NORTHRIM BANCORP INC
Form DEF 14A
March 14, 2008

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

**NORTHRIM BANCORP, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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3111 C Street
Anchorage, AK 99503

March 17, 2008

Dear Shareholder:

I am pleased to invite you to attend the Northrim BanCorp, Inc. Annual Shareholders Meeting where you will have the opportunity to hear about our 2007 operations and our plans for 2008. The meeting will be on Thursday, May 1, 2008, at 9 A.M., at the Hilton Anchorage Hotel 500 West Third Avenue in Anchorage, Alaska. I hope to see you there.

You will find additional information concerning Northrim and our operations in the enclosed 2007 Report to Shareholders and Annual Report 10-K, which includes our audited financial statements for the year ended December 31, 2007.

Whether or not you plan to attend the meeting, please sign and return your proxy card, which is included with this document, as soon as possible. Your opinion and your vote are very important to us. If you choose to attend the meeting, voting by proxy will not prevent you from voting in person; however, if you are unable to attend, voting by proxy will ensure that your vote is counted.

Thank you for your continued support of Northrim BanCorp, Inc. If you have any questions, please feel free to contact me at (907) 562-0062.

Sincerely,

/s/ Marc Langland

Marc Langland
Chairman, President and CEO

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## NOTICE OF ANNUAL SHAREHOLDERS MEETING

**To Be Held On May 1, 2008**

Notice is hereby given that Northrim BanCorp, Inc. (the Company ) will hold its 2008 Annual Shareholders Meeting at the Hilton Anchorage Hotel, 500 West Third Avenue, Anchorage, Alaska, at 9 A.M., on Thursday, May 1, 2008, for the following purposes, as more fully described in the accompanying proxy statement:

1. ELECTION OF DIRECTORS. To elect 10 directors for a term ending at the 2009 Annual Shareholders Meeting or such other date as their successors may be elected and qualified.

2. OTHER BUSINESS. To transact any other business that may properly come before the Annual Meeting or any adjournment or postponement of the meeting.

Shareholders owning Northrim BanCorp shares at the close of business on March 10, 2008, are entitled to receive notice of and to vote at the Annual Meeting or any adjournment or postponement of that meeting.

**Your Board of Directors unanimously recommends that shareholders vote FOR the slate of nominees to the Board of Directors proposed by the Board.**

By order of the Board of Directors,

/s/ Mary A. Finkle

Mary A. Finkle
Corporate Secretary

March 17, 2008

**Whether or not you plan to attend the annual meeting, please complete, sign and date the enclosed form of proxy and mail it promptly in the enclosed return envelope, which requires no postage if mailed in the United States. Your vote is important to us. If you attend the Annual Meeting, you may vote your shares in person if you wish to do so even if you have previously sent in your proxy.**

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**NORTHRIM BANCORP, INC.**
**3111 C Street**
**Anchorage, Alaska 99503**

## PROXY STATEMENT

The Board of Directors (the Board ) is soliciting proxies for this year s Annual Meeting. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

The Board set March 10, 2008, as the record date for the meeting. Shareholders who owned the Company s common stock on that date are entitled to vote at the meeting, with each share entitled to one vote. There were 6,311,807 shares of Company stock outstanding on the record date.

Voting materials, which include this proxy statement dated March 17, 2008, a proxy card, and the 2007 Report to Shareholders and Annual Report 10-K are first being mailed to shareholders on or about March 17, 2008.

## ABOUT THE MEETING

**Why am I receiving this proxy statement and proxy card?**

You are receiving this proxy statement and proxy card because you own shares of the Company s common stock. This proxy statement describes matters on which we would like you to vote.

When you sign the proxy card, you appoint the persons named in the proxy, R. Marc Langland and Christopher N. Knudson, as your representatives at the meeting, and those persons will vote your shares at the meeting as you have instructed on the proxy card. This way, your shares will be voted even if you cannot attend the meeting.

**Who is soliciting my proxy, and who is paying the cost of solicitation?**

The enclosed proxy is solicited by and on behalf of the Board, and the Company will bear the costs of solicitation. Certain directors, officers, and employees of the Company and/or its subsidiary, Northrim Bank (the Bank ), may solicit proxies by telephone, facsimile, and personal contact.

The Company does not expect to pay any compensation to employees, officers, or directors for soliciting proxies, but will reimburse brokers, nominees, and similar recordholders for reasonable expenses in mailing proxy material to beneficial owners of the Company s common stock.

**What am I voting on, and what vote is required for approval?**

At the Annual Meeting, you will be asked to vote on the election of 10 directors to serve on the Board until the 2009 Annual Shareholders Meeting or until their successors have been elected and have qualified. The election of directors will require the affirmative vote of a majority of the shareholders present in person or represented by duly executed proxy at the meeting.

**Who is entitled to vote?**

Only shareholders who owned the Company s common stock as of the close of business on the record date, March 10, 2008, are entitled to receive notice of the Annual Meeting and to vote the shares that they held on that date at the meeting, or any postponement or adjournment of the meeting.

**How do I vote, and how are the votes counted?**

You may vote your shares either in person at the Annual Meeting or by proxy. To vote by proxy, you should mark, date, sign, and mail the enclosed proxy card in the prepaid envelope provided. If your shares are registered in your own name and you attend the meeting, you may deliver your completed proxy card in person. Street name shareholders, that is, those shareholders whose shares are held in the name of and through a broker or other nominee, who wish to vote at the meeting will need to obtain a proxy from the institution that holds their shares.

With regard to the election of directors, you may cast your vote in favor of some or all of the nominees or you may withhold your vote as to some or all of the nominees. Each shareholder will be entitled to one vote for each share of common stock held of record by the shareholder on the record date, March 10, 2008. Directors will be elected if the number of votes cast in favor of the director exceeds the number of votes cast against the director. Accordingly, votes withheld generally will have no effect on the outcome of the election. You may also abstain from voting on any proposals other than the election of directors. An abstention will have no impact on the election of directors or any of the remaining proposals set forth in the *Notice of Annual Shareholders Meeting*.

If shares are held in street name, that is, through a broker or nominee, the broker or nominee is permitted to exercise voting discretion under certain circumstances. At this meeting, if the broker or nominee is not given specific voting instructions, shares may be voted on the election of directors by the broker or nominee in their own discretion. However, if your shares are held in street name and neither you nor your broker votes them, the votes will be broker non-votes, which will have the effect of excluding your vote from the tallies. If your shares are held in your own name and you do not vote your shares, your shares will not be voted.

On each matter before the meeting, including the election of directors, shareholders are entitled to one vote for each share of common stock they held at the record date. Shareholders may not cumulate their votes for the election of directors.

**Can I change my vote after I return my proxy card?**

Yes. If the enclosed proxy is duly executed and received in time for the meeting, the persons named in the proxy will vote the shares represented by the proxy **FOR** the 10 nominees listed in the proxy statement, unless otherwise directed. If you grant a proxy, you may revoke it at any time before its exercise by written notice to the Company to the attention of Mary A. Finkle, Corporate Secretary, by submitting a proxy with a subsequent date, or by announcing your revocation to the secretary at the meeting prior to the taking of a shareholder vote. The shares represented by properly executed proxies that are not revoked will be voted in accordance with the specifications in such proxies.

**Can I vote on other matters or submit a proposal to be considered at the meeting?**

The Company has not received timely notice of any shareholder proposals to be considered at the Annual Meeting, and shareholders may submit matters for a vote only in accordance with the Company s bylaws. The Board does not presently know of any other matters to be brought before the Annual Meeting.

For shareholders seeking to include proposals in the proxy materials for the 2009 Annual Meeting, the proposing shareholder or shareholders must comply with all applicable regulations, including Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the proposals must be received by the Secretary of the Company on or before November 17, 2008.

**How many votes are needed to hold the Annual Meeting?**

A majority of the Company s outstanding shares as of the record date (a quorum) must be present at the Annual Meeting in order to hold the meeting and conduct business. Shares are counted as present at the meeting if a shareholder is present and votes in person at the meeting or has properly submitted a proxy card. As of the record date for the Annual Meeting, 6,311,807 shares of the Company s common stock were outstanding and eligible to vote.

**How do I communicate with Directors?**

The Board provides a process for shareholders to send communications to the Board or any of the directors. Shareholders may send communications to the Board or any of the directors c/o Corporate Secretary, Northrim BanCorp, Inc., 3111 C Street, Anchorage, Alaska 99503. All communications will be compiled by the Corporate Secretary of the Company and submitted to the Board or the individual directors on a periodic basis.

## PROPOSAL 1: ELECTION OF DIRECTORS

### General

**How many directors are nominated?**

The Company s Articles of Incorporation provide that the Board will consist of not less than five nor more than 25 directors. Currently, the Board consists of 10 directors. The Board has set the number of directors to be elected at the Annual Meeting at 10 directors. Directors are elected for a one-year term and serve until their successors have been elected and qualified.

**Who are the nominees?**

The Board has nominated the individuals listed on the following pages for election as directors for the one-year term expiring at the 2009 Annual Shareholders Meeting or until their successors have been elected and qualified. If any nominee refuses or becomes unable to serve as a director before the meeting, the directors will select a replacement nominee, and your proxies will be voted for that replacement nominee. The Board presently has no knowledge that any nominee will refuse or be unable to serve.

It is the Company s policy to encourage that the directors up for election at the annual meeting attend the annual meeting. All directors up for election at the 2007 Annual Shareholders Meeting attended the 2007 Annual Shareholders Meeting with the exception of Mr. Copeland who could not be present due to an unavoidable conflict in his schedule.

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## INFORMATION ABOUT THE NOMINEES

The following table provides certain information about the nominees for director, including age, principal occupation during the past five years, and year first elected a director of Northrim Bank (the Bank ) or the Company. All of the nominees are presently directors of the Bank and the Company.

| Name/Age | Occupation of Nominee During Past Five Years | Director Since |
|---|---|---|
| R. Marc Langland, 66 | Chairman, President, and CEO of the Company and the Bank; Director, Alaska Air Group since 1991; Director, Usibelli Coal Mine, Inc. | 1990 |
| Larry S. Cash, 56 | President and CEO, RIM Architects (Alaska), Inc. since 1986; CEO, RIM Architects (Guam), LLC. | 1995 |
| Mark G. Copeland, 65 | Since June 1999, owner and sole member of Strategic Analysis LLC, a management consulting firm; Member, Copeland, Landye, Bennett and Wolf, LLP (law firm) for 30 years prior to that time | 1990 |
| Ronald A. Davis, 75 | CEO and Administrator, Tanana Valley Clinic until his retirement in 1998; Secretary/Treasurer, Canoe Alaska, 1996 to 1999; Vice President (1999-2003), Acordia of Alaska Insurance (full service insurance agency) until retirement | 1997 |
| Anthony Drabek, 60 | President and CEO, Natives of Kodiak, Inc. (Alaska Native Corporation) since 1989; Chairman and President, Koncor Forest Products Co.; Secretary/Director, Atikon Forest Products Co. | 1991 |
| Christopher N. Knudson, 54 | Executive Vice President and Chief Operating Officer of the Company and the Bank | 1998 |
| Richard L. Lowell, 67 | President (1985-2004), Ribelin Lowell & Company (insurance brokerage firm) Former Chairman of the Board, Ribelin Lowell Alaska USA Insurance Brokers (insurance brokerage firm) until retirement | 1990 |
| Irene Sparks Rowan, 66 | Director (1988-2000), Klukwan, Inc. (Alaska Native Corporation) and its subsidiaries until retirement | 1991 |
| John C. Swalling, 58 | President, Swalling & Associates PC (accounting firm) since 1991 | 2002 |
| David G. Wight, 67 | President and CEO (2000-2006), Alyeska Pipeline Service Company until retirement in 2006; Director, Storm Cat Energy (Denver based company) since 2006 | 2006 |

**The Board recommends that you vote FOR these nominees.**

### Shareholder Nominations for 2008 Annual Shareholders Meeting

In accordance with the Company s Bylaws, shareholder nominations for the 2008 Annual Shareholders Meeting ordinarily must be delivered in writing to the Secretary of the Company not less than 14 nor more than 50 days prior to the meeting. Any shareholder nomination should contain the following information to the extent known to the nominating shareholder: (i) the name and address of each proposed nominee; (ii) each nominee s principal occupation; (iii) the total number of shares of the Company s common stock that will be voted for each proposed nominee; (iv) the name and residence of the nominating shareholder; (v) the number of shares of the Company s common stock owned by the nominating shareholder; and (vi) whether the nominee had agreed to serve if elected.

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Nominations not made in accordance with the above requirements may be disregarded, in the sole discretion of the Chairman of the Annual Meeting, and upon the Chairman s instruction, the vote teller may disregard all votes cast for that nominee.

**Information Regarding the Board of Directors and Its Committees**

All non-management directors are independent of management within the meaning of currently applicable rules of the Securities Exchange Act of 1934 (the 1934 Act ), the Securities and Exchange Commission and the Nasdaq Global Select Market listing requirements.

The Company s Board has adopted certain standing committees, including an Audit Committee and Compensation Committee.

The Company does not have a standing Nominating Committee and as such does not have a Nominating Committee charter. The Board has discussed at length the nominating process and believes that it is important to have the involvement of all directors in the nominating process and that the Board, as a whole, shall act as the Nominating Committee, a process which has heretofore provided a much wider focus than might be achieved in the search, under a nominating committee charter, for potential Board candidates whose business sense and management philosophies are compatible with the Boards of Directors of the Company and the Bank. A majority of independent directors identifies and recommends persons to be nominees for positions on the Board at each annual meeting of shareholders, and to fill vacancies on the Board between annual meetings. Our directors take a critical role in guiding the Company s strategic direction and overseeing the management of the Company. Board candidates, including directors up for reelection, are considered based upon various criteria, such as personal integrity, broad-based business and professional skills and experiences, banking experience, concern for long-term interest of the Company s shareholders, freedom from conflicts of interest, sound business judgment, community involvement, and the time available to devote to board activities.

The Bank s Board met 10 times, and the Company s Board met 11 times during 2007. During 2007, all directors attended at least 75% of the total meetings of the Board and all committees of which they were members. The Company s independent directors meet in executive sessions once per quarter and rotate as lead director twice a year.

**Audit Committee.** The Audit Committee s principal functions include reviewing and approving the services of the independent auditors, reviewing the plan, scope, and audit results of the independent and internal auditors, and reviewing the reports of bank regulatory authorities. The Company s Board has adopted a written charter for the Audit Committee. Current members of the Audit Committee are Mark G. Copeland, Richard L. Lowell, and David G. Wight. SEE REPORT OF AUDIT COMMITTEE.

During 2007, the Audit Committee (the Committee ) had four regular meetings during which the Committee has been kept informed of the processes and procedures in place for maintaining the Company s readiness for compliance with Section 404 of the Sarbanes-Oxley Act of 2002 ( SOX ) as evaluated by the Company s independent auditors, internal SOX committee, and the internal audit manager.

Each of the members of the Committee is independent of management within the meaning of the 1934 Act, the rules of the Securities and Exchange Commission and the Nasdaq Global Select Market listing standards. The Committee and the full board have determined that no individual Committee member qualifies as an audit committee financial expert within the meaning of such rules. The Board does believe, however, that each of the Committee members has attributes of an audit committee financial expert within the meaning of applicable rules and that all of the members of the Committee, taken as a whole, would constitute an audit committee financial expert within the meaning of applicable rules.

In addition, one of our directors, Mr. Swalling, is a certified public accountant and, while he is not a member of the Committee due to the demands of his schedule, he is available as a resource on financial matters. For these reasons, at this time the Board does not believe it is necessary to actively search for a director that would qualify as an audit committee financial expert.

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**Compensation Committee.** The primary functions of the Compensation Committee, which met four times in 2007, are to review and approve executive and all other officer compensation, select and approve employee benefits and retirement plans, and administer the Company s stock option plans. Compensation Committee members are Larry S. Cash, Ronald A. Davis, and John C. Swalling. All members of the Compensation Committee are independent within the meaning of currently applicable rules of the 1934 Act, the Securities and Exchange Commission, and the Nasdaq Global Select Market listing requirements. Mr. Cash has served on the Compensation Committee since 1996. Mr. Davis was appointed to the Compensation Committee in 2002. Mr. Swalling was appointed to the Compensation Committee in 2005.

**Director Compensation.** Non-officer directors currently receive a $5,000 annual cash retainer and an additional $5,000 in cash to be used for the purchase of the Company s common stock on the open market, payable following our Annual Shareholders meeting, in addition to the fee of $750 for each Board meeting attended. Members of the Audit and Compensation Committees receive $750 for each meeting attended with the exception of the committee chairpersons who receive $1,500 and $1,125, respectively, for each committee meeting they attend.

**Compensation Committee Interlocks and Insider Participation.** No member of the Compensation Committee was, during the year ended December 31, 2007, an officer, former officer or employee of the Company or any of its subsidiaries. No executive officer of the Company served as a member of (i) the compensation committee of another entity in which one of the executive officers of such entity served on the Company s Compensation Committee, (ii) the Board of another entity in which one of the executive officers of such entity served on the Company s Compensation Committee, or (iii) the compensation committee of another entity in which one of the executive officers of such entity served as a member of the Company s Board, during the year ended December 31, 2007.

## EXECUTIVE OFFICERS

The following table sets forth certain information about the Company s executive officers:

| Name | Age | Position | Has Served as an Executive Officer Since |
|---|---|---|---|
| R. Marc Langland | 66 | Chairman of the Board, President and Chief Executive Officer of Northrim BanCorp, Inc. and Northrim Bank | 1990 |
| Joseph M. Schierhorn | 50 | Executive Vice President, Chief Financial Officer, and Compliance Manager of Northrim BanCorp, Inc. and Northrim Bank | 2001 |
| Christopher N. Knudson | 54 | Executive Vice President and Chief Operating Officer of Northrim BanCorp, Inc. and Northrim Bank | 1990 |
| Joseph M. Beedle | 56 | Executive Vice President of Northrim BanCorp, Inc. and Executive Vice President and Chief Lending Officer of Northrim Bank | 2006 |
| Steven L. Hartung | 61 | Executive Vice President of Northrim BanCorp, Inc. and Executive Vice President, Quality Assurance Officer | 2008 |

of Northrim Bank

All officers are elected by the Board for one year terms or until their successors are appointed and qualified. Each of the named executives have employment agreements with the Company. See *EXECUTIVE COMPENSATION Employment Agreements.*

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**Code of Conduct.** The Company has adopted a Code of Conduct, which includes a Code of Ethics for our executive officers. We will furnish a copy of the Code of Conduct to shareholders at no charge upon request to the Corporate Secretary.

## COMPENSATION DISCUSSION AND ANALYSIS

This section provides information regarding the compensation program in place for our Chief Executive Officer, Chief Financial Officer, and, in addition, the three most highly compensated executive officers (collectively, the named executive officers ). This section includes information regarding, among other things, the overall objectives of our compensation program and each element of compensation that we provide.

### Overview of Compensation Program

The Compensation Committee of the Board, which serves pursuant to its Charter adopted by the Board, bases its compensation strategy on maintaining the Company s primary strategic goal: to maintain, over the next several years, a well-capitalized, customer first service-focused financial institution, headquartered in Anchorage and serving the greater Anchorage, Matanuska Valley, and Fairbanks areas, as well as various other markets in and outside Alaska. We believe that achieving the Company s business and growth strategies will create long-term value for shareholders, consistent with protecting the interests of our depositors.

### Compensation Philosophy and Objectives

The Compensation Committee believes that compensation packages for the Company s named executive officers and key personnel should be based to a substantial extent on achievement of the goals and strategies the Board has established and articulated. When establishing salaries, bonus levels and stock option awards for named executive officers, the Compensation Committee considers (i) the Company s financial performance during the past year; (ii) the individual officer s performance during the past year based upon the officer s scope and level of responsibility and how well she or he managed and carried out those responsibilities to achieve the Company s goals, and how well that officer dealt with unexpected challenges and opportunities that were not anticipated in the Company s annual goal setting process; and (iii) market data related to the salaries of executive officers and key personnel in similar positions with companies of comparable size, as well as other companies within the financial institutions industry. For named executive officers other than the Chief Executive Officer, the Compensation Committee gives consideration to recommendations made by the Chief Executive Officer.

The Company has developed and implemented policies for determining salary structure, annual incentive bonus payments, and employee stock option and other stock-based awards based on recommendations of independent, nationally recognized compensation consultants, which, at the Compensation Committee s request, periodically evaluate the Company s executive compensation programs.

During each of the years 2002 through 2005, and again in 2006, the Compensation Committee engaged the independent, nationally recognized compensation consulting firm, Frederic W. Cook & Co., Inc., to review and analyze the Company s executive compensation package and overall compensation practices to ensure that the Company remains competitive with financial institutions of comparable size. Based on consultant surveys of then current statistical data, suggested alternatives, recommendations, and the advice of legal counsel, the Company adopted a new employee stock incentive plan in 2000; adopted in 2004, as approved by shareholders, the Northrim BanCorp, Inc. 2004 Stock Incentive Plan authorizing the issuance of 300,000 shares and reflecting accounting rule changes; amended and restated its employment agreements for executive officers and certain key personnel effective January 1, 2003; and amended and restated its employment agreements for executive officers and certain key personnel effective January 1, 2007 to comply with Internal Revenue Code Section 409A. (SEE *EMPLOYMENT*

*AGREEMENTS* on page 15).

In 2007 the Compensation Committee made the decision that it would be appropriate to again engage the services of a compensation consultant to review the Company s compensation program for employees and, executive officers, as well as the Board of Directors, in Spring 2008 when data disclosed in proxy statements would be readily available for timely collection and purposes of analysis and comparison of the Company s overall current compensation program to peer group financial institutions.

**Role of Executive Officers in Compensation Decisions**

The Compensation Committee makes all decisions related to the compensation of the Company s Chief Executive Officer subject to the Board s further approval and approves recommendations made by the Chief Executive Officer and Chief Operating Officer for bonus incentive and equity awards to other executives in key positions and elected officers of the Company.

The Chairman, President and Chief Executive Officer and the Chief Operating Officer annually review the individual performance of the Company s key executives. Their recommendations for bonus incentive and equity awards, based upon individual officer performance evaluations, are presented to and discussed with the Committee. The Committee can at its discretion modify any recommended adjustments or awards as deemed to be appropriate.

In 2007 the Compensation Committee proposed upward adjustments to the salaries of the Chief Executive Officer and Chief Operating Officer, which increases Mr. Langland and Mr. Knudson, respectively, requested they not be awarded. The consensus of the Compensation Committee and the Board of Directors was to honor Mr. Langland s and Mr. Knudson s requests.

**Executive Compensation**

The Company s executive compensation program continues to consist of four key elements: (i) base salary; (ii) a performance-based annual bonus; (iii) periodic option grants and other stock-based compensation awards; and (iv) retirement and other deferred benefits. While the Compensation Committee, with the assistance of a qualified consultant, does consider the Company s total compensation package, each component of the executive s package is in large part provided for under the terms of the executive s employment agreement, to include base salary, which can change from time to time, as well as entitlements to a bonus opportunity under the Incentive Plan and retirement benefits according to the prescribed terms of the executive s employment agreement. The Committee s and the Company s philosophy and practice is to be consistent in the timing of its review of the executive s performance and opportunities for compensatory recognition more than once within a given year to retain the executive over the short and long-term and appropriately reward performance based upon the executive s level of responsibility, accountability, and measured contributions to the organization.

The Compensation Committee believes this four-part approach best serves the interests of the Bank, the Company and its shareholders. It enables the Company to meet the requirements of the highly competitive banking and lending environment in which it currently operates in the Fairbanks, Wasilla and Anchorage, Alaska communities, while ensuring that executive officers are compensated in a way that advances both the short-and long-term interests of shareholders. The variable annual cash bonus incentive rewards and motivates individual performance, and is based, in significant part, on the contribution made by the officer to the Company s overall performance. Stock options and other stock-based awards relate a significant portion of long-term remuneration directly to stock price appreciation and further promote the executive s continued service with the Company.

The Compensation Committee evaluates both performance and the structure of executive compensation to ensure that the Company maintains its ability to attract and retain superior, customer service motivated employees in key positions and that the compensation for executives is reasonable but at a level competitive with similar positions held in local and Pacific Northwest peer-group organizations. The Compensation Committee objectively evaluates the performance of the Company s compensation program by periodically comparing the weight and values of its components to the Company s peer group of Pacific Northwest financial institutions as surveyed by independent consultants gathering pertinent salary, benefit, and equity compensation data from then current proxy statement disclosures.

The Company s performance has, in the Compensation Committee s opinion, shown the value of this approach. In particular, for 2007, the Compensation Committee noted the Company s strategic acquisition and merger of Alaska First Bank & Trust N.A. and merger into Northrim Bank, the Company s milestone growth to $1 billion in assets, the continued growth of the Bank s core deposit base with the introduction of the High

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Performance Checking program for business, enhancements to the Bank s technology to provide more secure, efficient, broader based, electronic services to its customers, the 8% increase in revenues and 28% growth in other operating income as compared to one year ago, and, that the Company has achieved a profit every quarter since the last quarter of its first full year in operation.

The Compensation Committee takes a two-fold approach, based on both quantitative and qualitative factors, when considering the compensation of the Company s Chairman, President and Chief Executive Officer. The Compensation Committee considers the Company s financial results for a given year compared to the Company s plan and actual results for the previous year. The Compensation Committee also considers certain qualitative accomplishments of the Chief Executive Officer in terms of the Company s realization of its corporate objectives, his foresight, extensive community involvement, as well as his proven leadership in strategically positioning the Company for future significant development in the banking industry and the Company s market and developing long-term strategies for the future direction and growth of the organization.

The Compensation Committee s timing for giving consideration to each element of the Company s executive compensation package is intended to bring consistency to the overall program, and support the Company s philosophy to provide more than one opportunity during a given year to recognize the performance and contributions of individual executive officers and executives in key positions. For example, in the first quarter the Compensation Committee considers and approves awards to participants under the Executive Incentive Plan and approves discretionary contributions to the Company s Savings Incentive Plan (401-k), which has a service based component to also provide employees who are non-participants with a retirement benefit. In the second quarter of the year, the Compensation Committee selects participants and criteria for the Executive Incentive Plan s plan year and conducts the annual officer and executive officer salary review. In the fourth quarter, the Compensation Committee considers and approves stock option grants and stock awards with pricing based upon the closing price of the Company s stock on the date of grant.

**Elements of Executive Compensation**

The Company and the Bank do not have any arrangements in place for or with the named executive officers whereby their compensation may be comprised of proportionate amounts of base salary, performance based annual bonus, options and other stock-based compensation, or retirement and other deferred benefits.

**Base Salary** Based on its consideration of competitive industry salaries and general economic conditions within the Company s market area and within the financial institutions industry, the Company s Human Resources Department has established a graded salary structure for executives, key personnel and other employees. Every salary grade is structured to allow for growth ranging from the grade s entry level benchmark through the mid-point range and to the upper-most level of annual salary for each grade. The matrix used to objectively calculate annual merit increases applies factors related to the position of the individual s current salary within the established ranges for her or his salary grade, predetermined rates of increase based on an annual survey of market data, and an evaluation of the employee s performance. The Human Resources Department reviews the schedule of matrix driven changes to individual officer annual base salaries and can make recommendations for any additional adjustments to the Chief Executive Officer and Chief Operating Officer.

Individual base salaries for named executive officers and officers in key positions are reviewed by and based upon recommendations of the Chief Executive Officer. Historically, officer base salary levels are reviewed annually in the second quarter of the Company s fiscal year and any proposed finalized increases to base annual salaries are recommended to the Compensation Committee by the Chief Executive Officer for approval based on an assessment of an executive s scope of responsibilities, experience, her or his individual performance, and contributions to the success of the organization.

**Performance Based Annual Bonus** Executive officers have an annual cash incentive bonus opportunity as participants in the Company s Executive Incentive Plan (the Incentive Plan ). The selection of Incentive Plan participants, tier target bonus levels, and Incentive Plan criteria, historically, occurs in the second quarter of the Company s fiscal year. Incentive Plan participants are recommended by the Chairman of the Board and President, and approved by the Compensation Committee prior to each plan year. The Incentive Plan also provides that the

Chairman of the Board and President may recommend discretionary awards for individuals who are non-participants.

The Incentive Plan establishes within each tier three levels of award, minimum, maximum, and target, representing a predetermined graduated percentage of annual base salary approved by the Compensation Committee. Actual bonus amounts must be approved by the Compensation Committee and are based on a formula that takes into account the creation of a bonus pool limited to 10% of net income as indicated by the Incentive Plan and calculations then based on the level of success in meeting the predetermined, identified, performance standards. Depending upon the achievement of the predetermined targets and individual officer levels of performance and current responsibility, the annual bonus could be less than or greater than targeted bonus amounts. If the Company s performance does not achieve the established minimum target level set for any specific criterion, then no payout is calculated for that component and the bonus pool is reduced by the amount that would have been earned.

For 2007, and at the present time, measured performance standards include return on equity, the ratio of expenses to assets, net income as compared to budget, earnings per share growth, and asset quality. The criteria are evaluated annually and may be modified by the Compensation Committee from time to time based on the Company s strategic plan, with the goal of maximizing shareholder returns. To this end, the Compensation Committee approved two changes to the plan s performance criteria for 2007 as compared to 2006 with the substitution of the ratio of expenses to assets for the efficiency criterion and substitution of earnings per share growth for the average asset growth criterion.

In 2007, the Company met the minimum threshold for the expenses to assets criterion, but failed to meet the minimum performance level of the remaining four criteria. In light of several significant unplanned projects that were accomplished in 2007, to include implementation of a system to charge non-sufficient-fund fees to Point of Sale transactions, which generated $1.1 million in incremental revenue for the year, the very successful acquisition of Alaska First Bank & Trust N.A., which added $58 million in assets to the Company s balance sheet and is projected to be accretive to future earnings, and the dedication of significant resources to improve credit quality, the Board of Directors authorized a special non-criterion award which resulted in the overall payment of the Incentive Plan in 2007 approximating 50% of that which was paid in 2006.

**Options and Other Stock-Based Compensation** The Compensation Committee is of the philosophy that offering stock-based incentives to executives and key employees: (i) attracts and retains the best available personnel for the long-term; (ii) enhances long-term profitability and shareholder value; and (iii) encourages employees to acquire and maintain stock ownership in the Company, thereby more closely aligning the interests of employees and shareholders. The Compensation Committee follows this philosophy and, subject to the Company s employee stock incentive plans, may determine the employees eligible to receive options and awards and to assess the amount of each option and award.

The 2004 Plan, an omnibus plan approved by shareholders, authorizes the Board or the Compensation Committee to administer the 2004 Plan and to grant to eligible key employees, from time to time, incentive and/or nonqualified stock options, restricted stock, restricted units, performance shares, performance units, stock appreciation rights, or dividend equivalent rights. The maximum value of all awards (options, stock awards, stock appreciation rights, and dividend equivalent rights) granted under the 2004 Plan to any single recipient may not exceed $1 million for any period for three consecutive calendar years. The Compensation Committee has not delegated any aspect of the administration of any of the Company s stock incentive plans, to include the 2004 Plan, to any other persons.

The 2004 Plan is designed to afford the Compensation Committee flexibility, consistency and balance in determining and governing the terms and mix of the annual grant of long-and-shorter-term equity based compensation awards to the Company s executive officers and other employees key to the safe and profitable operation of the Bank. Employees, to include the Company s named executives, are grouped within four tier levels according to the scope of their responsibility and roles within the organization, with the majority of the participants being members of the Bank s senior management team. The Compensation Committee believes that the awards of stock options and shorter-term restricted units serve to tie the executive s interests to those of the Company s shareholders, as well as provide an incentive for the executive s long-term retention, given the competitive climate in the Bank s marketplace for experienced and seasoned bankers. The methodology for calculating the option valuation

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and allocation of gross grant value to each employee, to include the executives, is applied to determining the number of stock options and/or units to be granted according to the calculated dollar value equivalent. The Committee and the Chief Executive Officer may then recommend upward or downward adjustments to the options or units to be granted based upon the participant s focus and level of success in meeting the Company s business plan goals.

The Compensation Committee established an aggregate limit of equity based compensation awards in conjunction with advice from its compensation consultant based on peer group award levels. The limit is set at 0.40% of average market capitalization for the preceding 12 months adjusted for expected forfeitures. The Compensation Committee also analyzes the financial impact of the grant on the Company s income statement and the potential dilution of the grant to existing shareholders compared to prior grants and the Company s peer group.

For 2007, the Chief Executive Officer made the request, which the Compensation Committee and the Board of Directors respectfully honored, that the dollar equivalent for determining the proposed option and restricted units to be granted to him be the same as applied in 2006 and not increased as recommended by the Compensation Committee.

The Company has not established any program whereby executives, key personnel, or directors are required to own and purchase within any specific schedule a defined number of shares of the Company s common stock. The Company and the Compensation Committee recognize the benefits of linking employee ownership with the interests of shareholders and, under the Company s Savings Incentive Plan (401-k), 50% of discretionary awards matching employee participant contributions and 50% of discretionary service based contributions to employee participants and non-participants alike are invested in the Company s common stock.

Our Company s board members are in compliance with the provisions of Alaska State Statute as to the direct ownership of stock issued by the company they serve as directors. Beginning in 2004, as approved by the Compensation Committee and the Board, it is the Company s practice to, each year following the Annual Shareholders meeting, make the payment of, as a part of her or his retainer, $5,000 to each non-employee director to purchase shares of the Company s stock at fair market value on the open market.

**Retirement and Other Deferred Benefits**

**Deferred Compensation Plan** Effective as of January 1, 1995, as amended effective as of October 3, 1996, and amended effective January 1, 2005 the Bank established a Deferred Compensation Plan ( DCP ) for the purpose of providing benefit planning to key employees of the Bank by permitting them to defer the receipt of compensation. All officers of the Bank and the Company are eligible to participate and other key employees may become eligible to participate if so notified by the Compensation Committee. The DCP provides that on or prior to December 31 of each year the plan is in effect, any eligible employee may, in writing, elect to defer receipt of at least five percent to a maximum of one hundred percent of their salary to be paid in the calendar year following the year of election. Any election is irrevocable as to any salary payable in the next year and effective with respect to future years unless revoked by the participant prior to December 31 of the year preceding the year in which the deferral is to take effect. Under the DCP, eligible employees may elect to defer receipt of all or a portion of their remaining salary to be paid in the current calendar year, if such written election is made within 30 days after she or he is first notified by the Compensation Committee of her or his eligibility to become a participant. The DCP provides that any eligible employee may elect to defer receipt of at least five percent to a maximum of one hundred percent of their bonus for services to be performed in a succeeding plan year under the same conditions described above. All amounts deferred are credited to participant accounts with interest compounded annually. According to the DCP, interest for any given year, or portion of a year is based on the Bank s average yield on its total assets calculated on January 1, based on the prior year s performance, less one percentage point. Therefore, the rate of interest calculated for 2007 was 6.81%.

As to the form and timing of payments, participants having *Pre-2005 Grandfathered Accounts*, shall be paid in installments or as a lump sum in accordance with the participant s deferral election. The Compensation Committee may elect, in its sole discretion to accelerate payments if an irrevocable written request is made within at least 30 days prior to the date of the first scheduled payment. If an accelerated payment is made, then the participant will be subject to a penalty payable to the Bank in an amount equal to two percent of the accelerated amount. If installment payments are elected, a level series of monthly payments will be computed based on account balance, time period selected and applicable interest rate in effect as of the benefit commencement date. In this case the applicable interest rate will be 50 basis points over the average of U.S. Treasury Note Rate for the preceding 12 months, preceding the commencement of payments and will be the nearest quoted rated for a maturity representing two-thirds of the installment pay-out period. Any deferral must be for a minimum period of two years with a distribution of a participant s account beginning on the first day of the month following sixty days after the earliest of voluntary or involuntary termination of employment, disability, or expiration of the deferred election.

The DCP provides that a participant s *Post-2004 Account* will be 100% vested and non-forfeitable at all times and shall become payable to her or him upon expiration of the deferral election. Any deferral election for this account to a specified future distribution date must be for at least two plan years. All participants must elect no later than December 31, 2008 to receive their *Post-2004 Account* at the end of her or his deferral period in a lump sum or in annual installments not to exceed 10 years and new participants after December 31, 2008 must elect at the time they become participants to receive their *Post-2004 Account* at the end of their deferral period in a lump sum or in annual installments not to exceed 10 years.

The DCP sets forth limitations as to Section 162(m) of the Internal Revenue Code of 1986. Also, the intent of the DCP, as written, is to comply with the provisions of Internal Revenue Code Section 409A.

**Northrim Bank Savings Incentive Plan (401-k)** Executive officers, as do other employees, participate in the Company s qualified retirement plan, the Northrim Bank Savings Incentive Plan (401-k), to the same extent and subject to the same rules and limitations as the Company s and the Bank s other employees. The (401-k) provides for a mandatory $0.25 match for each $1.00 contributed by an employee up to 6% of the employee s salary. The (401-k) also provides for a three-tier discretionary service based match regardless of the employee s participation in the (401-k), the first tier matching 1% of an employee s salary, if an employee has worked at the Bank for more than one but less than three years, the second, 2% of an employee s salary, if worked at the Bank for more than three years but less than six years, and the third, 4% of an employee s salary, if worked at the Bank in excess of six years. The (401-k) allows for an additional discretionary contribution of up to $0.75 for each $1.00 contributed by an employee up to 6% of that employee s salary. A residual discretionary contribution after all the previously listed contributions have been made is also provided for under the (401-k). Based upon the Bank s performance in 2007, a discretionary $0.50/$1.00 match and the service based matches were approved by the Compensation Committee and the Board of Directors.

**Supplemental Executive Retirement Plan** Effective July 1, 1994, the Bank adopted the Northrim Bank Supplemental Executive Retirement Plan ( SERP ) for the benefit of its executive officers. As provided by the SERP, the Company makes annual contributions to participant accounts on January 1 at a percentage rate of annual base salary determined and approved by the Compensation Committee. Earnings, under the SERP, are credited for the year on January 1 and based on the Bank s average yield on its total assets, less a three year rolling average of net loan charge-offs as a percentage of average loans outstanding for the respective periods. The Compensation Committee and the Board approved an amendment to the SERP, effective January 1, 2004, allowing participants more flexibility in choosing the form of payment of the benefits. The SERP provides for payment of a specified amount to plan beneficiaries or their survivors upon retirement, with early retirement permitted after the participant s 55th birthday, if she or he has been a plan participant for at least five years prior to retirement. Benefits are payable monthly beginning 90 days after retirement, with the amount payable being equal to the total plan account balance for that participant (including interest at a specified fixed rate) divided by 12 months, divided by the number of years over which the participant elects to receive payments, with 15 years being the maximum period over which payout is permitted. If the participant dies prior to commencement of benefits, benefits are paid to the participant s survivors in equal installments over 15 years unless the Compensation Committee elects to accelerate payment.

**Supplemental Executive Retirement Deferred Compensation Plan** The Committee, the Board and management deemed it prudent for the Bank to have life insurance protection on certain executives, considering the out-of-pocket costs related to replacing an executive officer, as well as the intangible, but real loss, due to disruptions in management and loss of existing or new business because of the death of a key individual. For these reasons, the Compensation Committee and the Board authorized the Bank to establish the Supplemental Executive Retirement Deferred Compensation Plan ( SERDCP ), a non-qualified deferred compensation plan. Certain executives, as identified by the Compensation Committee, are entitled to participate in the SERDCP, which is intended to provide a source of funds for their retirement through the Bank s purchase and ownership of key man insurance coverage in the form of a variable adjustable life policy in the amount approved by the Compensation Committee and the Board for each participant. The annual premium payment covers the cost of providing the Bank with a full death benefit for the face amount of the policy and the executive the deferred compensation retirement benefit or a death benefit to the executive s beneficiaries in the event of the executive s death before retirement, with the amount of payment equal to the greater of the policy s then cash surrender value or the death benefit of the policy. Earnings are based upon the participant s discretionary selection of investment opportunities available through the insurance provider to develop the cash surrender value of the portion of the premiums paid and allocated for that purpose. In the event of the participant s retirement or early death before retirement, the then cash surrender value will be paid in a lump sum to either the participant or her or his beneficiaries if this sum is greater than the death benefit of the insurance policy on the participant.

**Tax and Accounting Treatment of Executive Compensation**

*Deductibility of Executive Compensation*