidiary, Northrim Capital Investments Co. (NCIC). The predecessor of RML Holding Company, Residential Mortgage LLC (RML), was formed in 1998 and has offices throughout Alaska. 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. 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. Finally, 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.

The Company is regulated by the Board of Governors of the Federal Reserve System, and the Bank is regulated by the Federal Deposit Insurance Corporation (FDIC), and the State of Alaska Department of Community and Economic Development, Division of Banking, Securities and Corporations. We began banking operations in Anchorage in December 1990, and formed the Company in connection with our reorganization into a holding company structure; that reorganization was completed effective December 31, 2001. We make our Securities Exchange Act reports available free of charge on our Internet web site, www.northrim.com. Our reports can also be obtained through the Securities and Exchange Commission s EDGAR database at www.sec.gov.

We opened for business in 1990 shortly after the dramatic consolidation of the Alaska banking industry in the late 1980s that left three large commercial banks with over 93% of commercial bank deposits in greater Anchorage. Through the successful implementation of our Customer First Service philosophy of providing our customers with the highest level of service, we capitalized on the opportunity presented by this consolidation and carved out a market niche among small business and professional customers seeking more responsive and personalized service.

We grew substantially in 1999 when we completed a public stock offering in which we raised $18.5 million and acquired eight branches from Bank of America. The Bank of America branch acquisition was completed in June 1999 and increased our outstanding loans by $114 million, our deposits by $124 million, and provided us fixed assets valued at $2 million, for a purchase price of $5.9 million, in addition to the net book value of the loans and fixed assets. The stock offering allowed us to achieve the Bank of America acquisition while remaining well-capitalized under bank regulatory guidelines.

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

See Note 1 Organization and Summary of Significant Accounting Policies and Note 2 Alaska First Acquisition for additional information about the Alaska First acquisition.

We have grown to be the third largest commercial bank in Anchorage and Alaska in terms of deposits, with $867.4 million in total deposits and over $1 billion in total assets at December 31, 2007. Through our 10 branches, we are accessible by approximately 65% of the Alaska population.

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

Fairbanks: We opened our financial center in Fairbanks, Alaska s second largest city, in mid-1996. This branch has given us a strong foothold in Interior Alaska, and management believes that there is significant potential to increase our share of that market. In 2007, we began construction of a second branch in the Fairbanks market that we plan to open in the second quarter of 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.

Elliott Cove Capital Management LLC

As of December 31, 2007, the Company owned a 48% equity interest in Elliott Cove, an investment advisory services company, through its wholly owned subsidiary, NISC. Elliott Cove began active operations in the fourth quarter of 2002 and has had start-up losses since that time as it continues to build its assets under management. In addition to its ownership interest, the Company provides Elliott Cove with a line of credit that has a committed amount of $750,000 and an outstanding balance of $665,000 as of December 31, 2007.

As of December 31, 2007, there are eight 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. In addition, as Elliott Cove builds its assets under management, we expect that it will reach a break-even point on a monthly basis on its operations in 2009.

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. During its third full year of operations in 2007, the employees of NFS expanded the base of their operations. In 2008, we expect NFS to continue to penetrate its market and increase its market share in the purchased receivables business and to continue to contribute to the Company s net income.

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, 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 2008, we plan to continue to support the HPC consumer and business checking products with a similar marketing and sales program in an effort to continue to expand our core deposits.

Business Strategies

In addition to our acquisition strategy, we are pursuing a strategy of aggressive internal growth. Our success will depend on our ability to manage our credit risks and control our costs while providing competitive products and services. To achieve our objectives, we are pursuing the following business strategies:

Providing Customer First Service: We believe that we provide a high level of customer service. Our guiding principle is to serve our market areas by operating with a Customer First Service philosophy, affording our customers the highest priority in all aspects of our operations. To achieve this objective, our management emphasizes the hiring and retention of competent and highly motivated employees at all levels of the organization. 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.

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 and may continue to increase lending and core deposit volumes.

Providing Competitive and Responsive Real Estate Lending: We estimate that we are a major land development and residential construction lender and an active lender in the commercial real estate market in our Alaskan markets. Management believes 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.

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

Developing a Sales Culture: In 2003, we conducted extensive sales training throughout the Company and developed a comprehensive approach to sales. Since then, we have continued with this sales training in all of our major customer contact areas. Our goal throughout this process is to increase and broaden the relationships that we have with new and existing customers and to continue to increase our market share within our existing markets.

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

Services

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 innovative deposit services and products are:

An indexed money market deposit account;

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

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

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

Lending Services: We are an active lender with an emphasis on commercial and real estate lending. We also believe we have a significant niche in construction and land development lending in Anchorage, Fairbanks, and the

Matanuska Valley (near Anchorage). To a lesser extent, we provide consumer loans. See Lending Activities.

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.

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Directors and Executive Officers: The following table presents the names and occupations of our directors and executive officers.

Executive Officers/Age	**Occupation**
*R. Marc Langland, 66	Chairman, President, & CEO of the Company and the Bank; Director, Alaska Air Group; Director, Usibelli Coal Mine, Inc.
*Christopher N. Knudson, 54	Executive Vice President and Chief Operating Officer of the Company and the Bank
Joseph M. Schierhorn, 50	Executive Vice President, Chief Financial Officer, and Compliance Manager of the Company and the Bank
Joseph M. Beedle, 56	Executive Vice President of the Company and Chief Lending Officer of the Bank
Steven L. Hartung, 61	Executive Vice President of the Company and Quality Assurance Officer of the Bank

*Indicates individual serving as both director and executive officer.

Directors/Age	**Occupation**
Larry S. Cash, 56	President and CEO, RIM Architects (Alaska), Inc.; CEO, RIM Architects (Guam), LLC.
Mark G. Copeland, 65	Owner and sole member of Strategic Analysis, LLC, a management consulting firm
Ronald A. Davis, 75	Former Vice President, Acordia of Alaska Insurance (full service insurance agency)
Anthony Drabek, 60	President and CEO, Natives of Kodiak, Inc. (Alaska Native Corporation), Chairman and President, Koncor Forest Products Co.; Secretary/Director, Atikon Forest Products Co.
Richard L. Lowell, 67	Former Chairman, Ribelin Lowell Alaska USA Insurance Brokers, Inc. (insurance brokerage firm)
Irene Sparks Rowan, 66	Former Chairman and Director, Klukwan, Inc. (Alaska Native Corporation) and its subsidiaries
John C. Swalling, 58	President, Swalling & Associates, P.C. (accounting firm)
David G. Wight, 67	Former President and CEO, Alyeska Pipeline Service Company, and Director, Storm Cat Energy Corporation

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Selected Financial Data

	2007	2006	2005	2004	2003
	Unaudited (In Thousands Except Per Share Amounts)				
Net interest income	$49,830	$47,522	$43,908	$41,271	$39,267
Provision for loan losses	5,513	2,564	1,170	1,601	3,567
Other operating income	9,820	7,658	4,833	3,792	6,089
Other operating expense	34,929	31,368	29,477	26,535	24,728
Income before income taxes and minority interest	19,208	21,248	18,094	16,927	17,061
Minority interest in subsidiaries	290	296			
Pre tax income	18,918	20,952	18,094	16,927	17,061
Income taxes	7,260	7,978	6,924	6,227	6,516
Net income	$11,658	$12,974	$11,170	$10,700	$10,545
Earnings per share:					
Basic	$1.82	$2.02	$1.70	$1.60	$1.60
Diluted	1.80	1.99	1.64	1.55	1.53
Cash dividends per share	0.57	0.45	0.40	0.36	0.31
Assets	$1,014,714	$925,620	$895,580	$800,726	$738,569
Loans	714,801	717,056	705,059	678,269	601,119
Deposits	867,376	794,904	779,866	699,061	646,197
Long-term debt	1,774	2,174	2,574	2,974	3,374
Junior subordinated debentures	18,558	18,558	18,558	8,000	8,000
Shareholders equity	101,391	95,418	84,474	83,358	75,285
Book value per share	$16.09	$15.61	$13.86	$13.01	$11.82
Tangible book value per share	$14.51	$14.48	$12.65	$11.97	$10.73
Net interest margin (tax equivalent)	5.89%	5.89%	5.66%	5.88%	6.04%
Efficiency ratio (cash)[1]	57.99%	55.97%	59.72%	58.07%	53.71%
Return on assets	1.24%	1.46%	1.33%	1.41%	1.50%
Return on equity	11.70%	14.45%	13.17%	13.50%	14.89%
Equity/assets	10.00%	10.31%	9.44%	10.41%	10.19%
Dividend payout ratio	30.54%	21.43%	22.92%	21.57%	19.04%
Nonperforming loans/portfolio loans	1.59%	0.92%	0.86%	0.97%	1.72%
Net charge-offs/average loans	0.86%	0.16%	0.18%	0.16%	0.33%
Allowance for loan losses/portfolio loans	1.64%	1.69%	1.52%	1.59%	1.70%

Nonperforming assets/assets	1.56%	0.79%	0.69%	0.82%	1.40%
Number of banking offices	10	10	10	10	10
Number of employees (FTE)	302	277	272	272	268

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

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

Years ended December 31,	2007	2006	2005	2004	2003
Net interest income[1]	$49,830	$47,522	$43,908	$41,271	$39,267
Noninterest income	9,820	7,658	4,833	3,792	6,089
Noninterest expense	34,929	31,368	29,477	26,535	24,728
Less intangible asset amortization	337	482	368	368	368
Adjusted noninterest expense	$34,592	$30,886	$29,109	$26,167	$24,360
Efficiency ratio	58.56%	56.85%	60.48%	58.88%	54.52%
Efficiency ratio (less intangible asset amortization)	57.99%	55.97%	59.72%	58.07%	53.71%
Tax rate	38%	38%	38%	37%	38%

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

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

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Management s Discussion and Analysis of Financial Condition and Results of Operation

Overview

We are a publicly traded bank holding company with four wholly-owned subsidiaries: the Bank, a state chartered, full-service commercial bank; NISC, a company formed to invest in both Elliott Cove, an investment advisory services company, and PWA, an investment advisory, trust and wealth management business located in Seattle, Washington; and NCT1 and NST2, entities formed to facilitate two trust preferred securities offerings. The Bank in turn has a wholly-owned subsidiary, NCIC, which has an interest in RML Holding Company, a residential mortgage holding company and NBG, an insurance brokerage company that provides employee benefit plans to businesses throughout Alaska. We are headquartered in Anchorage and have 10 branch locations, seven in Anchorage, and one each in Fairbanks, Eagle River, and Wasilla. The Bank also operates Northrim Funding Services, a division headquartered in Bellevue, Washington with operations in the Washington and Oregon markets. We offer a wide array of commercial and consumer loan and deposit products, investment products, and electronic banking services over the Internet.

We opened the Bank for business in Anchorage in 1990. The Bank became the wholly-owned subsidiary of the Company effective December 31, 2001, when we completed our bank holding company reorganization. We opened our first branch in Fairbanks in 1996, and our second location in Anchorage in 1997. During the second quarter of 1999, we purchased eight branches located in Anchorage, Eagle River and Wasilla from Bank of America. This acquisition resulted in us acquiring $114 million in loans, $124 million in deposits and $2 million in fixed assets for a purchase price of $5.9 million. Then, in October of 2007, we acquired 100% of the outstanding stock of another local bank, Alaska First. This acquisition resulted in us acquiring cash equivalents and investments of $42.6 million, outstanding loans of $13.2 million, deposits of $47.7 million of deposits and borrowings of $5.1 million.

One of our major objectives is to increase our market share in Anchorage, Fairbanks, and the Matanuska Valley, Alaska s three largest urban areas. In accordance with this objective, the Company acquired 100% of the outstanding shares of Alaska First for $6.3 million in an all cash transaction at the close of business on October 19, 2007. Prior to this acquisition, we estimate that we held a 22% share of the commercial bank deposit market in Anchorage, a 9% share of the Fairbanks market, and an 11% share of the Matanuska Valley market as of June 30, 2007, the latest date for which such information is available.

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, as well as tourism, government, and U.S. military spending. According to the State of Alaska Department of Revenue, approximately 89% of the Alaska state government is funded 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.

At December 31, 2007, we had assets of over $1 billion, an increase of 9.6% over $925.6 million in 2006. Also, we had gross loans of $714.8 million, a decrease of less than 1% from $717.1 million at December 31, 2006. Our net income and diluted earnings per share for 2007 were $11.7 million and $1.80, respectively, a decrease of 10% each, respectively, from $13 million and $1.99 at year end 2006. During the same time period, our net interest income increased by $2.3 million, or 5%, to $49.8 million, from $47.5 million for the year ended 2006. Our provision for loan losses in 2007 increased by $2.9 million, or 115% to $5.5 million, from $2.6 million in 2006, as our nonperforming loans increased by $4.7 million, or 71% for 2007, from $6.6 million in 2006 to $11.3 million for 2007. In contrast, for

2007 our other operating income increased by $2.2 million, or 28%, to $9.8 million from $7.7 million in 2006. The growth in our net interest income combined with the positive effects of the increases in our other operating income was offset by an increase in other operating expenses of $3.6 million, or 11%, to $34.9 million in 2007 from $31.4 million for 2006, and the increase in our provision for loan losses which resulted in a decrease in our net income and earnings per share.

Results of Operations

Net Income

We earned net income of $11.7 million in 2007, compared to net income of $13 million in 2006, and $11.2 million in 2005. During these periods, net income per diluted share was $1.80, $1.99, and $1.64, respectively.

Net Interest 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, earnings from our mortgage affiliate, employee benefit plan income, purchased receivables products, and other sources. Our operating expenses consist in large part of compensation, employee benefits expense, occupancy, and marketing expense. 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.

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 2007 was $49.8 million compared to $47.5 million in 2006, and $43.9 million in 2005, reflecting an increase in our interest-earning assets and the general level of interest rates. Average interest-earning assets increased $38.3 million, or 5%, in 2007 compared to an increase in average interest-bearing liabilities in 2007 of $27.4 million, or 5%. Average interest-earning assets increased $32.3 million, or 4%, in 2006 compared to an increase in average interest-bearing liabilities in 2006 of $36 million, or 6%.

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, 2007, 2006, and 2005, average interest-earning assets were $849.3 million, $810.9 million, and $778.6 million, respectively. During these same periods, net interest margins were 5.87%, 5.86%, and 5.64%, respectively, which reflect our balance sheet mix and premium pricing on loans compared to other community banks and an emphasis on construction lending, which has a higher fee base. Our average yield on earning-assets was 8.60% in 2007, 8.57% in 2006, and 7.55% in 2005, while the average cost of interest-bearing liabilities was 3.66% in 2007, 3.63% in 2006, and 2.61% in 2005.

Our net interest margin increased in 2007 from 2006 due to the interaction of several factors. First, in 2007, the cost of interest-bearing liabilities increased by 3 basis points while the yield on interest-earning assets also increased by 3 basis points. During this time, the average balance of our interest-bearing demand deposits increased by $6.3 million to $85.2 million at December 31, 2007 from $78.9 million at December 31, 2006. The average balance of our demand deposits and other noninterest-bearing liabilities also increased by $15.2 million to $208.7 million at December 31, 2007 from $193.5 million at December 31, 2006. The increase in these lower cost deposits in 2007 helped to contain the rate of growth in the cost of interest-bearing liabilities. Second, the 3 basis point increase in the yield on earning assets in 2007 had a larger effect on net interest income because it was applied to earning assets with an average balance of $849.3 million versus the 3 basis point increase in the cost of interest-bearing liabilities that was applied to an average balance of $633.0 million. Finally, in 2007, earning assets increased by $38.3 million, or 5% compared to growth of $32.3 million, or 4% in 2006.

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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,	2007			2006			2005		
	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)]	$710,959	$66,463	9.35%	$712,116	$65,347	9.18%	$698,240	$55,870	8.00%
Securities	98,578	4,619	4.69%	71,164	2,799	3.93%	61,125	2,202	3.60%
Overnight investments	39,726	1,985	5.00%	27,665	1,375	4.97%	19,232	709	3.69%
Total interest-earning assets	849,263	73,067	8.60%	810,945	69,521	8.57%	778,597	58,781	7.55%
Noninterest-earning assets	92,065			77,920			63,810		
Total assets	$941,328			$888,865			$842,407		
Liabilities and Shareholders Equity:									
Deposits:									
Interest-bearing demand accounts	$85,192	$1,188	1.39%	$78,872	$830	1.05%	$65,890	$369	0.56%
Money market accounts	186,722	7,378	3.95%	151,871	6,053	3.99%	139,331	3,876	2.78%
Savings accounts	234,780	8,756	3.73%	254,209	10,113	3.98%	207,277	6,263	3.02%
Certificates of deposit	95,961	4,080	4.25%	94,595	3,322	3.51%	138,284	3,482	2.52%
Total interest-bearing deposits	602,655	21,402	3.55%	579,547	20,318	3.51%	550,782	13,990	2.54%
Borrowings	30,337	1,835	6.05%	26,052	1,681	6.45%	18,792	883	4.70%
Total interest-bearing liabilities	632,992	23,237	3.67%	605,599	21,999	3.63%	569,574	14,873	2.61%
Demand deposits and other noninterest-bearing liabilities	208,671			193,461			188,000		
Total liabilities	841,663			799,060			757,574		

Shareholders equity	99,665		89,805		84,833
Total liabilities and shareholders equity	$941,328		$888,865		$842,407
Net interest income	$49,830		$47,522		$43,908
Net interest margin(3)	5.87%		5.86%		5.64%

(1) Interest income included loan fees.
(2) Nonaccrual loans are included with a zero effective yield.
(3) The net interest margin on a tax equivalent basis was 5.89%, 5.89%, 5.66%, 5.88%, and 6.04%, respectively, for 2007, 2006, 2005, 2004, and 2003.

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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.

	2007 compared to 2006			2006 compared to 2005		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	($106)	$1,222	$1,116	$1,129	$8,348	$9,477
Securities	1,217	603	1,820	381	216	597
Overnight investments	603	7	610	371	295	666
Total interest income	$1,714	$1,832	$3,546	$1,881	$8,859	$10,740
Interest Expense:						
Deposits:						
Interest-bearing demand accounts	$71	$287	$358	$85	$376	$461
Money market accounts	1,378	(53)	1,325	375	1,802	2,177
Savings accounts	(747)	(610)	(1,357)	1,605	2,245	3,850
Certificates of deposit	49	709	758	(1,292)	1,133	(160)
Total interest on deposits	751	333	1,084	773	5,557	6,328
Borrowings	249	(95)	154	403	384	798
Total interest expense	1,000	$238	$1,238	$1,176	$5,940	$7,126

Other Operating Income

Total other operating income increased $2.2 million, or 28%, in 2007, after increasing $2.8 million, or 59%, in 2006, and increasing $1 million, or 27%, in 2005. 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,	2007	2006	2005	2004	2003
			(In Thousands)		

Other Operating Income					
Deposit service charges	$3,116	$1,975	$1,800	$1,718	$1,805
Purchased receivable income	2,519	1,855	993	201	35
Employee benefit plan income	1,194	1,113			
Electronic banking fees	914	790	632	608	563
Loan service fees	516	531	374	379	416
Merchant credit card transaction fees	509	531	444	414	363
Equity in earnings from RML	454	649	493	438	2,785
Other transaction fees	267	227	214	204	247
Equity in loss from Elliott Cove	(93)	(230)	(424)	(457)	(554)
Other income	314	217	298	136	74
Operating sources	9,710	7,658	4,824	3,641	5,734
Gain on sale of securities available for sale, net			9	151	310
Gain on sale of other real estate owned	110				45
Other sources	110		9	151	355
Total other operating income	$9,820	$7,658	$4,833	$3,792	$6,089

Total operating sources of other operating income in 2007 increased $2.1 million, or 27% over 2006 levels. In 2006, this income increased $2.8 million, or 59%, and in 2005, it increased $1.2 million, or 32% as compared to 2004 levels. The main reason for the increase in operating income in 2007 was the increase in income from deposit service charges.

Deposit service charges increased $1.1 million, or 58%, in 2007 as compared to 2006, and they increased $175,000, or 10%, in 2006 as compared to 2005. The increase in 2007 is primarily from the April 2007 implementation of non-sufficient funds (NSF) fees on point-of-sale transactions. The new point-of-sale NSF fees represent $1.1 million of the increase in service charges.

Income from the Company s purchased receivable products increased by $664,000, or 36%, in 2007 as compared to 2006, and this income increased $862,000, or 87%, in 2006 as compared to 2005. The Company uses these products to purchase accounts receivable from its customers and provide them with working capital for their businesses. While the customers are responsible for collecting these receivables, the Company mitigates this risk with extensive monitoring of the customers transactions and control of the proceeds from the collection process. The Company earns income from the purchased receivable product by charging finance charges to its customers for the purchase of their accounts receivable. The income from this product has grown as the Company has used it to purchase more receivables from its customers. The Company expects the income level from this product to decline on a year-over-year comparative basis as the Company expects that some of its customers will move into different products to meet their working capital needs.

In December of 2005, the Company, through its wholly-owned subsidiary NCIC, purchased an additional 40.1% interest in NBG, which brought its ownership interest in this company to 50.1%. As a result of this increase in ownership, the Company now consolidates the balance sheet and income statement of NBG into its financial statements. The Company included employee benefit plan income from NBG for the first time in its other operating income in 2006. In 2007, the Company recorded an $81,000 increase for this item, or 7%, compared to the initial $1.1 million income recorded in 2006. In contrast, the Company did not record any income for this item in its other operating income in 2005 as it purchased a 10% interest in NBG in March of 2005 and accounted for this interest according to the equity method in 2005.

The Company s electronic banking fees increased by $124,000, or 16%, in 2007 as compared to 2006, and these fees increased by $158,000, or 25%, in 2006 as compared to 2005. As the Company increased the number of its deposit accounts through the marketing of the HPC product, it also sold additional services to these new accounts, which helped it to increase its electronic banking fees.

Included in operating sources of other operating income in 2007, 2006, and 2005 were $454,000, $649,000, and $493,000, respectively, of income from our share of the earnings from RML, which we account for according to the equity method. RML was formed in 1998 and has offices throughout Alaska. During the third quarter of 2004, RML reorganized and became a wholly-owned subsidiary of a newly formed holding company, RML Holding Company. In this process, RML Holding Company acquired another mortgage company, Pacific Alaska Mortgage Company (PAM). In the first quarter of 2005, PAM was merged into RML. Prior to the reorganization, the Company, through Northrim Bank s wholly-owned subsidiary, NCIC, owned a 30% interest in the profits and losses of RML. Following the reorganization, the Company s interest in RML Holding Company decreased to 24%.

Earnings from RML and RML Holding Company have fluctuated with activity in the housing market, which has been affected by local economic conditions and changes in mortgage interest rates. In 2005 and 2006, RML Holding Company began to realize some efficiencies from its merger and increased its income from its combined operations. However, the decline in mortgage applications due to the slowdown in the Alaskan housing market had a direct effect on RML s operating income in 2007. The Company expects that its share of RML s income will decline further in 2008 as the slowdown that affected the residential construction market in 2007 carries over into 2008.

Merchant credit card transaction fees decreased by $22,000, or 4% in 2007 as compared to 2006 due to decreased sales, and these fees increased by $87,000, or 20%, in 2006 as compared to 2005 as the Company increased the sales volume of this product to its larger account base and switched to a revenue sharing program.

Loan service fees decreased by $15,000, or 3% in 2007 as compared to 2006 primarily due to the collection of past due late fees in 2006 on non performing loans that paid off in 2006. In contrast, loan service fees increased by $157,000, or 42%, in 2006 as compared to 2005 due to the increased collection of late fees and the collection of late fees on non performing loans that paid off.

Our share of the loss from Elliott Cove decreased to $93,000 in 2007, as compared to losses of $230,000 and $424,000, respectively, in 2006 and 2005 as Elliott Cove continued to increase its assets under management, which provided it with increased revenues.

Other income increased by $97,000, or 45%, to $314,000 at December 31, 2007 from $217,000 at December 31, 2006. In the first quarter of 2006, through our subsidiary, NISC, the Company purchased a 24% interest in PWA. PWA is a holding company that owns Pacific Portfolio Consulting, LLC (PPC) and Pacific Portfolio Trust Company (PPTC). PPC is an investment advisory company with an existing client base while PPTC is a start-up operation. The Company incurred losses of $105,000 and $126,000 in

2007 and 2006, respectively, on its investment in PWA, which it accounts for according to the equity method. The losses from PWA were more than offset by increases in commissions that the Company receives for its sales of the Elliott Cove investment products, which totaled $294,000 and $210,000 in 2007 and 2006, respectively, and were accounted for as other operating income. Finally, the Company expects PWA to break even in 2008 as it builds the customer base of its combined operations.

Included in other sources of income is gain on sale of other real estate owned and gain on available for sale securities. At December 31, 2007, the gain on sale of other real estate owned was $110,000 compared to a loss of less than $1,000 at the end of 2006. Additionally, there is $432,000 of deferred gain on the sale of other real estate owned included in other liabilities at December 31, 2007. This gain will be recognized using the installment method. No net security gains were recorded in 2007 or 2006, whereas $9,000 of net gains was recorded in 2005.

Expenses

Provision for Loan Losses: The provision for loan losses in 2007 was $5.5 million, compared to $2.6 million in 2006 and $1.2 million in 2005. We increased the provision for loan losses in 2007 due to an increase in our nonperforming loans and net loan charge-offs. In 2007, nonperforming loans increased to $11.3 million from a balance of $6.6 million at December 31, 2006. In addition, net loan charge-offs were $6.1 million, or 0.86% of average loans, in 2007 as compared to $1.1 million, or 0.16% of average loans, in 2006 and $1.2 million, or 0.18% of average loans, in 2005. The allowance for loan losses decreased in 2007 as a result of the increase in net loan charge-offs and paydowns of certain problem credits. At December 31, 2007, the allowance was $11.7 million, or 1.64% of portfolio loans as compared to $12.1 million, or 1.69% of portfolio loans at December 31, 2006 and $10.7 million, or 1.52% of portfolio loans, at December 31, 2005. Likewise, the coverage ratio of the allowance for loan losses versus nonperforming loans decreased to 104% in 2007 as compared to a coverage ratio of 183% in 2006 and 176% in 2005. Although the allowance for loan losses decreased in 2007 along with the coverage ratio for nonperforming loans, the Company expects that net loan charge-offs will decrease in the future as a result of its efforts to improve its credit quality. In addition, forty percent of the net loan charge-offs in 2007 were related to one borrowing relationship and are not representative of the Company s historical loan charge-offs.

Other Operating Expense: Other operating expense increased $3.6 million, or 11%, in 2007, $1.9 million, or 6%, in 2006, and $2.9 million, or 11%, in 2005. The following table breaks out the other operating expense categories:

Years ended December 31,	2007	2006	2005	2004	2003
			(In Thousands)		
Other Operating Expense					
Salaries and other personnel expense	$20,700	$19,277	$17,656	$15,708	$14,180
Occupancy, net	2,823	2,503	2,417	2,130	2,000
Equipment, net	1,350	1,350	1,371	1,372	1,504
Marketing	1,617	1,641	1,657	1,201	1,205
Intangible asset amortization	337	482	368	368	368
Other expenses	8,102	6,115	6,008	5,756	5,471
Total other operating expense	$34,929	$31,368	$29,477	$26,535	$24,728

Salaries and other personnel expense increased $1.4 million, or 7%, in 2007, $1.6 million, or 9%, in 2006, and $1.9 million, or 12%, in 2005, reflecting increases in salary and benefit costs throughout this time due in part to ongoing competition for our employees, which placed upward pressure on our salary structure. Moreover, due to the tight labor market in the Company s major markets and ongoing competition for its employees, the Company expects further increases in salaries and benefits. In addition, as noted above, the Company now accounts for NBG on a consolidated basis. In 2007, NBG s salary and benefit costs included in the Company s own salary and benefit costs increased by $82,000 to $528,000 from $446,000 in 2006. The acquisition of Alaska First in the fourth quarter added salary and benefits costs. Also, stock-based compensation expense increased to $578,000 in 2007 from $390,000 in 2006 and $68,000 in 2005. In the first quarter of 2006, the Company adopted FASB 123R, *Share-Based Payment.* As a result, in 2006, the Company recorded $256,000 in additional expense associated with its stock options. Prior to 2006, the Company s stock-based compensation expense was associated with the fair value of restricted stock units granted to its employees and expensed over the required service period.

During 2007, our occupancy expenses increased by $320,000, or 13%, to $2.8 million from $2.5 million, as we incurred higher costs in repair and maintenance as well as increased utility expenses. In addition to this, the Company incurred a $233,000 increase in rent expense due to expenses associated with the Alaska First buildings, as well as an overall increase in rents. In 2006, occupancy expense increased by $86,000, or 4%, to $2.5 million from $2.4 million as we incurred higher costs in one of our branch locations.

Marketing costs decreased by $24,000, or 1%, in 2007, decreased by $16,000, or 1%, in 2006, and increased $456,000, or 38%, in 2005. The main reason for the increase in marketing expenses in 2005 was the costs associated with marketing our HPC product. Although the Company has incurred additional marketing expenses due to promoting its HPC Program in 2007 and 2006, those costs have been offset by a decrease in other marketing expenses such as advertising for some of the Company s other products. The Company plans to continue to market its HPC Program as it has since the second quarter of 2005. Furthermore, the Company expects that the additional deposit accounts will continue to generate increased fee income that will offset a majority of the increased marketing costs associated with the HPC Program.

Intangible asset amortization decreased by $145,000 or 30% to $337,000 during 2007 from $482,000 during 2006, as the Company finished amortizing the core deposit intangible related to the accounts it acquired in 1999 from the Bank of America transaction. In 2006, amortization expense increased by $114,000, or 31%, to $482,000 from $368,000 in 2005. In 2007 and 2006, the amortization expense on the NBG intangible asset was $115,000. Prior to the Company s additional investment in NBG in December of 2005, the Company accounted for its investment in NBG according to the equity method and did not record its amortization expense on the NBG investment on a separate basis. In the fourth quarter of 2007, the Company recognized $60,000 in amortization expense on the core deposit intangible associated with the Alaska First acquisition in 2007.

Other expenses, which includes professional fees, software expenses, ATM and debit card processing fees and other operational expenses, increased $2.0 million, or 32%, in 2007 as compared to 2006 and increased $107,000, or 2%, in 2006 as compared to 2005 due to changes in a variety of expense accounts. The largest increases in 2007 can be attributed to a $327,000 increase in professional services as well as a $473,000 increase in operational losses of which $245,000 is tied to purchased receivable losses. In addition, the amortization expense associated with the Company s investments in partnerships that develop low-income housing increased by $361,000 as a result of two additional investments in these partnerships in the amount of $3 million each in the third and fourth quarters of 2006. Internet banking expense also increased by $266,000 in 2007 as a result of a new internet banking product that the Company brought on line in the fourth quarter of 2006.

Income Taxes: The provision for income taxes decreased $718,000, or 9%, to $7.3 million in 2007, increased $1.1 million, or 15%, to $8 million in 2006, and decreased $697,000, or 11%, to $6.9 million in 2005. The effective tax rate for 2007, 2006 and 2005 was 38%.

Financial Condition

Assets

Loans and Lending Activities

General: Our loan products include short and medium-term commercial loans, commercial credit lines, construction and real estate loans and consumer loans. We emphasize providing financial services to small and medium-sized businesses and to individuals. From our inception, we have emphasized commercial, land development and home construction, and commercial real estate lending. These types of lending have provided us with needed market opportunities and higher net interest margins than other types of lending. However, they also involve greater risks, including greater exposure to changes in local economic conditions, than certain other types of lending.

Loans are the highest yielding component of earning assets. Average loans were $1.2 million, or less than 1% lower in 2007 than in 2006. Average loans were $13.9 million, or 2% greater in 2006 than in 2005. Loans comprised 84% of total earning assets on average in 2007, 88% in 2006 and 90% in 2005. The yield on loans averaged 9.35% in 2007, 9.18% in 2006, and 8.00% in 2005.

Reduction in the loan portfolio during 2007 was $2.3 million, or less than 1%. Commercial loans decreased $2.3 million, or less than 1%, commercial real estate loans increased $5.6 million, or 2%, and construction loans decreased $15.0 million, or 10%, in 2007. Installment and consumer loans increased $9.1 million, or 22%.

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Nonperforming Loans; Other Real Estate Owned: Nonperforming assets consist of nonaccrual loans, accruing loans that are 90 days or more past due, restructured loans, and other real estate owned. We had other real estate owned property of $4.4 million at December 31, 2007, as compared to $717,000 at December 31, 2006. The Company expects to expend $2.8 million during 2008 to complete these projects with an estimated completion date of June 30, 2008. The following table sets forth information regarding our nonperforming loans and total nonperforming assets:

December 31,	2007	2006	2005	2004	2003
			(In Thousands)		
Nonperforming loans					
Nonaccrual loans	$9,673	$5,176	$5,090	$5,876	$7,426
Accruing loans past due 90 days or more	1,665	708	981	290	2,283
Restructured loans		748		424	597
Total nonperforming loans	11,338	6,632	6,071	6,590	10,306
Real estate owned	4,445	717	105		
Total nonperforming assets	$15,783	$7,349	$6,176	$6,590	$10,306
Allowance for loan losses to portfolio loans	1.64%	1.69%	1.52%	1.59%	1.70%
Allowance for loan losses to nonperforming loans	104%	183%	176%	163%	99%
Nonperforming loans to portfolio loans	1.59%	0.92%	0.86%	0.97%	1.72%
Nonperforming assets to total assets	1.56%	0.79%	0.69%	0.82%	1.40%

Nonaccrual, Accruing Loans 90 Days or More Past Due, and Restructured Loans: 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 $865,000, $437,000, and $353,000, in 2007, 2006, and 2005, respectively.

Restructured loans are those 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 restructured loans 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.

Total nonperforming loans at December 31, 2007, were $11.3 million, or 1.59% of portfolio loans, an increase of $4.7 million from $6.6 million at December 31, 2006, and an increase of $561,000 from $6.1 million at December 31, 2005. The increase in nonperforming loans at December 31, 2007 as compared to December 31, 2006 is due in large part to the addition of $3.9 million in nonaccrual loans tied to a lending relationship with one residential construction builder in the Anchorage area. These loans were used to finance a single-family residential housing development.

Potential Problem Loans: At December 31, 2007, management had identified potential problem loans of $13.5 million as compared to potential problem loans of $6.4 million at December 31, 2006. 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.

Analysis of Allowance for Loan Losses: The allowance for loan losses is maintained at a level considered adequate by management to provide for inherent loan losses based on management s assessment of various factors affecting the loan portfolio, including a review of problem loans, business conditions, estimated collateral values, loss experience, credit concentrations, and an overall evaluation of the quality of the underlying collateral, and holding and disposal costs. The allowance is increased by provisions charged to operations and reduced by loans charged off, net of recoveries.

At December 31, 2007, nonperforming loans increased to $11.3 million, or 1.59% of portfolio loans as compared to $6.6 million, or 0.92% of portfolio loans in 2006. The coverage ratio of the allowance for loan losses verses nonperforming loans decreased to 104% in 2007 as compared to a coverage ratio of 183% in 2006. As previously noted, a majority of the increase in the nonperforming loans in 2007 is associated with loans to one borrower. The increase in nonperforming loans and potential problem loans has been factored into the Company s methodology for analyzing its allowance on a consistent basis. The relation of the

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allowance to the Company s nonperforming loans is within the expectation and ranges established by policy. The Company s allowance was decreased by $6.1 million in net charge-offs that it incurred in 2007 with forty percent of these charge-offs associated with one borrower. This level of charge-offs is not representative of the Company s historical loan charge-offs. The Company has also taken steps to improve its credit quality including the formation of a Quality Assurance department to provide independent, detailed financial analysis of its largest, most complex loans, which it believes will help to improve its credit quality in the future. Management believes that at December 31, 2007, the allowance is adequate to cover losses that are probable in light of our current loan portfolio and existing economic conditions.

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

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

ember 31,	2007		2006		2005		2004		2003	
ance applicable to:	Amount	% of Total Loans(1)	Amount	% of Total Loans(1)	Amount	% of Total Loans(1)	Amount	% of Total Loans(1)	Amount	% of T Loans
					(Dollars in Thousands)					
nmercial	$6,496	40%	$8,208	40%	$6,913	41%	$5,130	39%	$5,610	3
struction	940	19%	330	21%	246	19%	276	18%	282	1
l estate term	1,661	34%	964	33%	1,214	35%	1,634	37%	413	4
allment and other sumer	16	7%	6	6%	37	5%		6%	3	
llocated	2,622	0%	2,617	0%	2,296	0%	3,724		3,878	
l	$11,735	100%	$12,125	100%	$10,706	100%	$10,764	100%	$10,186	10

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

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

December 31,	2007	2006	2005	2004	2003
			(In Thousands)		
Balance at beginning of period	$12,125	$10,706	$10,764	$10,186	$8,476
Charge-offs:					
Commercial loans	(4,291)	(2,545)	(1,552)	(1,387)	(2,067)
Construction loans	(2,982)		(100)		
Real estate loans	(599)				(127)
Installment and other consumer loans	(45)	(72)	(63)	(84)	(91)
Total charge-offs	(7,917)	(2,617)	(1,715)	(1,471)	(2,285)
Recoveries:					
Commercial loans	1,723	1,086	418	200	279
Construction loans	50		15	185	
Real estate loans		355	15		111
Installment and other consumer loans	21	31	39	63	38
Total recoveries	1,794	1,472	487	448	428
Charge-offs net of recoveries	(6,123)	(1,145)	(1,228)	(1,023)	(1,857)
Allowance acquired with Alaska First Acquisition	220				
Provision for loan losses	5,513	2,564	1,170	1,601	3,567
Balance at end of period	$11,735	$12,125	$10,706	$10,764	$10,186
Ratio of net charge-offs to average loans outstanding during the period	0.86%	0.16%	0.18%	0.16%	0.33%

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

Generally, we are permitted to make loans to one borrower of up to 15% of the unimpaired capital and surplus of the Bank. The loan-to-one-borrower limitation for the Bank was $18.6 million at December 31, 2007. See Management s Discussion and Analysis of Financial Condition and Results of Operations Provision for Loan Losses.

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

Loans Receivable: Loans receivable decreased to $714.8 million at December 31, 2007, compared to $717.1 million and $705.1 million at December 31, 2006 and 2005, respectively. At December 31, 2007, 76% of the portfolio was scheduled to mature or reprice in 2008 with 17% scheduled to mature or reprice between 2009 and 2012. Future growth in loans is generally dependent on new loan demand and deposit growth, constrained by our policy of being well-capitalized as determined by the FDIC.

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

er 31,	2007		2006		2005		2004		2003	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	P o
					(Dollars in Thousands)					
rcial loans	$284,956	39.87%	$287,281	40.06%	$287,617	40.79%	$267,737	39.47%	$220,774	3
ate loans:										
ction	138,070	19.32%	153,059	21.35%	131,532	18.66%	122,873	18.12%	102,311	1
ate term	243,245	34.03%	237,599	33.14%	252,395	35.80%	252,358	37.21%	239,545	3
ate loans		0.00%		0.00%		0.00%		0.00%	1,395	
ent and nsumer	51,274	7.17%	42,140	5.88%	36,519	5.18%	38,166	5.63%	39,796	
	717,545	100.38%	720,079	100.42%	708,063	100.43%	681,134	100.42%	603,821	10
ed purchase t		0.00%		0.00%		0.00%	(44)	-0.01%	(44)	
ed loan fees rigination	(2,744)	-0.38%	(3,023)	-0.42%	(3,004)	-0.43%	(2,821)	-0.42%	(2,658)	
ns	$714,801	100.00%	$717,056	100.00%	$705,059	100.00%	$678,269	100.00%	$601,119	10

The following table presents at December 31, 2007, the aggregate maturity and repricing data of our loan portfolio:

	Maturity			
	Within 1 Year	1-5 Years	Over 5 Years	Total
		(In Thousands)		
Commercial	$130,664	$111,815	$42,477	$284,956
Construction	125,879	12,191		138,070
Real estate term	72,281	66,667	104,297	243,245
Installment and other consumer	2,057	9,021	40,196	51,274
Total	$330,881	$199,694	$186,970	$717,545

Fixed interest rate	$114,833	$66,895	$58,938	$240,666
Floating interest rate	216,048	132,799	128,032	476,879
Total	$330,881	$199,694	$186,970	$717,545

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 40% of our total loans outstanding as of December 31, 2007 and reprice more frequently than other types of loans, such as real estate loans. More frequent repricing means that 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.

Construction Loans:

Land Development: We believe we are a major land development and residential construction lender. At December 31, 2007, we had $46.9 million of residential subdivision land development loans outstanding, or 7% of total loans.

One-to-Four-Family Residences: We financed approximately one-third of the single-family houses constructed in Anchorage in 2007. We originated one-to-four-family residential construction loans to builders for construction of homes. At December 31, 2007, we had $71.5 million of one-to-four-family residential and condominium construction loans, or 10% of total loans. Of the homes under construction at December 31, 2007, for which these loans had been made, 33% were subject to sale contracts between the builder and homebuyers who were pre-qualified for loans, usually with other financial institutions.

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

Commercial Real Estate: We believe we are an active lender in the commercial real estate market. At December 31, 2007, our commercial real estate loans were $243.2 million, or 34% 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 43% of these loans originated by Northrim resets every one to five years based on the spread over an index rate, normally prime or the respective Treasury rate.

We often 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 often 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.

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.

Off-Balance Sheet Arrangements Commitments and Contingent Liabilities: In the ordinary course of business, we enter into various types of transactions that include commitments to extend credit that are not reflected on our balance sheet. We apply the same credit standards to these commitments as in all of our lending activities and include these commitments in our lending risk evaluations. Our exposure to credit loss under commitments to extend credit is represented by the amount of these commitments. See Note 20 to Notes to Consolidated Financial Statements in our Annual Report for the year ended December 31, 2007. See also Liquidity and Capital Resources.

Investments and Investment Activities

General: Our investment portfolio consists primarily of U.S. Treasury and government sponsored entity securities, and municipal securities. Investment securities totaled $161.7 million at December 31, 2007, an increase of $61.4 million, or 61%, from year-end 2006. The purchase of Alaska First resulted in an addition of $14.9 million in available for sale securities after the sale of $8.9 million in mortgage back securities originally acquired from Alaska First. The average maturity of the investment portfolio was approximately two years at December 31, 2007.

Investment securities designated as available for sale comprised 91% 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, 2007, $32.4 million in securities were pledged for deposits and borrowings.

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

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

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

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

December 31,	Amortized Cost	Market Value
	(In Thousands)	
Securities Available for Sale:		
2007:		
U.S. Treasury	$4,977	$4,982
Government Sponsored Entities	134,370	134,738
Mortgage-backed Securities	466	465
Corporate Bonds	7,813	7,824
Total	$147,626	$148,009
2006:		
U.S. Treasury	$16,860	$16,840
Government Sponsored Entities	70,438	69,971
Mortgage-backed Securities	183	182
Total	$87,481	$86,993
2005:		
U.S. Treasury	$15,930	$15,761
Government Sponsored Entities	37,140	36,482
Mortgage-backed Securities	242	240
Total	$53,312	$52,483
Securities Held to Maturity:		
2007:		
Municipal securities	$11,701	$11,749
Total	$11,701	$11,749
2006:		
Municipal securities	$11,776	$11,775

Total	$11,776	$11,775
2005:		
Municipal securities	$936	$957
Total	$936	$957

For the periods ending December 31, 2007, 2006, and 2005, 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, $1.6 million, and $1.6 million, respectively.

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Market Value, Maturities and Weighted Average Yields: The following table sets forth the market value, maturities and weighted average yields of our investment portfolio for the periods indicated as of December 31, 2007:

	Maturity				
	Within 1 Year	1-5 Years	5-10 Years	Over 10 Years	Total
	(Dollars In Thousands)				
Securities Available for Sale:					
U.S. Treasury					
Balance	$4,982	$	$	$	$4,982
Weighted Average Yield	4.54%	0.00%	0.00%	0.00%	4.54%
Government Sponsored Entities					
Balance	39,072	80,622	15,044		134,738
Weighted Average Yield	4.53%	4.87%	5.17%	0.00%	4.81%
Mortgage-Backed Securities					
Balance	268	46		151	465
Weighted Average Yield	3.25%	5.50%	0.00%	5.44%	4.18%
Corporate Bonds					
Balance		7,824			7,824
Weighted Average Yield	0.00%	4.87%	0.00%	0.00%	4.87%
Total					
Balance	$44,322	$88,492	$15,044	$151	$148,009
Weighted Average Yield	4.52%	4.87%	5.17%	5.44%	4.80%
Securities Held to Maturity:					
Municipal Securities					
Balance	$3,275	$8,062	$412	$	$11,749
Weighted Average Yield	3.76%	3.81%	3.93%	0.00%	3.80%

At December 31, 2007, we held no securities of any single issuer (other than government sponsored entities) that exceeded 10% of our shareholders equity.

Purchased Receivables

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

Our purchased receivable balances decreased in 2007 to $19.4 million, as compared to $21.2 million in 2006 primarily due to a $4.6 million decrease in purchased receivables related to Business Manager®. This decrease is the result of, among other factors, the migration of several customers into loans from purchased receivables. The Company expects that this trend will continue in 2008.

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

Liabilities

Deposits

General: Deposits are our primary source of funds. Total deposits increased 9% to \$867.4 million at December 31, 2007, compared with \$794.9 million at December 31, 2006, and \$779.9 million at December 31, 2005. Our deposits generally are expected to fluctuate according to the level of our market share, economic conditions, and normal seasonal trends. The Company assumed \$47.7 million of deposits in the Alaska First purchase in the fourth quarter of 2007.

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

ecember 31,	2007		2006		2005		2004		2003	
	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Average rate paid	Average balance	Avera rate pa
					(Dollars in Thousands)					
erest-bearing mand accounts	$85,192	1.39%	$78,872	1.05%	$65,890	0.56%	$57,373	0.39%	$52,955	0.39
oney market counts	186,722	3.95%	151,871	3.99%	139,331	2.78%	126,567	1.21%	134,582	0.96
vings accounts	234,780	3.73%	254,209	3.98%	207,277	3.02%	139,876	1.64%	104,158	1.13
rtificates of posit	95,961	4.25%	94,595	3.51%	138,284	2.52%	155,134	1.72%	164,847	2.14
tal erest-bearing counts	602,655	3.55%	579,547	3.51%	550,782	2.54%	478,950	1.40%	456,542	1.36
ninterest-bearing mand accounts	196,313		185,958		182,535		181,731		159,858	
tal average posits	$798,968		$765,505		$733,317		$660,681		$616,400	

Certificates of Deposit: The only deposit category with stated maturity dates is certificates of deposit. At December 31, 2007, we had $103.5 million in certificates of deposit, of which $71.1 million, or 69%, are scheduled to mature in 2008.

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, 2007, was $171.3 million, a decrease of $36.2 million as compared to the balance of $207.5 million at December 31, 2006. Some of this decrease can be attributed to product movement to our premium CD accounts due to swings in the interest rate environment.

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. At December 31, 2007, we did not hold any certificates of deposit for the Alaska Permanent Fund.

Borrowings

FHLB: At December 31, 2007, our maximum borrowing line from the FHLB was equal to $113 million, approximately 11% of the Company s assets. FHLB advances are subject to collateral criteria that require the Company to pledge assets under a blanket pledge arrangement as collateral for its borrowings from the FHLB. At December 31, 2007 and 2006 there was $1.8 million and $2.2 million outstanding on the line respectively.

Federal Reserve Bank: The Company entered into a note agreement with the Federal Reserve Bank on the payment of tax deposits. The Federal Reserve has the option to call the note at any time. The balance at December 31, 2007, and 2006, was $1 million which was secured by investment securities.

The Federal Reserve Bank is holding $69.2 million of loans as collateral to secure advances made through the discount window on December 31, 2007. There were no discount window advances outstanding at December 31, 2007 and 2006.

Other Short-term Borrowing: At December 31, 2007, there were no short-term (original maturity of one year or less) borrowings that exceeded 30% of shareholders equity.

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Contractual Obligations

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

	Payments Due by Period				
December 31, 2007	Within 1 Year	1-3 Years	3-5 Years	Over 5 Years	Total
	(In Thousands)				
Long-term debt obligations	$400	$800	$574	$18,558	$20,332
Operating lease obligations	1,867	3,652	3,377	3,209	12,105
Other long-term liabilities	950	2,368			3,318
Total	$3,217	$6,820	$3,951	$21,767	$35,755

	Payments Due by Period				
December 31, 2006	Within 1 Year	1-3 Years	3-5 Years	Over 5 Years	Total
	(In Thousands)				
Long-term debt obligations	$400	$800	$800	$18,732	$20,732
Operating lease obligations	1,434	2,928	2,867	3,711	10,940
Other long-term liabilities	1,217	3,277			4,494
Total	$3,051	$7,005	$3,667	$22,443	$36,166

Long-term debt obligations consist of (a) $1.8 million advance from the FHLB that was originated on May 7, 2002, matures on May 7, 2012, and bears interest at 5.46%, (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 19 of the Company s annual 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 CharterMac Corporate Partners XXXIII, L.P., (CharterMac), in September 2006. The Company also purchased a $3 million interest in U.S.A.

Institutional Tax Credit Fund LVII L.P. (USA 57) in December 2006. CharterMac changed its name to Centerline in April 2007 and the investment was subsequently renamed Centerline XXXIII, L.P., (Centerline). The investments in Centerline and USA 57 will be fully funded in 2009 and 2010, respectively.

Liquidity and Capital Resources

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 lending commitments at December 31, 2007, were $187 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, 2007, were $867.4 million.

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, 2007, our current assets were $469.4 million and our funds available for borrowing under our existing lines of credit were $183.4 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.

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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, 2007 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.

The stock repurchase program had an effect on earnings per share because it decreased the total number of shares outstanding in 2007, 2006, 2005, and 2003, by 137,500, 17,500, 308,642, and 155,800 shares respectively. The Company did not repurchase any of its shares in 2004. The table below shows this effect on diluted earnings per share as adjusted for the 5% stock dividend in 2007.

Years Ending:	Diluted EPS as Reported	Diluted EPS without Stock Repurchase
2007	$1.80	$1.64
2006	$1.99	$1.83
2005	$1.64	$1.56
2004	$1.55	$1.50
2003	$1.53	$1.50

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 $689,000 in 2007. At December 31, 2007, the securities had an interest rate of 8.02%.

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 $689,000 in 2007. At December 31, 2007, the securities had an interest rate of 6.36%.

Our shareholders equity at December 31, 2007, was $101.4 million, as compared to $95.4 million at December 31, 2006. The Company earned net income of $11.7 million during 2007, issued 23,000 shares through the exercise of stock options, and repurchased 137,500 shares of its common stock under the Company s publicly announced repurchase program. In addition, on October 5, 2007, the Company paid a 5% stock dividend to shareholders of record as of September 21, 2007. As a result, the Company issued 300,729 of its shares along with a cash dividend of $2,000 to pay for fractional shares. At December 31, 2007, the Company had 6.3 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, 2007, that the Company and Northrim Bank met all applicable capital adequacy requirements.

The FDIC has in place qualifications for banks to be classified as well-capitalized. As of June 15, 2007, 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.

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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. 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, 2007	Adequately - Capitalized	Well - Capitalized	Actual Ratio BHC	Actual Ratio Bank
Tier 1 risk-based capital	4.00%	6.00%	12.32%	11.55%
Total risk-based capital	8.00%	10.00%	13.57%	12.80%
Leverage ratio	4.00%	5.00%	11.10%	10.43%

(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.

Market for Common Stock

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 December 31, 2007, the number of shareholders of record of our common stock was 187.

We began paying regular cash dividends of $0.05 per share in the second quarter of 1996. In the second quarters of 2007, 2006, and 2005, we paid cash dividends of $0.15, $0.125, and $0.11 per share, respectively. Cash dividends totaled $3.6 million, $2.8 million, and $2.6 million in 2007, 2006, and 2005, respectively. On January 10, 2008, the Board of Directors approved payment of a $0.15 per share dividend on February 8, 2008, to shareholders of record on January 28, 2008. On September 6, 2007, the Board of Directors approved payment of a stock dividend equal to 5% of the shares of the Company s common stock outstanding as of the close of business September 21, 2007 (the Record Date). The stock dividend was payable on October 5, 2007 to shareholders of record on the Record Date. The Company and the Bank are subject to restrictions on the payment of dividends pursuant to applicable federal and state banking regulations.

The following are high and low sales prices as reported by Nasdaq. Prices do not include retail markups, markdowns or commissions. Prices have been adjusted for applicable stock dividends.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007				
High	$ 28.71	$ 28.73	$ 28.29	$ 24.20
Low	$ 25.26	$ 24.46	$ 23.37	$ 18.42
2006				
High	$ 20.73	$ 22.76	$ 26.03	$ 26.36
Low	$ 19.71	$ 20.35	$ 20.99	$ 24.66

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Market Price of and Dividends on the Registrant s Common Equity and Related Stockholder Matters

Stock Performance Graph

The graph shown below depicts the total return to shareholders during the period beginning after December 31, 2002, and ending December 31, 2007. 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, 2002, and that all dividends were reinvested.

Total Return Performance

	Period Ending					
Index	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Northrim BanCorp, Inc.	100.00	173.79	181.29	183.38	222.66	191.50
Russell 3000	100.00	131.06	146.71	155.69	180.16	189.42
SNL Bank $500M-$1B Index	100.00	144.19	163.41	170.41	193.81	155.31

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Repurchase of Securities

The Company purchased 25,000 shares of its common stock, in the aggregate, during the fourth quarter of 2007 as indicated below:

Period	Total Number of Shares (or Units) Purchased (a)	Average Price Paid per Share (or Unit) (b)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number[1] (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (d)
Month #1 October 1, 2007 October 31, 2007		$		252,242
Month #2 November 1, 2007 November 30, 2007		$		252,242
Month #3 December 1, 2007 December 31, 2007	25,000	$19.20	25,000	227,242
Total	25,000	$19.20	25,000	227,242

(1) In September 2002, the Company publicly announced Board of Director authorization to, from time to time, repurchase up to 5%, or 306,372, shares of common stock in the open market. In August 2004, the Company publicly announced the Board s authorization to increase the stock in its repurchase program by an additional 304,283, or 5%, of total shares outstanding. As a result, the total shares available under the Plan at that time increased to 385,855 shares. On June 8, 2007, the Company publicly announced the Board s authorization to increase the stock in its repurchase program by an additional 305,029, or 5%, of total shares outstanding, bringing the total shares available and authorized for repurchase under the Plan at that time to 342,242 shares.

Equity Compensation Plan Information

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	488,445	$	13.50	121,969
Total	488,445	$	13.50	121,969

Recent Accounting Pronouncements

Between December of 2006 and December of 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 141R, *Business Combinations (Revised 2007),* Statement No. 157, *Fair Value Measurements*, and Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51.* The Company believes the adoption of these Statements will not have a significant impact on its financial statements.

In December 2004, the FASB issued Statement No. 123R, *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services primarily in share-based payment transactions with its employees. This Statement supersedes the provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance.

As of January 1, 2006, the Company adopted FASB No. 123R according to the modified prospective method, which requires measurement of compensation cost from January 1, 2006 for all unvested stock-based awards at fair value on the date of grant and recognition of the compensation associated with these stock-based awards over the service period for the awards that are expected to vest. In accordance with the modified prospective transition method, results for prior periods have not been restated.

The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of the Company s stock on the date of grant, and the fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with the Company s valuation techniques previously utilized for options in footnote disclosures required under FASB 123R. The Company recognizes the fair value of the restricted stock units and stock options as expense over the required service period, net of estimated forfeitures, using the straight line attribution method for stock-based payment grants previously granted but not fully vested at January 1, 2006 as well as grants made after January 1, 2006 as prescribed in FASB 123R.

Prior to January 1, 2006, the Company accounted for stock-based awards using the intrinsic value method, which followed the recognition and measurement principles of APB Opinion No. 25. Outlined below are valuation assumptions used in the Black-Scholes valuation model for stock options that were used in estimating the fair value for each stock option granted in November of 2007, 2006 and 2005.

		Granted	
Stock Options:	Nov. 2007	Nov. 2006	Nov. 2005
Expected option life (years)	8.3	7.4	7.5
Risk free rate	4.37%	4.57%	4.45%
Dividends per Share	$0.66	$0.56	$0.50
Expected volatility factor	34.12%	37.44%	37.06%

The expected life represents the weighted average period of time that options granted are expected to be outstanding when considering vesting periods and the exercise history of the Company. The risk free rate is based upon the equivalent yield of a United States Treasury zero-coupon issue with a term equivalent to the expected life of the option. The expected dividends are based on projected dividends for the Company at the date of the option grant taking into account projected net income growth, dividend pay-out ratios, and other factors. The expected volatility is based upon the historical price volatility of the Company s stock. See Note 18 Options for additional information.

Fair Value Disclosures Prior to FASB 123R Adoption

Stock-based compensation for the period prior to January 1, 2006 was determined using the intrinsic value method. The following table illustrates the effect on net income and earnings per share as if the fair value based method under FASB 123R had been applied to all outstanding and unvested awards in periods prior to January 1, 2006:

	2005

Net income (in thousands)	As reported	$11,170
Less stock-based employee compensation		(173)
Net income	Pro forma	$10,997
Earnings per share, basic	As reported	$1.70
	Pro forma	$1.67
Earnings per share, diluted	As reported	$1.64
	Pro forma	$1.62

Prior to the adoption of FASB 123R, the Company presented any tax benefits of deductions resulting from the exercise of stock options within operating cash flows in the condensed consolidated statements of cash flow. FASB 123R requires tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified and reported as both an operating cash outflow and a financing cash inflow upon adoption of FASB 123R. Accordingly, the Company has recognized these excess tax benefits in the condensed statement of cash flow for the year ended December 31, 2007.

FASB Staff Position No. FAS No. 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards* (*FSP 123R-3*), effective November 10, 2005, provides for a practical transition method that may be elected to calculate the pool of excess tax benefits available to absorb tax deficiencies upon the adoption of FASB 123R. The method comprises a computational component that establishes the beginning balance of the additional paid in capital (APIC) pool related to employee compensation and a simplified method to determine the subsequent impact on the APIC pool of awards that are fully vested and outstanding upon the adoption of FASB 123R. The Company has elected to use the long haul method to calculate the beginning balance of the APIC pool as opposed to electing this simplified method.

Quantitative and Qualitative Disclosure About Market Risk

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, therefore, allowing quicker repricings and maximizing net interest margin. 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 margin 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, such as early withdrawal of time deposits and prepayment of loans, 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.

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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, 2007. 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, 2007			
	Within 1 year	1-5 years	³5 years	Total
	(In Thousands)			
Interest-Earning Assets:				
Money market investments	$33,039	$	$	$33,039
Investment securities	73,582	70,680	19,454	163,716
Loans:				
Commercial	237,500	43,369	916	281,785
Real estate construction	128,140	5,197		133,337
Real estate term	158,048	59,437	23,999	241,484
Installment and other consumer	18,102	17,936	15,227	51,265
Total interest-earning assets	648,411	$196,619	$59,596	$904,626
Percent of total interest-earning assets	72%	22%	7%	100%
Interest-Bearing Liabilities:				
Interest-bearing demand accounts	$96,455	$	$	$96,455
Money market accounts	215,819			215,819
Savings accounts	226,626			226,626
Certificates of deposit	71,055	32,414	21	103,490
FHLB advances			2,174	2,174
Other borrowings	14,596			14,596
Junior subordinated debentures	18,558			18,558
Total interest-bearing liabilities	643,109	$32,414	$2,195	$677,718
Percent of total interest-bearing liabilities	95%	5%	0%	100%
Interest sensitivity gap	$5,302	$164,205	$57,401	$226,908
Cumulative interest sensitivity gap	$5,302	$169,507	$226,908	
Cumulative interest sensitivity gap as a percentage of total assets	1%	17%	22%	

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 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.

Based on the results of the simulation models at December 31, 2007, we expect a decrease in net interest income of $1.1 million and an increase of $610,000 in net interest income over a 12-month period, if interest rates decreased or increased an immediate 100 basis points, respectively.

Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles involves the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Our estimate for the loan loss reserve is based on our assessment of various factors affecting the loan portfolio, including a review of problem loans, business conditions, estimated collateral values, loss experience, credit concentrations, and an overall evaluation of the quality of the underlying collateral, and holding and disposal costs. In addition, we review certain sections of the loan portfolio to determine if they warrant an additional specific allocation of the allowance for loan losses that include residential construction, land development, commercial real estate, and loans secured by general business assets such as accounts receivable and inventory. We also analyze the unallocated portion of the allowance for loan losses as it relates to the overall allowance and in relation to average net charge-off history for the loan portfolio and determine if these amounts are within a reasonable range based upon our assessment of all other factors affecting the allowance and the overall loan portfolio. While we believe that we have used the best information available to determine the allowance for loan losses, unforeseen market conditions and other events could result in adjustment to the allowance for loan losses, and net income could be significantly affected, if circumstances differed substantially from the assumptions used in making the final determination.

Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Our principal executive and financial officers supervised and participated in this evaluation. Based on this evaluation, our principal executive and financial officers each concluded that our disclosure controls and procedures were effective in timely alerting them to material information required to be included in our periodic reports to the Securities and Exchange Commission. The design of any system of controls is based in part upon various assumptions about the likelihood of future events, and there can be no assurance that any of our plans, products, services or procedures will succeed in achieving their intended goals under future conditions. There were no changes in the Company s internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are likely to materially affect, the Company s internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining internal control over financial reporting as defined in Rules 13a-15(f) and 15(d)-15(f) of the Securities Exchange Act of 1934. The Company s internal control over financial reporting is 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. 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 policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007. In making this assessment management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework*.

Based on our assessment and the criteria discussed above, management believes that, as of December 31, 2007, the Company maintained effective internal control over financial reporting.

The Company s registered public accounting firm has issued an attestation report on the Company s effectiveness of internal control over financial reporting. This report follows below.

Report of Independent Registered Public Accounting Firm

The Board of Directors of
Northrim BanCorp, Inc.:

We have audited Northrim BanCorp, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2007, 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 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 Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit 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 risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides 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 U.S. 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, Northrim BanCorp, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Northrim BanCorp, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 29, 2008 expressed an unqualified opinion on those consolidated financial statements.

Anchorage, Alaska
February 29, 2008

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Report of Independent Registered Public Accounting Firm

The Board of Directors of
Northrim BanCorp, Inc.:

We have audited the accompanying consolidated balance sheets of Northrim BanCorp, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Northrim BanCorp, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2008 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

Anchorage, Alaska
February 29, 2008

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Consolidated Financial Statements

NORTHRIM BANCORP, INC.
Consolidated Balance Sheets
December 31, 2007 and 2006

	2007	2006
	(In Thousands Except Share Amounts)	
Assets		
Cash and due from banks (Note 3)	$30,767	$25,565
Money market investments (Note 4)	33,039	18,717
Investment securities held to maturity (Note 5)	11,701	11,776
Investment securities available for sale (Note 5)	148,009	86,993
Investment in Federal Home Loan Bank stock (Note 5)	2,003	1,556
Total Portfolio Investments	161,713	100,325
Loans (Note 6)	714,801	717,056
Allowance for loan losses (Note 7)	(11,735)	(12,125)
Net Loans	703,066	704,931
Purchased receivables	19,437	21,183
Accrued interest receivable	5,232	4,916
Premises and equipment, net (Note 8)	15,621	12,874
Intangible assets (Notes 1 and 10)	9,946	6,903
Other real estate owned (Note 9)	4,445	717
Other assets (Notes 1 and 10)	31,448	29,489
Total Assets	$1,014,714	$925,620
Liabilities		
Deposits:		
Demand	$224,986	$206,343
Interest-bearing demand	96,455	89,476
Savings	55,285	48,330
Alaska CDs	171,341	207,492
Money market	215,819	157,345
Certificates of deposit less than $100,000 (Note 11)	61,586	57,601
Certificates of deposit greater than $100,000 (Note 11)	41,904	28,317

Total Deposits	867,376	794,904
Borrowings (Note 12)	16,770	6,502
Junior subordinated debentures (Note 13)	18,558	18,558
Other liabilities (Note 17)	10,595	10,209
Total Liabilities	913,299	830,173
Minority interest in subsidiaries	24	29
Shareholders Equity (Note 18 and 19)		
Common stock, $1 par value, 10,000,000 shares authorized, 6,300,256 and 6,114,247 shares issued and outstanding at December 31, 2007 and 2006, respectively	6,300	6,114
Additional paid-in capital	50,798	46,379
Retained earnings	44,068	43,212
Accumulated other comprehensive income- net unrealized gains/losses on available for sale on investment securities	225	(287)
Total Shareholders Equity	101,391	95,418
Commitments and contingencies (Notes 3, 5, 12, 17, 18, 19, 20, 21, and 24)		
Total Liabilities and Shareholders Equity	$1,014,714	$925,620

See accompanying notes to the consolidated financial statements.

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NORTHRIM BANCORP, INC.
Consolidated Statements of Income
Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
	(In Thousands Except Per Share Amounts)		
Interest Income			
Interest and fees on loans	$66,463	$65,347	$55,870
Interest on investment securities-available for sale (Note 5)	4,120	2,396	2,171
Interest on investment securities-held to maturity (Note 5)	499	403	31
Interest on money market investments	1,985	1,375	709
Total Interest Income	73,067	69,521	58,781
Interest Expense			
Interest expense on deposits and borrowings (Note 14)	23,237	21,999	14,873
Net Interest Income	49,830	47,522	43,908
Provision for loan losses (Note 7)	5,513	2,564	1,170
Net Interest Income After Provision for Loan Losses	44,317	44,958	42,738
Other Operating Income			
Service charges on deposit accounts	3,116	1,975	1,800
Purchased receivable income	2,519	1,855	993
Employee benefit plan income	1,194	1,113	
Equity in earnings from mortgage affiliate	454	649	493
Equity in loss from Elliott Cove	(93)	(230)	(424)
Other income	2,630	2,296	1,971
Total Other Operating Income	9,820	7,658	4,833
Other Operating Expense			
Salaries and other personnel expense	20,700	19,277	17,656
Occupancy, net	2,823	2,503	2,417
Equipment expense	1,350	1,350	1,371
Marketing expense	1,617	1,641	1,657
Intangible asset amortization expense	337	482	368
Other expense	8,102	6,115	6,008
Total Other Operating Expense	34,929	31,368	29,477

Income Before Income Taxes and Minority Interest	19,208	21,248	18,094
Minority interest in subsidiaries	290	296	
Income Before Income Taxes	18,918	20,952	18,094
Provision for income taxes (Note 15)	7,260	7,978	6,924
Net Income	$11,658	$12,974	$11,170
Earnings Per Share, Basic	$1.82	$2.02	$1.70
Earnings Per Share, Diluted	$1.80	$1.99	$1.64
Weighted Average Shares Outstanding, Basic	6,400,974	6,426,002	6,601,113
Weighted Average Shares Outstanding, Diluted	6,485,972	6,516,117	6,805,884

See accompanying notes to the consolidated financial statements.

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NORTHRIM BANCORP, INC.
Consolidated Statements of Changes in
Shareholders Equity and Comprehensive Income
Years Ended December 31, 2007, 2006 and 2005

	Common Stock					
	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
			(In Thousands)			
Balance as of January 1, 2005	6,089	$6,089	$45,876	$31,389	$4	$83,358
Cash dividend declared				(2,560)		(2,560)
Stock option expense			68			68
Exercise of stock options	23	23	106			129
Excess tax benefits from share-based payment arrangements			140			140
Treasury stock buy-back	(309)	(309)	(7,029)			(7,338)
Comprehensive income:						
Change in unrealized holding (gain/loss) on available for sale investment securities, net of related income tax effect (Note 16)					(493)	(493)
Net Income				11,170		11,170
Total Comprehensive Income						10,677
Balance as of December 31, 2005	5,803	$5,803	$39,161	$39,999	($489)	$84,474
Cash dividend declared				(2,780)		(2,780)
Stock dividend	291	291	6,690	(6,981)		
Stock option expense			390			390
Exercise of stock options	38	38	300			338
Excess tax benefits from share-based payment arrangements			230			230
Treasury stock buy-back	(18)	(18)	(392)			(410)
Comprehensive income:						
Change in unrealized holding (gain/loss) on available for sale investment securities, net of related income tax effect (Note 16)					202	202

Net Income				12,974		12,974
Total Comprehensive Income						13,176
Balance as of December 31, 2006	6,114	$6,114	$46,379	$43,212	($287)	$95,418
Cash dividend declared				(3,560)		(3,560)
Stock dividend	301	301	6,941	(7,242)		
Stock option expense			578			578
Exercise of stock options	23	23	50			73
Excess tax benefits from share-based payment arrangements			108			108
Treasury stock buy-back	(138)	(138)	(3,258)			(3,396)
Comprehensive income:						
Change in unrealized holding (gain/loss) on available for sale investment securities, net of related income tax effect (Note 16)					512	512
Net Income				11,658		11,658
Total Comprehensive Income						12,170
Balance as of December 31, 2007	6,300	$6,300	$50,798	$44,068	$225	$101,391

See accompanying notes to the consolidated financial statements.

NORTHRIM BANCORP, INC.
Consolidated Statements of Cash Flows
Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
		(In Thousands)	
Operating Activities:			
Net income	$11,658	$12,974	$11,170
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Security (gains), net			(9)
Depreciation and amortization of premises and equipment	1,123	1,116	1,244
Amortization of software	240	354	544
Intangible asset amortization	337	482	368
Amortization of investment security premium, net of discount accretion	(500)	(133)	
Deferred tax (benefit)	(393)	(1,862)	(821)
Stock-based compensation	578	390	68
Excess tax benefits from share-based payment arrangements	(108)	(230)	(140)
Deferral of loan fees and costs, net	(279)	19	183
Provision for loan losses	5,513	2,564	1,170
Purchased receivable loss	245		
Gain on sale of other real estate owned	(110)		
Earnings in RML, net of distributions	118	(124)	(11)
Equity in loss from Elliott Cove	93	230	424
Minority interest in subsidiaries	290	296	
(Increase) in accrued interest receivable	(316)	(519)	(719)
(Increase) in other assets	(2,283)	(6,794)	(299)
Increase (decrease) of other liabilities	(22)	5,756	578
Net Cash Provided by Operating Activities	16,184	14,519	$13,750
Investing Activities:			
Investment in securities:			
Purchases of investment securities available-for-sale	(136,393)	(40,643)	(10,874)
Purchases of investment securities held-to-maturity		(10,905)	(277)
Proceeds from sales/maturities of securities available-for-sale	100,126	6,608	17,012
Proceeds from calls/maturities of securities held-to-maturity	70	65	65
Investment in Federal Home Loan Bank stock, net			(254)
(Investment in) cash proceeds from purchased receivables, net	1,501	(8,985)	(10,007)
Investments in loans:			
Sales of loans and loan participations	8,886	22,601	25,116
Loans made, net of repayments	(2,502)	(35,762)	(53,317)
Proceeds from sale of other real estate owned	266		
Alaska First acquisition, net of cash received	12,699		

Investment in Elliott Cove	(100)	(210)	(150)
Investment in NBG			(1,146)
Subscription in PWA			(2,015)
Loan to Elliott Cove, net of repayments	(48)	58	(575)
Loan to PWA, net of repayments		385	(385)
Purchases of premises and equipment	(3,861)	(3,387)	(1,264)
Purchases of software	(183)	(440)	(195)
Net Cash Used by Investing Activities	(19,539)	(70,615)	(38,266)
Financing Activities:			
Increase in deposits	24,786	15,038	80,805
Increase (decrease) in borrowings	5,145	(1,913)	1,937
Distributions to minority interests	(295)	(267)	
Proceeds from issuance of common stock	73	338	129
Excess tax benefits from share-based payment arrangements	108	230	140
Proceeds from issuance of junior subordinated debentures			10,000
Repurchase of common stock	(3,396)	(410)	(7,338)
Cash dividends paid	(3,542)	(2,768)	(2,560)
Net Cash Provided by Financing Activities	22,879	10,248	83,113
Net Increase (Decrease) by Cash and Cash Equivalents	19,524	(45,408)	58,597
Cash and cash equivalents at beginning of period	44,282	89,690	31,093
Cash and Cash Equivalents at End of Year	$63,806	$44,282	$89,690
Supplemental Information:			
Income taxes paid	$8,740	$9,296	$7,550
Interest paid	$23,105	$21,891	$14,741
Transfer of loans to other real estate owned	$4,445	$717	$

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 Organization and Summary of Significant Accounting Policies

Northrim BanCorp, Inc. (the Company) is a bank holding company whose subsidiaries are Northrim Bank (the Bank), which serves Anchorage, Eagle River, the Matanuska Valley, Fairbanks, Alaska, and the Pacific Northwest through its Northrim Funding Services division (NFS); Northrim Investment Services Company (NISC) which holds the Company s interest in both Elliott Cove Capital Management LLC (Elliott Cove), an investment advisory services company, and Pacific Wealth Advisors (PWA), an investment advisory, trust and wealth management business located in Seattle, Washington; and Northrim Capital Trust 1 (NCT1) and Northrim Statutory Trust 2 (NST2), entities that were formed to facilitate trust preferred securities offerings by the Company. The Company is regulated by the State of Alaska and the Federal Reserve Board. The Company was incorporated in Alaska, and its primary market areas include Anchorage, the Matanuska Valley, and Fairbanks, Alaska, where the majority of its lending and deposit activities have been with Alaska businesses and individuals.

Effective December 31, 2001, Northrim Bank became a wholly-owned subsidiary of a new bank holding company, Northrim BanCorp, Inc. The Bank s shareholders agreed to exchange their ownership in the Bank for ownership in the Company. The ownership interests in the Company are the same as the ownership interests in the Bank prior to the exchange. The exchange has been accounted for similarly to a pooling of interests.

The Bank formed a wholly-owned subsidiary, Northrim Capital Investments Co. (NCIC), in 1998. This subsidiary owns a 24% profit interest in Residential Mortgage Holding Company LLC (RML Holding Company), a residential mortgage holding company that owns one mortgage company, Residential Mortgage LLC (RML). RML has branches throughout Alaska. The Company accounts for RML Holding Company using the equity method. In addition, NCIC owns a 50.1% interest in Northrim Benefits Group, LLC (NBG), an insurance brokerage company that provides employee benefit plans to businesses throughout Alaska. The Company consolidates NBG in its financial results.

Estimates and Assumptions: In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period and the disclosure of contingent assets and liabilities in accordance with generally accepted accounting principles. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing balances with other banks, money market investments including interest-bearing balances with the FHLB, banker s acceptances, commercial paper, securities purchased under agreement to resell, and federal funds sold.

Investment Securities: Securities available-for-sale are stated at fair value with unrealized holding gains and losses, net of tax, excluded from earnings and reported as a separate component of other comprehensive income, unless an unrealized loss is deemed other than temporary. Gains and losses on available-for-sale securities sold are determined on a specific identification basis.

Held-to-maturity securities are stated at cost, adjusted for amortization of premium and accretion of discount on a level-yield basis. The Company has the ability and intent to hold these securities to maturity.

A decline in the market value of any available for sale or held to maturity security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. Unrealized investment securities losses are evaluated at least quarterly on a specific identification basis to determine whether such declines in value should be considered other than temporary and therefore be subject to immediate loss recognition in income. Although these evaluations involve significant judgment, an unrealized loss in the fair value of a debt security is generally deemed to be temporary when the fair value of the security is below the carrying value primarily due to changes in interest rates, there has not been significant deterioration in the financial condition of the issuer, and the Company has the intent and ability to hold the security for a sufficient time to recover the carrying value. Other factors that may be considered in determining whether a decline in the value is other than temporary include ratings by recognized rating agencies; actions of commercial banks or other lenders relative to the continued extension of credit facilities to the issuer of the security; the financial condition, capital strength and near-term prospects of the issuer, and recommendations of investment advisors or market analysts.

Loans and Loan Fees: Loans are carried at their principal amount outstanding, net of unamortized fees and direct loan origination costs. Interest income on loans is accrued and recognized on the principal amount outstanding except for loans in a non-accrual status. Loans are placed on non-accrual when management believes doubt exists as to the collectibility of the interest or principal. Cash payments received on non-accrual loans are directly applied to the principal balance. Loan origination fees received in excess of direct origination costs are deferred and accreted to interest income using a method approximating the level-yield method over the life of the loan.

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Allowance for Loan Losses: The allowance for loan losses is a management estimate of the reserve necessary to absorb probable losses in the Company s loan portfolio as of the balance sheet date. The Company charges off the balance of a loan or writes down a portion of a loan when it identifies a loss in the respective loan. In determining the adequacy of the allowance, management evaluates prevailing economic conditions, results of regular examinations and evaluations of the quality of the loan portfolio by external parties, actual loan loss experience, the extent of existing risks in the loan portfolio, commitments to lend other funds, and other pertinent factors. Future additions to the allowance may be necessary based on changes in economic conditions and other factors used in evaluating the loan portfolio. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require additions to the allowance based on their judgments of information available to them at the time of their examination.

The allowance for impaired loans is based on discounted cash flows using the loan s initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

Purchased Receivables: The Bank purchases accounts receivable at a discount from its customers. The purchased receivables are carried at cost. The discount and fees charged to the customer are earned while the balances of the purchases are outstanding.

Premises and Equipment: Premises and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization expense for financial reporting purposes is computed using the straight-line method based upon the shorter of the lease term or the estimated useful lives of the assets that vary according to the asset type and include; vehicles at 3 years, furniture and equipment ranging between 3 and 7 years, leasehold improvements ranging between 2 and 11 years, and buildings over 39 years. Maintenance and repairs are charged to current operations, while renewals and betterments are capitalized.

Intangible Assets: As part of an acquisition of branches from Bank of America in 1999, the Company recorded $6.9 million of goodwill and $2.9 million of core deposit intangible (CDI). This CDI is fully amortized as of December 31, 2007. In 2007, the Company recorded $2.1 million of goodwill and $1.3 million of CDI as part of the acquisition of Alaska First Bank & Trust, N.A. (Alaska First) stock. In addition, the Company amortizes this CDI over its estimated useful life of ten years using an accelerated method. In accordance with Statements of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets, management reviews goodwill annually for impairment by reviewing a number of key market indicators. Finally, the Company recorded $1.1 million in intangible assets related to customer relationships purchased in the acquisition of an additional 40.1% of NBG in December 2005. The Company amortizes this intangible over its estimated life of ten years.

Other Assets: Other assets include purchased software and prepaid expenses. Purchased software is carried at amortized cost and is amortized using the straight-line method over their estimated useful life or the term of the agreement. Also included in other assets is the deferred tax asset and the Company s investments in RML Holding Company, Elliott Cove, NBG, and three low-income housing partnerships. These partnerships include Centerline Corporate Partners XXII, L.P. (Centerline XXII) and Centerline Corporate Partners XXXIII, L.P. (Centerline XXXIII), formerly Related Corporate Partners XXII, L.P., (RCP), and CharterMac Corporate Partners XXXIII, L.P., and U.S.A. Institutional Tax Credit Fund LVII L.P. (USA 57). These entities are all Delaware limited partnerships. The Company purchased a $3 million interest in each of these partnerships in January 2003, September 2006 and December 2006, respectively. The Company includes the income and loss from its affiliates in its financial statements on a one month lagged basis.

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 market 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 market value less cost to sell is greater than the carrying amount of the loan plus amounts previously charged off is recognized in earnings. Any subsequent reduction in the carrying value is charged against earnings.

Advertising: Advertising, promotion and marketing costs are expensed as incurred. For the periods ending December 31, 2007, 2006, and 2005, the Company reported total expenses of $1.6 million, $1.6 million, and $1.7 million, respectively.

Income Taxes: The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings Per Share: Earnings per share is calculated using the weighted average number of shares and dilutive common stock equivalents outstanding during the period. Stock options, as described in Note 18, are considered to be common stock equivalents. Incremental shares were 31,400, 92,782, and 178,681 for 2007, 2006, and 2005, respectively. On October 5, 2007, the Company paid a 5% stock dividend to shareholders of record as of September 21, 2007. As a result, the Company issued 300,729 of its shares along with a cash dividend of $2,000 to pay for fractional shares. The financial statements for prior periods were adjusted to reflect the stock dividend.

Stock Option Plans: The Company accounts for its stock option plans in accordance with the provisions of FASB Statement No. 123R, Share Based-Payment , a revision of FASB 123 Accounting for Stock Based Compensation . FASB Statement No. 123R establishes accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. In accordance with FASB Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure , the Company has elected the modified prospective method for recognition of compensation cost associated with stock options and has elected to recognize compensation expense for options with pro-rata vesting using the straight-line method. Accordingly, results for prior periods have not been restated. Prior to January 1, 2006 the Company accounted for its stock options in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, for the year ended December 31, 2005, compensation expense is calculated using the intrinsic-value-based method of accounting. Under this method, expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price.

The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards in each period in which the intrinsic-value-based method of accounting was applied:

		2005
Net income (in thousands)	As reported	$11,170
Less stock-based employee compensation		(173)
Net income	Pro forma	$10,997
Earnings per share, basic	As reported	$1.70
	Pro forma	$1.67
Earnings per share, diluted	As reported	$1.64
	Pro forma	$1.62

Comprehensive Income: Comprehensive income consists of net income and net unrealized gains (losses) on securities after tax effect and is presented in the consolidated statements of shareholders equity and comprehensive income.

Reclassifications: Certain reclassifications have been made to prior year amounts to maintain consistency with the current year with no impact on net income or total shareholders equity.

Segments: The Company has identified only one reportable segment.

Business Concentration: The Company s growth and operations depend upon the economic conditions of Alaska and the specific markets it serves. The economy in Alaska is dependent upon the natural resources industries, in particular oil production, as well as tourism, government, and U.S. military spending. Approximately 89% of the Alaska state government is funded through various taxes and royalties on the oil industry. Any significant changes in the Alaska economy and the markets the Company serves eventually could have a positive or negative impact on the Company.

At December 31, 2007 and 2006, the Company had $423 million and $440 million, respectively, in commercial and construction loans in Alaska. In addition, the Company has commitments of $105 million to four commercial and residential construction/land development borrowing relationships at December 31, 2007. $96.8 million of these commitments are outstanding at December 31, 2007.

Consolidation Policy: The consolidated financial statements include the financial information for Northrim BanCorp, Inc. and its wholly-owned subsidiaries that include Northrim Bank, and NISC. All intercompany balances have been eliminated in consolidation. The Company accounts for its investments in RML Holding Company, Elliott Cove, and Pacific Wealth Advisors, LLC using the equity method. Minority interest relates to the minority ownership in NBG.

Business Combinations: FASB Statement No. 141, *Business Combinations*, (Statement 141), requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. The purchase method requires the cost of an acquired entity to be allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The difference between the fair values and the purchase price is recorded to Goodwill. Also, under Statement 141, identified intangible assets acquired in a purchase business combination must be separately valued and recognized on the balance sheet if they meet certain requirements. See Note 2 Alaska First Acquisition for further discussion.

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NOTE 2 Alaska First Acquisition

At the close of business on October 19, 2007, the Company acquired 100 percent of the outstanding shares of Alaska First for $6.3 million in an all cash transaction. Prior to the closing of the Alaska First acquisition, Alaska First sold its subsidiary, Hagen Insurance. The results of Alaska First s operations have been included in the consolidated financial statements since that date. Alaska First was a local bank that had two branches in Anchorage. The Company closed one of the branches on December 31, 2007 and the other on January 29, 2008.

The acquisition was accounted for as a purchase in accordance with Statement 141. Accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the acquisition date as summarized in the following table:

	(In Thousands)
Total Purchase Price	$6,250
Allocation of purchase price	
Alaska First s shareholder equity	4,479
Estimated adjustments to reflect assets acquired and liabilities assumed at fair value:	
Investments	165
Fixed assets	(109)
Other assets	(840)
Core deposit intangible	1,311
Estimated fair value of net assets aquired	5,006
Direct acquisition costs	825
Goodwill resulting from acquisition	$2,069

Of the $2.6 million of acquired intangible assets, $1.3 million was assigned to CDI. The CDI asset will be amortized over its estimated useful life of 10 years on an accelerated basis and is deductible for tax purposes only if the Company divests itself of Northrim Bank. The remaining $1.2 million of intangible asset acquired represents goodwill and is not deductible for tax purposes. The Company capitalized an additional $825,000 in external direct costs related to the acquisition for a total of $2.1 million in goodwill at December 31, 2007.

The fair value of assets and liabilities of Alaska First at the date of acquisition are presented below:

(In Thousands)

Cash	$18,806
Available for sale securities	23,821
Loans, net of allowance for losses of $220,000	13,205
Other assets	1,565
Core deposit intangible	1,311
Goodwill	1,244
Total Assets	59,952
Deposits	47,686
Repurchase Agreements	5,123
Other liabilities	893
Total Liabilities	53,702
Net Assets Acquired	$6,250

The proforma affect of this acquisition on consolidated results of operations was not significant.

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NOTE 3 Cash and Due from Banks

The Company is required to maintain a $500,000 minimum average daily balance with the Federal Reserve Bank for purposes of settling financial transactions and charges for Federal Reserve Bank services. The Company is also required to maintain cash balances or deposits with the Federal Reserve Bank sufficient to meet its statutory reserve requirements. The average reserve requirement for the maintenance period, which included December 31, 2007, was $0.

NOTE 4 Money Market Investments

Money market investment balances are as follows:

December 31,	2007	2006
	(In Thousands)	
Interest bearing deposits at Federal Home Loan Bank (FHLB)	$6,039	$18,717
Fed funds sold	27,000	
Total	$33,039	$18,717

All money market investments had a one-day maturity.

NOTE 5 Investment Securities

The carrying values and approximate market values of investment securities are presented below:

December 31,	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
		(In Thousands)		
2007:				
Securities Available for Sale				
U.S. Treasury	$4,977	$5	$	$4,982
Government Sponsored Entities	134,370	447	79	134,738
Mortgage-backed Securities	466		1	465
Corporate Bonds	7,813	11		7,824
Total	$147,626	$463	$80	$148,009

Securities Held to Maturity				
Municipal Securities	$11,701	$49	$1	$11,749
Federal Home Loan Bank Stock	$2,003	$	$	$2,003
2006:				
Securities Available for Sale				
U.S. Treasury	$16,860	$	$20	$16,840
Government Sponsored Entities	70,438	16	483	69,971
Mortgage-backed Securities	183		1	182
Total	$87,481	$16	504	$86,993
Securities Held to Maturity				
Municipal Securities	$11,776	$32	$33	$11,775
Federal Home Loan Bank Stock	$1,556	$	$	$1,556

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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 December 31, 2007 and 2006 were as follows:

December 31,	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
2007:						
Securities Available for Sale						
Government Sponsored Entities	$33,390	$55	$12,671	$24	$46,061	$79
Mortgage-backed Securities	150	1			150	1
Total	$33,540	$56	$12,671	$24	$46,211	$80
Securities Held to Maturity						
Municipal Securities	$0	$0	$2,037	$1	$2,037	$1

December 31,	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
2006:						
Securities Available for Sale						
U.S. Treasury	$5,862	$5	$10,978	$15	$16,840	$20
Government Sponsored Entities			39,966	483	39,966	483
Mortgage-backed Securities			182	1	182	1
Total	$5,862	$5	$51,126	$499	$56,988	$504
Securities Held to Maturity						
Municipal Securities	$8,105	$30	$274	$3	$8,379	$33

The unrealized losses on investments in U.S. Treasury and government sponsored entities were caused by interest rate increases. At December 31, 2007, there were eight of these securities in an unrealized loss position of $79,000. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

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The amortized cost and market values of debt securities at December 31, 2007, are distributed by contractual maturity as shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within 1 Year	1-5 Years	5-10 Years	Over 10 Years	Amortized Cost	Market Value
			(In Thousands)			
Securities Available for Sale						
U.S. Treasury	$4,977	$	$	$	$4,977	$4,982
Government Sponsored Entities	39,047	80,357	14,966		134,370	134,738
Mortgage-backed Securities	268	46		152	466	465
Corporate Bonds		7,813			7,813	7,824
Total	$44,292	$88,216	$14,966	$152	$147,626	$148,009
Weighted Average Yield	4.52%	4.87%	5.17%	5.44%	4.80%	
Securities Held to Maturity						
Municipal Securities	$3,266	$8,030	$405	$	$11,701	$11,749
Weighted Average Yield	3.76%	3.81%	3.93%	0.00%	3.80%	

The proceeds and resulting gains and losses, computed using specific identification, from sales of investment securities are as follows:

December 31,	Proceeds	Gross Gains	Gross Losses
		(In Thousands)	
2007:			
Available-for-Sale Securities	$8,900	$	$
Held-to-Maturity Securities	$	$	$
2006:			
Available-for-Sale Securities	$	$	$
Held-to-Maturity Securities	$	$	$

2005:			
Available-for-Sale Securities	$6,148	$44	$35
Held-to-Maturity Securities	$	$	$

The Company pledged $32.4 million and $15.7 million of investment securities at December 31, 2007, and 2006, respectively, as collateral for public deposits and borrowings.

A summary of taxable interest income on available for sale investment securities is as follows:

December 31,	2007	2006	2005
		(In Thousands)	
U.S. Treasury	$363	$438	$472
Government Sponsored Entities	3,666	1,948	1,688
Other	91	10	11
Total	$4,120	$2,396	$2,171

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Included in investment securities is a required investment in stock of the FHLB. The amount of the required investment is based on the Company s capital stock and lending activity, and amounted to $2.0 million and $1.6 million for 2007 and 2006, respectively.

NOTE 6 Loans

The composition of the loan portfolio is presented below:

December 31,	2007	2006
	(In Thousands)	
Commercial	$284,956	$287,281
Real estate construction	138,070	153,059
Real estate term	243,245	237,599
Installment and other consumer	51,274	42,140
Sub-total	717,545	720,079
Less: Unearned origination fees, net of origination costs	(2,744)	(3,023)
Total loans	714,801	717,056
Allowance for loan losses	(11,735)	(12,125)
Net Loans	$703,066	$704,931

The Company s primary market areas are Anchorage, the Matanuska Valley, and Fairbanks, Alaska, where the majority of its lending has been with Alaska businesses and individuals. At December 31, 2007, approximately 72% and 27% of the Company s loans are secured by real estate, or 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. The Company s exposure to credit loss, if any, is the outstanding amount of the loan if the collateral is proved to be of no value.

Non-accrual loans totaled $9.7 million and $5.2 million at December 31, 2007, and 2006, respectively. Interest income which would have been earned on non-accrual loans for 2007, 2006, and 2005 amounted to $865,000, $437,000, and $353,000, respectively. There are no commitments to lend additional funds to borrowers whose loans are in a non-accrual status or are troubled debt restructurings.

At December 31, 2007, and 2006, the recorded investment in loans that are considered to be impaired was $51.4 million and $32 million, respectively, (of which $9.6 million and $5.2 million, respectively, were on a non-accrual basis). A specific allowance of $3.3 million was established for $11.7 million of the $51.4 million of impaired loans in 2007. A specific allowance of $4.3 million was established for $19.6 million of the $32 million of impaired loans in 2006. The average recorded investment in impaired loans during the years ended December 31, 2007, and 2006, was approximately $49.7 million and $32.2 million, respectively. For December 31, 2007, 2006 and 2005 the Company recognized interest income on these impaired loans of $4.2 million, $2.5 million and $945,000, respectively.

At December 31, 2007, and 2006, there were no loans pledged as collateral to secure public deposits.

At December 31, 2007, and 2006, the Company serviced $92 million and $97 million of loans, respectively, which had been sold to various investors without recourse. At December 31, 2007, and 2006, the Company held $1.1 million and $1.1 million, respectively, in trust for these loans for the payment of such items as taxes, insurance, and maintenance costs.

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Maturities and sensitivity of accrual loans to changes in interest rates as of December 31, 2007 are as follows:

	Maturity			
	Within 1 Year	1-5 Years	Over 5 Years	Total
	(In Thousands)			
Commercial	$127,834	$111,724	$42,227	$281,785
Construction	121,146	12,191		133,337
Real estate term	72,096	66,667	102,721	241,484
Installment and other consumer	2,056	9,011	40,198	51,265
Total	$323,132	$199,593	$185,146	$707,871
Fixed interest rate	$111,388	$66,885	$57,786	$236,059
Floating interest rate	211,744	132,708	127,360	471,812
Total	$323,132	$199,593	$185,146	$707,871

Certain directors, and companies of which directors are principal owners, have loans and other transactions such as insurance placement and architectural fees with the Company. Such transactions are made on substantially the same terms, including interest rates and collateral required, as those prevailing for similar transactions of unrelated parties. An analysis of the loan transactions follows:

December 31,	2007	2006
	(In Thousands)	
Balance, beginning of the year	$1,123	$2,995
Loans made	6,495	11,520
Repayments or change to nondirector status	5,577	13,392
Balance, end of year	$2,041	$1,123

The Company s unfunded loan commitments to these directors or their related interests on December 31, 2007, and 2006, were $917,000 and $3.4 million, respectively.

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NOTE 7 Allowance for Loan Losses

The following is a detail of the allowance for loan losses:

December 31,	2007	2006	2005
		(In Thousands)	
Balance, beginning of the year	$12,125	$10,706	$10,764
Allowance aquired with stock purchase	220		
Provision charged to operations	5,513	2,564	1,170
Charge-offs:			
Commercial	(4,291)	(2,545)	(1,552)
Construction	(2,982)		(100)
Real estate	(599)		
Installment and other consumer	(45)	(72)	(63)
Total Charge-offs	(7,917)	(2,617)	(1,715)
Recoveries:			
Commercial	1,723	1,086	418
Construction	50		15
Real estate		355	15
Installment and other consumer	21	31	39
Total Recoveries	1,794	1,472	487
Charge-offs net of recoveries	(6,123)	(1,145)	(1,228)
Balance, End of Year	$11,735	$12,125	$10,706

At December 31, 2007, the allowance for loan losses was $11.7 million as compared to balances of $12.1 million and $10.7 million, respectively, at December 31, 2006 and 2005. The decrease in the allowance for the loan losses between December 31, 2007 and December 31, 2006 was caused in part by the increased level of net charge-offs taken in 2007 as well as due to the collection of several loans in 2007, which were previously reserved.

The increase in potential problem loans, nonaccrual loans and loans measured for impairment have been factored into the Company s methodology for analyzing the allowance, which has been applied on a consistent basis. As described in note 6, the majority of these loans were evaluated for impairment and due to the estimated collateral value, additional reserves were not considered necessary. The relation of these loans to the allowance is within the expectation and ranges established by policy.

NOTE 8 Premises and Equipment

The following summarizes the components of premises and equipment:

December 31,	Useful Life	2007	2006
		(In Thousands)	
Land		$1,443	$1,443
Vehicle	3 years	61	61
Furniture and equipment	3-7 years	10,090	9,608
Tenant improvements	2-11 years	10,695	7,307
Buildings	39 years	6,865	6,865
Total Premises and Equipment		29,154	25,284
Accumulated depreciation and amortization		(13,533)	(12,410)
Total Premises and Equipment, Net		$15,621	$12,874

Depreciation expense was $1.1 million, $1.1 million, and $1.2 million in 2007, 2006, and 2005, respectively.

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NOTE 9 Other Real Estate Owned

At December 31, 2007 and 2006 the Company held $4.5 million and $717,000, respectively, as other real estate owned. The Company expects to expend approximately $2.8 million during 2008 to complete construction of these projects. During 2007, the Company sold two owned properties and recognized a gain on sale of $110,000. An additional $432,000 of gain has been deferred and will be recognized using the installment method. There were no sales of owned property in 2006 and 2005.

NOTE 10 Other Assets

A summary of intangible assets and other assets is as follows:

December 31,	2007	2006
	(In Thousands)	
Intangible assets:		
Goodwill	$7,804	$5,735
Core deposits intangible	1,251	163
NBG customer relationships	891	1,005
Total	$9,946	$6,903
Prepaid expenses	$962	$719
Software	507	553
Deferred taxes, net	10,595	10,560
Note receivable from Elliott Cove	665	617
Investment in Elliott Cove	88	80
Investment in PWA	1,789	1,894
Investment in RML Holding Company	4,209	4,327
Investment in Low Income Housing Partnerships	7,639	8,220
Bank owned life insurance	2,853	1,215
Other assets	2,141	1,304
Total	$31,448	$29,489

As part of the acquisition of branches from Bank of America in 1999, the Company recorded $6.9 million of goodwill and $2.9 million of CDI. In 2007, the Company finished amortizing the CDI related to the Bank of America acquisition. As part of the stock acquisition of Alaska First in October 2007, the Company recorded $2.1 million of goodwill and $1.3 million of CDI for the acquisition of Alaska First stock. The Company is amortizing the CDI related to the Alaska First acquisition using the sum of years digits method over the estimated useful life of 10 years.

In the first quarter of 2005, NCIC purchased a 10% interest in NBG, an insurance brokerage company that provides employee benefit plans to businesses throughout Alaska. In the fourth quarter of 2005, NCIC purchased an additional 40.1% interest in NBG, bringing its ownership interest to 50.1%. The Company has invested $1.1 million in NBG and has attributed all of this investment to an intangible asset represented by the value of the customer relationships of NBG. The Company is amortizing the NBG intangible asset over a ten-year period on a straight-line basis. In 2007, the amortization expense on the NBG intangible asset was $115,000.

The Company recorded amortization expense of its intangible assets of $337,000, $482,000, and $368,000 in 2007, 2006, and 2005, respectively. The decrease in the amortization expense in 2007 resulted from the completion of amortization expense on the CDI related to the acquisition of the Bank of America branches. The amortization expense that is required on these assets as of December 31, 2007, is as follows:

Year Ending December 31:	
	(In Thousands)
2008	$347
2009	324
2010	300
2011	276
2012	252
Thereafter	642
Total	$2,141

As of December 31, 2007, the Company owns a 48% equity interest in Elliott Cove, an investment advisory services company, through its wholly owned subsidiary, NISC. Elliott Cove began active operations in the fourth quarter of 2002 and has had start-up losses since that time as it continues to build its assets under management. In addition to its ownership interest, the Company provides Elliott Cove with a line of credit that has a committed amount of $750,000 and an outstanding balance of $665,000 as of December 31, 2007.

In the fourth quarter of 2005, the Company, through NISC, purchased subscription rights to an ownership interest in Pacific Wealth Advisors, LLC (PWA), an investment advisory and wealth management business located in Seattle, Washington. The Company also made commitments to make two loans to PWA of $225,000 and $175,000, respectively. There were no outstanding balances on these two commitments as of December 31, 2007. Subsequent to the investment in these subscription rights, PWA purchased Pacific Portfolio Consulting L.P., an investment advisory business, and formed Pacific Portfolio Trust Company. After the completion of these transactions, NISC owned a 24% interest in PWA and applies the equity method of accounting for its ownership interest in PWA.

RML was formed in 1998 and has offices throughout Alaska. During the third quarter of 2004, RML reorganized and became a wholly-owned subsidiary of a newly formed holding company, RML Holding Company. In this process, RML Holding Company acquired another mortgage company, PAM, which was merged into RML in the first quarter of 2005. Prior to the reorganization, the Company, through Northrim Bank s wholly-owned subsidiary, NCIC, owned a 30% interest in the profits of RML. As a result of the reorganization, the Company now owns a 24% interest in the profits of RML Holding Company and applies the equity method of accounting for its ownership interest in RML.

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Below is summary balance sheet and income statement information for RML Holding Company.

December 31,	2007	2006
	(In Thousands)	
Assets		
Current assets	$42,924	$53,072
Long-term assets	6,507	6,455