

UNITED STATES DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, NW
WASHINGTON, D.C. 20220

Dear Ladies and Gentlemen:

The company set forth on the signature page hereto (the “*Company*”) intends to issue in a private placement the number of shares of a series of its preferred stock set forth on Schedule A hereto (the “*Preferred Shares*”) and a warrant to purchase the number of shares of a series of its preferred stock set forth on Schedule A hereto (the “*Warrant*” and, together with the Preferred Shares, the “*Purchased Securities*”) and the United States Department of the Treasury (the “*Investor*”) intends to purchase from the Company the Purchased Securities.

The purpose of this letter agreement is to confirm the terms and conditions of the purchase by the Investor of the Purchased Securities. Except to the extent supplemented or superseded by the terms set forth herein or in the Schedules hereto, the provisions contained in the Securities Purchase Agreement – Standard Terms attached hereto as Exhibit A (the “*Securities Purchase Agreement*”) are incorporated by reference herein. Terms that are defined in the Securities Purchase Agreement are used in this letter agreement as so defined. In the event of any inconsistency between this letter agreement and the Securities Purchase Agreement, the terms of this letter agreement shall govern.

Each of the Company and the Investor hereby confirms its agreement with the other party with respect to the issuance by the Company of the Purchased Securities and the purchase by the Investor of the Purchased Securities pursuant to this letter agreement and the Securities Purchase Agreement on the terms specified on Schedule A hereto.

This letter agreement (including the Schedules hereto), the Securities Purchase Agreement (including the Annexes thereto), the Disclosure Schedules and the Warrant constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties, both written and oral, between the parties, with respect to the subject matter hereof. This letter agreement constitutes the “Letter Agreement” referred to in the Securities Purchase Agreement.

This letter agreement may be executed in any number of separate counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts will together constitute the same agreement. Executed signature pages to this letter agreement may be delivered by facsimile and such facsimiles will be deemed as sufficient as if actual signature pages had been delivered.

* * *

In witness whereof, this letter agreement has been duly executed and delivered by the duly authorized representatives of the parties hereto as of the date written below.

UNITED STATES DEPARTMENT OF THE
TREASURY

By: /s/ Neel Kashkari

Name: Neel Kashkari

Title: Interim Assistant Secretary
For Financial Stability

COMPANY: Northwest Bancorporation, Inc.

By: /s/ Randall L. Fewel

Name: Randall L. Fewel

Title: President and Chief
Executive Officer

Date: February 13, 2009

SECURITIES PURCHASE AGREEMENT

EXHIBIT A

EXHIBIT A
(Non-Exchange-Traded QFIs,
excluding S Corps and Mutual Organizations)

SECURITIES PURCHASE AGREEMENT
STANDARD TERMS

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SECURITIES PURCHASE AGREEMENT – STANDARD TERMS

Recitals:

WHEREAS, the United States Department of the Treasury (the “*Investor*”) may from time to time agree to purchase shares of preferred stock and warrants from eligible financial institutions which elect to participate in the Troubled Asset Relief Program Capital Purchase Program (“*CPP*”);

WHEREAS, an eligible financial institution electing to participate in the CPP and issue securities to the Investor (referred to herein as the “*Company*”) shall enter into a letter agreement (the “*Letter Agreement*”) with the Investor which incorporates this Securities Purchase Agreement – Standard Terms;

WHEREAS, the Company agrees to expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy;

WHEREAS, the Company agrees to work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market;

WHEREAS, the Company intends to issue in a private placement the number of shares of the series of its Preferred Stock (“*Preferred Stock*”) set forth on Schedule A to the Letter Agreement (the “*Preferred Shares*”) and a warrant to purchase the number of shares of the series of its Preferred Stock (“*Warrant Preferred Stock*”) set forth on Schedule A to the Letter Agreement (the “*Warrant*” and, together with the Preferred Shares, the “*Purchased Securities*”) and the Investor intends to purchase (the “*Purchase*”) from the Company the Purchased Securities; and

WHEREAS, the Purchase will be governed by this Securities Purchase Agreement – Standard Terms and the Letter Agreement, including the schedules thereto (the “*Schedules*”), specifying additional terms of the Purchase. This Securities Purchase Agreement – Standard Terms (including the Annexes hereto) and the Letter Agreement (including the Schedules thereto) are together referred to as this “*Agreement*”. All references in this Securities Purchase Agreement – Standard Terms to “*Schedules*” are to the Schedules attached to the Letter Agreement.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements set forth herein, the parties agree as follows:

Article I Purchase; Closing

1.1 Purchase. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to sell to the Investor, and the Investor agrees to purchase from the Company, at the Closing (as hereinafter defined), the Purchased Securities for the price set forth on Schedule A (the “*Purchase Price*”).

1.2 Closing.

(a) On the terms and subject to the conditions set forth in this Agreement, the closing of the Purchase (the “*Closing*”) will take place at the location specified in Schedule A, at the time and on the date set forth in Schedule A or as soon as practicable thereafter, or at such other place, time and date as shall be agreed between the Company and the Investor. The time and date on which the Closing occurs is referred to in this Agreement as the “*Closing Date*”.

(b) Subject to the fulfillment or waiver of the conditions to the Closing in this Section 1.2, at the Closing the Company will deliver the Preferred Shares and the Warrant, in each case as evidenced by one or more certificates dated the Closing Date and bearing appropriate legends as hereinafter provided for, in exchange for payment in full of the Purchase Price by wire transfer of immediately available United States funds to a bank account designated by the Company on Schedule A.

(c) The respective obligations of each of the Investor and the Company to consummate the Purchase are subject to the fulfillment (or waiver by the Investor and the Company, as applicable) prior to the Closing of the conditions that (i) any approvals or authorizations of all United States and other governmental, regulatory or judicial authorities (collectively, “*Governmental Entities*”) required for the consummation of the Purchase shall have been obtained or made in form and substance reasonably satisfactory to each party and shall be in full force and effect and all waiting periods required by United States and other applicable law, if any, shall have expired and (ii) no provision of any applicable United States or other law and no judgment, injunction, order or decree of any Governmental Entity shall prohibit the purchase and sale of the Purchased Securities as contemplated by this Agreement.

(d) The obligation of the Investor to consummate the Purchase is also subject to the fulfillment (or waiver by the Investor) at or prior to the Closing of each of the following conditions:

(i) (A) the representations and warranties of the Company set forth in (x) Section 2.2(g) of this Agreement shall be true and correct in all respects as though made on and as of the Closing Date, (y) Sections 2.2(a) through (f) shall be true and correct in all material respects as though made on and as of the Closing Date (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct in all material respects as of such other date) and (z) Sections 2.2(h) through (v) (disregarding all qualifications or limitations set forth in such representations and warranties as to “materiality”, “Company Material Adverse Effect” and words of similar import) shall be true and correct as though made on and as of the Closing Date (other than representations and warranties that by their terms speak as of another date, which representations and warranties shall be true and correct as of such other date), except to the extent that the failure of such representations and warranties referred to in this Section 1.2(d)(i)(A)(z) to be so true and correct, individually or in the aggregate, does not have and would not reasonably be expected to have a Company Material Adverse Effect and (B) the Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing;

(ii) the Investor shall have received a certificate signed on behalf of the Company by a senior executive officer certifying to the effect that the conditions set forth in Section 1.2(d)(i) have been satisfied;

(iii) the Company shall have duly adopted and filed with the Secretary of State of its jurisdiction of organization or other applicable Governmental Entity the amendments to its certificate or articles of incorporation, articles of association, or similar organizational document (“*Charter*”) in substantially the forms attached hereto as Annex A and Annex B (the “*Certificates of Designations*”) and such filing shall have been accepted;

(iv) (A) the Company shall have effected such changes to its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, “*Benefit Plans*”) with respect to its Senior Executive Officers (and to the extent necessary for such changes to be legally enforceable, each of its Senior Executive Officers shall have duly consented in writing to such changes), as may be necessary, during the period that the Investor owns any debt or equity securities of the Company acquired pursuant to this Agreement or the Warrant, in order to comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 (“*EESA*”) as implemented by guidance or regulation thereunder that has been issued and is in effect as of the Closing Date, and (B) the Investor shall have received a certificate signed on behalf of the Company by a senior executive officer certifying to the effect that the condition set forth in Section 1.2(d)(iv)(A) has been satisfied;

(v) each of the Company’s Senior Executive Officers shall have delivered to the Investor a written waiver in the form attached hereto as Annex C releasing the Investor from any claims that such Senior Executive Officers may otherwise have as a result of the issuance, on or prior to the Closing Date, of any regulations which require the modification of, and the agreement of the Company hereunder to modify, the terms of any Benefit Plans with respect to its Senior Executive Officers to eliminate any provisions of such Benefit Plans that would not be in compliance with the requirements of Section 111(b) of the EESA as implemented by guidance or regulation thereunder that has been issued and is in effect as of the Closing Date;

(vi) the Company shall have delivered to the Investor a written opinion from counsel to the Company (which may be internal counsel), addressed to the Investor and dated as of the Closing Date, in substantially the form attached hereto as Annex D;

(vii) the Company shall have delivered certificates in proper form or, with the prior consent of the Investor, evidence of shares in book-entry form, evidencing the Preferred Shares to Investor or its designee(s); and

(viii) the Company shall have duly executed the Warrant in substantially the form attached hereto as Annex E and delivered such executed Warrant to the Investor or its designee(s).

1.3 Interpretation. When a reference is made in this Agreement to “Recitals,” “Articles,” “Sections,” or “Annexes” such reference shall be to a Recital, Article or Section of, or Annex to, this

Securities Purchase Agreement – Standard Terms, and a reference to “Schedules” shall be to a Schedule to the Letter Agreement, in each case, unless otherwise indicated. The terms defined in the singular have a comparable meaning when used in the plural, and vice versa. References to “herein”, “hereof”, “hereunder” and the like refer to this Agreement as a whole and not to any particular section or provision, unless the context requires otherwise. The table of contents and headings contained in this Agreement are for reference purposes only and are not part of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed followed by the words “without limitation.” No rule of construction against the draftsman shall be applied in connection with the interpretation or enforcement of this Agreement, as this Agreement is the product of negotiation between sophisticated parties advised by counsel. All references to “\$” or “dollars” mean the lawful currency of the United States of America. Except as expressly stated in this Agreement, all references to any statute, rule or regulation are to the statute, rule or regulation as amended, modified, supplemented or replaced from time to time (and, in the case of statutes, include any rules and regulations promulgated under the statute) and to any section of any statute, rule or regulation include any successor to the section. References to a “*business day*” shall mean any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

Article II Representations and Warranties

2.1 Disclosure.

(a) On or prior to the Signing Date, the Company delivered to the Investor a schedule (“*Disclosure Schedule*”) setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in Section 2.2.

(b) “*Company Material Adverse Effect*” means a material adverse effect on (i) the business, results of operation or financial condition of the Company and its consolidated subsidiaries taken as a whole; *provided, however*, that Company Material Adverse Effect shall not be deemed to include the effects of (A) changes after the date of the Letter Agreement (the “*Signing Date*”) in general business, economic or market conditions (including changes generally in prevailing interest rates, credit availability and liquidity, currency exchange rates and price levels or trading volumes in the United States or foreign securities or credit markets), or any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism, in each case generally affecting the industries in which the Company and its subsidiaries operate, (B) changes or proposed changes after the Signing Date in generally accepted accounting principles in the United States (“*GAAP*”) or regulatory accounting requirements, or authoritative interpretations thereof, or (C) changes or proposed changes after the Signing Date in securities, banking and other laws of general applicability or related policies or interpretations of Governmental Entities (in the case of each of these clauses (A), (B) and (C), other than changes or occurrences to the extent that such changes or occurrences have or would reasonably be expected to have a materially disproportionate adverse effect on the Company and its consolidated subsidiaries taken as a whole relative to comparable U.S. banking or financial services organizations); or (ii) the ability of the Company to consummate the Purchase and other transactions contemplated by this Agreement and the Warrant and perform its obligations hereunder or thereunder on a timely basis.

(c) “*Previously Disclosed*” means information set forth on the Disclosure Schedule, provided, however, that disclosure in any section of such Disclosure Schedule shall apply only to the indicated section of this Agreement except to the extent that it is reasonably apparent from the face of such disclosure that such disclosure is relevant to another section of this Agreement.

2.2 Representations and Warranties of the Company. Except as Previously Disclosed, the Company represents and warrants to the Investor that as of the Signing Date and as of the Closing Date (or such other date specified herein):

(a) Organization, Authority and Significant Subsidiaries. The Company has been duly incorporated and is validly existing and in good standing under the laws of its jurisdiction of organization, with the necessary power and authority to own its properties and conduct its business in all material respects as currently conducted, and except as has not, individually or in the aggregate, had and would not reasonably be expected to have a Company Material Adverse Effect, has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification; each subsidiary of the Company that would be considered a “significant subsidiary” within the meaning of Rule 1-02(w) of Regulation S-X under the Securities Act of 1933 (the “*Securities Act*”), has been duly organized and is validly existing in good standing under the laws of its jurisdiction of organization. The Charter and bylaws of the Company, copies of which have been provided to the Investor prior to the Signing Date, are true, complete and correct copies of such documents as in full force and effect as of the Signing Date.

(b) Capitalization. The authorized capital stock of the Company, and the outstanding capital stock of the Company (including securities convertible into, or exercisable or exchangeable for, capital stock of the Company) as of the most recent fiscal month-end preceding the Signing Date (the “*Capitalization Date*”) is set forth on Schedule B. The outstanding shares of capital stock of the Company have been duly authorized and are validly issued and outstanding, fully paid and nonassessable, and subject to no preemptive rights (and were not issued in violation of any preemptive rights). As of the Signing Date, the Company does not have outstanding any securities or other obligations providing the holder the right to acquire its Common Stock (“*Common Stock*”) that is not reserved for issuance as specified on Schedule B, and the Company has not made any other commitment to authorize, issue or sell any Common Stock. Since the Capitalization Date, the Company has not issued any shares of Common Stock, other than (i) shares issued upon the exercise of stock options or delivered under other equity-based awards or other convertible securities or warrants which were issued and outstanding on the Capitalization Date and disclosed on Schedule B and (ii) shares disclosed on Schedule B. Each holder of 5% or more of any class of capital stock of the Company and such holder’s primary address are set forth on Schedule B.

(c) Preferred Shares. The Preferred Shares have been duly and validly authorized, and, when issued and delivered pursuant to this Agreement, such Preferred Shares will be duly and validly issued and fully paid and non-assessable, will not be issued in violation of any preemptive rights, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(d) The Warrant and Warrant Shares. The Warrant has been duly authorized and, when executed and delivered as contemplated hereby, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity ("*Bankruptcy Exceptions*"). The shares of Warrant Preferred Stock issuable upon exercise of the Warrant (the "*Warrant Shares*") have been duly authorized and reserved for issuance upon exercise of the Warrant and when so issued in accordance with the terms of the Warrant will be validly issued, fully paid and non-assessable, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(e) Authorization, Enforceability.

(i) The Company has the corporate power and authority to execute and deliver this Agreement and the Warrant and to carry out its obligations hereunder and thereunder (which includes the issuance of the Preferred Shares, Warrant and Warrant Shares). The execution, delivery and performance by the Company of this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company. This Agreement is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to the Bankruptcy Exceptions.

(ii) The execution, delivery and performance by the Company of this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby and compliance by the Company with the provisions hereof and thereof, will not (A) violate, conflict with, or result in a breach of any provision of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination or acceleration of, or result in the creation of, any lien, security interest, charge or encumbrance upon any of the properties or assets of the Company or any subsidiary of the Company (each a "*Company Subsidiary*" and, collectively, the "*Company Subsidiaries*") under any of the terms, conditions or provisions of (i) its organizational documents or (ii) any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which the Company or any Company Subsidiary is a party or by which it or any Company Subsidiary may be bound, or to which the Company or any Company Subsidiary or any of the properties or assets of the Company or any Company Subsidiary may be subject, or (B) subject to compliance with the statutes and regulations referred to in the next paragraph, violate any statute, rule or regulation or any judgment, ruling, order, writ, injunction or decree applicable to the Company or any Company Subsidiary or any of their respective properties or assets except, in the case of clauses (A)(ii) and (B), for those occurrences that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect.

(iii) Other than the filing of the Certificates of Designations with the Secretary of State of its jurisdiction of organization or other applicable Governmental Entity, such filings and approvals as are required to be made or obtained under any state “blue sky” laws and such as have been made or obtained, no notice to, filing with, exemption or review by, or authorization, consent or approval of, any Governmental Entity is required to be made or obtained by the Company in connection with the consummation by the Company of the Purchase except for any such notices, filings, exemptions, reviews, authorizations, consents and approvals the failure of which to make or obtain would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(f) Anti-takeover Provisions and Rights Plan. The Board of Directors of the Company (the “*Board of Directors*”) has taken all necessary action to ensure that the transactions contemplated by this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby, including the exercise of the Warrant in accordance with its terms, will be exempt from any anti-takeover or similar provisions of the Company’s Charter and bylaws, and any other provisions of any applicable “moratorium”, “control share”, “fair price”, “interested stockholder” or other anti-takeover laws and regulations of any jurisdiction.

(g) No Company Material Adverse Effect. Since the last day of the last completed fiscal period for which financial statements are included in the Company Financial Statements (as defined below), no fact, circumstance, event, change, occurrence, condition or development has occurred that, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect.

(h) Company Financial Statements. The Company has Previously Disclosed each of the consolidated financial statements of the Company and its consolidated subsidiaries for each of the last three completed fiscal years of the Company (which shall be audited to the extent audited financial statements are available prior to the Signing Date) and each completed quarterly period since the last completed fiscal year (collectively the “*Company Financial Statements*”). The Company Financial Statements present fairly in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates indicated therein and the consolidated results of their operations for the periods specified therein; and except as stated therein, such financial statements (A) were prepared in conformity with GAAP applied on a consistent basis (except as may be noted therein) and (B) have been prepared from, and are in accordance with, the books and records of the Company and the Company Subsidiaries.

(i) Reports.

(i) Since December 31, 2006, the Company and each Company Subsidiary has filed all reports, registrations, documents, filings, statements and submissions, together with any amendments thereto, that it was required to file with any Governmental Entity (the foregoing, collectively, the “*Company Reports*”) and has paid all fees and assessments due and payable in connection therewith, except, in each case, as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. As of their respective

dates of filing, the Company Reports complied in all material respects with all statutes and applicable rules and regulations of the applicable Governmental Entities.

(ii) The records, systems, controls, data and information of the Company and the Company Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of the Company or the Company Subsidiaries or their accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would not reasonably be expected to have a material adverse effect on the system of internal accounting controls described below in this Section 2.2(i)(ii). The Company (A) has implemented and maintains adequate disclosure controls and procedures to ensure that material information relating to the Company, including the consolidated Company Subsidiaries, is made known to the chief executive officer and the chief financial officer of the Company by others within those entities, and (B) has disclosed, based on its most recent evaluation prior to the Signing Date, to the Company's outside auditors and the audit committee of the Board of Directors (x) any significant deficiencies and material weaknesses in the design or operation of internal controls that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (y) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

(j) No Undisclosed Liabilities. Neither the Company nor any of the Company Subsidiaries has any liabilities or obligations of any nature (absolute, accrued, contingent or otherwise) which are not properly reflected or reserved against in the Company Financial Statements to the extent required to be so reflected or reserved against in accordance with GAAP, except for (A) liabilities that have arisen since the last fiscal year end in the ordinary and usual course of business and consistent with past practice and (B) liabilities that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect.

(k) Offering of Securities. Neither the Company nor any person acting on its behalf has taken any action (including any offering of any securities of the Company under circumstances which would require the integration of such offering with the offering of any of the Purchased Securities under the Securities Act, and the rules and regulations of the Securities and Exchange Commission (the "SEC") promulgated thereunder), which might subject the offering, issuance or sale of any of the Purchased Securities to Investor pursuant to this Agreement to the registration requirements of the Securities Act.

(l) Litigation and Other Proceedings. Except (i) as set forth on Schedule C or (ii) as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, there is no (A) pending or, to the knowledge of the Company, threatened, claim, action, suit, investigation or proceeding, against the Company or any Company Subsidiary or to which any of their assets are subject nor is the Company or any Company Subsidiary subject to any order, judgment or decree or (B) unresolved violation, criticism or exception by any Governmental Entity with respect to any report or relating to any examinations or inspections of the Company or any Company Subsidiaries.

(m) Compliance with Laws. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries have all permits, licenses, franchises, authorizations, orders and approvals of, and have made all filings, applications and registrations with, Governmental Entities that are required in order to permit them to own or lease their properties and assets and to carry on their business as presently conducted and that are material to the business of the Company or such Company Subsidiary. Except as set forth on Schedule D, the Company and the Company Subsidiaries have complied in all respects and are not in default or violation of, and none of them is, to the knowledge of the Company, under investigation with respect to or, to the knowledge of the Company, have been threatened to be charged with or given notice of any violation of, any applicable domestic (federal, state or local) or foreign law, statute, ordinance, license, rule, regulation, policy or guideline, order, demand, writ, injunction, decree or judgment of any Governmental Entity, other than such noncompliance, defaults or violations that would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Except for statutory or regulatory restrictions of general application or as set forth on Schedule D, no Governmental Entity has placed any restriction on the business or properties of the Company or any Company Subsidiary that would, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(n) Employee Benefit Matters. Except as would not reasonably be expected to have, either individually or in the aggregate, a Company Material Adverse Effect: (A) each “employee benefit plan” (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”)) providing benefits to any current or former employee, officer or director of the Company or any member of its “Controlled Group” (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the “Code”)) that is sponsored, maintained or contributed to by the Company or any member of its Controlled Group and for which the Company or any member of its Controlled Group would have any liability, whether actual or contingent (each, a “Plan”) has been maintained in compliance with its terms and with the requirements of all applicable statutes, rules and regulations, including ERISA and the Code; (B) with respect to each Plan subject to Title IV of ERISA (including, for purposes of this clause (B), any plan subject to Title IV of ERISA that the Company or any member of its Controlled Group previously maintained or contributed to in the six years prior to the Signing Date), (1) no “reportable event” (within the meaning of Section 4043(c) of ERISA), other than a reportable event for which the notice period referred to in Section 4043(c) of ERISA has been waived, has occurred in the three years prior to the Signing Date or is reasonably expected to occur, (2) no “accumulated funding deficiency” (within the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred in the three years prior to the Signing Date or is reasonably expected to occur, (3) the fair market value of the assets under each Plan exceeds the present value of all benefits accrued under such Plan (determined based on the assumptions used to fund such Plan) and (4) neither the Company nor any member of its Controlled Group has incurred in the six years prior to the Signing Date, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the PBGC in the ordinary course and without default) in respect of a Plan (including any Plan that is a “multiemployer plan”, within the meaning of Section 4001(c)(3) of ERISA); and (C) each Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service with respect to its qualified status that has not been revoked, or such a determination letter has been timely applied for but not received by the Signing Date, and nothing has occurred, whether by action or by failure to act,

which could reasonably be expected to cause the loss, revocation or denial of such qualified status or favorable determination letter.

(o) Taxes. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company and the Company Subsidiaries have filed all federal, state, local and foreign income and franchise Tax returns required to be filed through the Signing Date, subject to permitted extensions, and have paid all Taxes due thereon, and (ii) no Tax deficiency has been determined adversely to the Company or any of the Company Subsidiaries, nor does the Company have any knowledge of any Tax deficiencies. "Tax" or "Taxes" means any federal, state, local or foreign income, gross receipts, property, sales, use, license, excise, franchise, employment, payroll, withholding, alternative or add on minimum, ad valorem, transfer or excise tax, or any other tax, custom, duty, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or penalty, imposed by any Governmental Entity.

(p) Properties and Leases. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries have good and marketable title to all real properties and all other properties and assets owned by them, in each case free from liens, encumbrances, claims and defects that would affect the value thereof or interfere with the use made or to be made thereof by them. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries hold all leased real or personal property under valid and enforceable leases with no exceptions that would interfere with the use made or to be made thereof by them.

(q) Environmental Liability. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect:

(i) there is no legal, administrative, or other proceeding, claim or action of any nature seeking to impose, or that would reasonably be expected to result in the imposition of, on the Company or any Company Subsidiary, any liability relating to the release of hazardous substances as defined under any local, state or federal environmental statute, regulation or ordinance, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, pending or, to the Company's knowledge, threatened against the Company or any Company Subsidiary;

(ii) to the Company's knowledge, there is no reasonable basis for any such proceeding, claim or action; and

(iii) neither the Company nor any Company Subsidiary is subject to any agreement, order, judgment or decree by or with any court, Governmental Entity or third party imposing any such environmental liability.

(r) Risk Management Instruments. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, all derivative instruments, including, swaps, caps, floors and option agreements, whether entered into for the Company's own account, or for the account of one or more of the Company Subsidiaries or its or their customers, were entered into (i) only in the ordinary course of business, (ii) in accordance with prudent practices and in

all material respects with all applicable laws, rules, regulations and regulatory policies and (iii) with counterparties believed to be financially responsible at the time; and each of such instruments constitutes the valid and legally binding obligation of the Company or one of the Company Subsidiaries, enforceable in accordance with its terms, except as may be limited by the Bankruptcy Exceptions. Neither the Company or the Company Subsidiaries, nor, to the knowledge of the Company, any other party thereto, is in breach of any of its obligations under any such agreement or arrangement other than such breaches that would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(s) Agreements with Regulatory Agencies. Except as set forth on Schedule E, neither the Company nor any Company Subsidiary is subject to any material cease-and-desist or other similar order or enforcement action issued by, or is a party to any material written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any capital directive by, or since December 31, 2006, has adopted any board resolutions at the request of, any Governmental Entity (other than the Appropriate Federal Banking Agencies with jurisdiction over the Company and the Company Subsidiaries) that currently restricts in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its liquidity and funding policies and practices, its ability to pay dividends, its credit, risk management or compliance policies or procedures, its internal controls, its management or its operations or business (each item in this sentence, a "*Regulatory Agreement*"), nor has the Company or any Company Subsidiary been advised since December 31, 2006 by any such Governmental Entity that it is considering issuing, initiating, ordering, or requesting any such Regulatory Agreement. The Company and each Company Subsidiary are in compliance in all material respects with each Regulatory Agreement to which it is party or subject, and neither the Company nor any Company Subsidiary has received any notice from any Governmental Entity indicating that either the Company or any Company Subsidiary is not in compliance in all material respects with any such Regulatory Agreement. "*Appropriate Federal Banking Agency*" means the "appropriate Federal banking agency" with respect to the Company or such Company Subsidiaries, as applicable, as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)).

(t) Insurance. The Company and the Company Subsidiaries are insured with reputable insurers against such risks and in such amounts as the management of the Company reasonably has determined to be prudent and consistent with industry practice. The Company and the Company Subsidiaries are in material compliance with their insurance policies and are not in default under any of the material terms thereof, each such policy is outstanding and in full force and effect, all premiums and other payments due under any material policy have been paid, and all claims thereunder have been filed in due and timely fashion, except, in each case, as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(u) Intellectual Property. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (i) the Company and each Company Subsidiary owns or otherwise has the right to use, all intellectual property rights, including all trademarks, trade dress, trade names, service marks, domain names, patents, inventions, trade secrets, know-how, works of authorship and copyrights therein, that are used in the conduct of their existing businesses and all rights relating to the plans, design and specifications of any of its branch facilities ("*Proprietary Rights*") free and clear of all liens and any claims of ownership by current or former

employees, contractors, designers or others and (ii) neither the Company nor any of the Company Subsidiaries is materially infringing, diluting, misappropriating or violating, nor has the Company or any or the Company Subsidiaries received any written (or, to the knowledge of the Company, oral) communications alleging that any of them has materially infringed, diluted, misappropriated or violated, any of the Proprietary Rights owned by any other person. Except as would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, to the Company's knowledge, no other person is infringing, diluting, misappropriating or violating, nor has the Company or any or the Company Subsidiaries sent any written communications since January 1, 2006 alleging that any person has infringed, diluted, misappropriated or violated, any of the Proprietary Rights owned by the Company and the Company Subsidiaries.

(v) Brokers and Finders. No broker, finder or investment banker is entitled to any financial advisory, brokerage, finder's or other fee or commission in connection with this Agreement or the Warrant or the transactions contemplated hereby or thereby based upon arrangements made by or on behalf of the Company or any Company Subsidiary for which the Investor could have any liability.

Article III Covenants

3.1 Commercially Reasonable Efforts. Subject to the terms and conditions of this Agreement, each of the parties will use its commercially reasonable efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or desirable, or advisable under applicable laws, so as to permit consummation of the Purchase as promptly as practicable and otherwise to enable consummation of the transactions contemplated hereby and shall use commercially reasonable efforts to cooperate with the other party to that end.

3.2 Expenses. Unless otherwise provided in this Agreement or the Warrant, each of the parties hereto will bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated under this Agreement and the Warrant, including fees and expenses of its own financial or other consultants, investment bankers, accountants and counsel.

3.3 Sufficiency of Authorized Warrant Preferred Stock; Exchange Listing.

(a) During the period from the Closing Date until the date on which the Warrant has been fully exercised, the Company shall at all times have reserved for issuance, free of preemptive or similar rights, a sufficient number of authorized and unissued Warrant Shares to effectuate such exercise.

(b) If the Company lists its Common Stock on any national securities exchange, the Company shall, if requested by the Investor, promptly use its reasonable best efforts to cause the Preferred Shares and Warrant Shares to be approved for listing on a national securities exchange as promptly as practicable following such request.

3.4 Certain Notifications Until Closing. From the Signing Date until the Closing, the Company shall promptly notify the Investor of (i) any fact, event or circumstance of which it is aware and which would reasonably be expected to cause any representation or warranty of the Company contained in this Agreement to be untrue or inaccurate in any material respect or to cause any covenant

or agreement of the Company contained in this Agreement not to be complied with or satisfied in any material respect and (ii) except as Previously Disclosed, any fact, circumstance, event, change, occurrence, condition or development of which the Company is aware and which, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect; *provided, however*, that delivery of any notice pursuant to this Section 3.4 shall not limit or affect any rights of or remedies available to the Investor; *provided, further*, that a failure to comply with this Section 3.4 shall not constitute a breach of this Agreement or the failure of any condition set forth in Section 1.2 to be satisfied unless the underlying Company Material Adverse Effect or material breach would independently result in the failure of a condition set forth in Section 1.2 to be satisfied.

3.5 Access, Information and Confidentiality.

(a) From the Signing Date until the date when the Investor holds an amount of Preferred Shares having an aggregate liquidation value of less than 10% of the Purchase Price, the Company will permit the Investor and its agents, consultants, contractors and advisors (x) acting through the Appropriate Federal Banking Agency, or otherwise to the extent necessary to evaluate, manage, or transfer its investment in the Company, to examine the corporate books and make copies thereof and to discuss the affairs, finances and accounts of the Company and the Company Subsidiaries with the principal officers of the Company, all upon reasonable notice and at such reasonable times and as often as the Investor may reasonably request and (y) to review any information material to the Investor's investment in the Company provided by the Company to its Appropriate Federal Banking Agency. Any investigation pursuant to this Section 3.5 shall be conducted during normal business hours and in such manner as not to interfere unreasonably with the conduct of the business of the Company, and nothing herein shall require the Company or any Company Subsidiary to disclose any information to the Investor to the extent (i) prohibited by applicable law or regulation, or (ii) that such disclosure would reasonably be expected to cause a violation of any agreement to which the Company or any Company Subsidiary is a party or would cause a risk of a loss of privilege to the Company or any Company Subsidiary (*provided* that the Company shall use commercially reasonable efforts to make appropriate substitute disclosure arrangements under circumstances where the restrictions in this clause (ii) apply).

(b) From the Signing Date until the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole, the Company will deliver, or will cause to be delivered, to the Investor:

(i) as soon as available after the end of each fiscal year of the Company, and in any event within 90 days thereafter, a consolidated balance sheet of the Company as of the end of such fiscal year, and consolidated statements of income, retained earnings and cash flows of the Company for such year, in each case prepared in accordance with GAAP and setting forth in each case in comparative form the figures for the previous fiscal year of the Company, and which shall be audited to the extent audited financial statements are available; and

(ii) as soon as available after the end of the first, second and third quarterly periods in each fiscal year of the Company, a copy of any quarterly reports provided to other stockholders of the Company or Company management.

(c) The Investor will use reasonable best efforts to hold, and will use reasonable best efforts to cause its agents, consultants, contractors and advisors to hold, in confidence all non-public records, books, contracts, instruments, computer data and other data and information (collectively, “*Information*”) concerning the Company furnished or made available to it by the Company or its representatives pursuant to this Agreement (except to the extent that such information can be shown to have been (i) previously known by such party on a non-confidential basis, (ii) in the public domain through no fault of such party or (iii) later lawfully acquired from other sources by the party to which it was furnished (and without violation of any other confidentiality obligation)); *provided* that nothing herein shall prevent the Investor from disclosing any Information to the extent required by applicable laws or regulations or by any subpoena or similar legal process.

(d) The Investor’s information rights pursuant to Section 3.5(b) may be assigned by the Investor to a transferee or assignee of the Purchased Securities or the Warrant Shares or with a liquidation preference or, in the case of the Warrant, the liquidation preference of the underlying shares of Warrant Preferred Stock, no less than an amount equal to 2% of the initial aggregate liquidation preference of the Preferred Shares.

Article IV Additional Agreements

4.1 Purchase for Investment. The Investor acknowledges that the Purchased Securities and the Warrant Shares have not been registered under the Securities Act or under any state securities laws. The Investor (a) is acquiring the Purchased Securities pursuant to an exemption from registration under the Securities Act solely for investment with no present intention to distribute them to any person in violation of the Securities Act or any applicable U.S. state securities laws, (b) will not sell or otherwise dispose of any of the Purchased Securities or the Warrant Shares, except in compliance with the registration requirements or exemption provisions of the Securities Act and any applicable U.S. state securities laws, and (c) has such knowledge and experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of the Purchase and of making an informed investment decision.

4.2 Legends.

(a) The Investor agrees that all certificates or other instruments representing the Warrant will bear a legend substantially to the following effect:

“THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS.

THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN

THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID.”

(b) In addition, the Investor agrees that all certificates or other instruments representing the Preferred Shares and the Warrant Shares will bear a legend substantially to the following effect:

“THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE NOT SAVINGS ACCOUNTS, DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY.

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS. EACH PURCHASER OF THE SECURITIES REPRESENTED BY THIS INSTRUMENT IS NOTIFIED THAT THE SELLER MAY BE RELYING ON THE EXEMPTION FROM SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. ANY TRANSFEREE OF THE SECURITIES REPRESENTED BY THIS INSTRUMENT BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (2) AGREES THAT IT WILL NOT OFFER, SELL OR OTHERWISE TRANSFER THE SECURITIES REPRESENTED BY THIS INSTRUMENT EXCEPT (A) PURSUANT TO A REGISTRATION STATEMENT WHICH IS THEN EFFECTIVE UNDER THE SECURITIES ACT, (B) FOR SO LONG AS THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO THE ISSUER OR (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THE SECURITIES REPRESENTED BY THIS INSTRUMENT ARE TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED

BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID.”

(c) In the event that any Purchased Securities or Warrant Shares (i) become registered under the Securities Act or (ii) are eligible to be transferred without restriction in accordance with Rule 144 or another exemption from registration under the Securities Act (other than Rule 144A), the Company shall issue new certificates or other instruments representing such Purchased Securities or Warrant Shares, which shall not contain the applicable legends in Sections 4.2(a) and (b) above; *provided* that the Investor surrenders to the Company the previously issued certificates or other instruments.

4.3 Certain Transactions. The Company will not merge or consolidate with, or sell, transfer or lease all or substantially all of its property or assets to, any other party unless the successor, transferee or lessee party (or its ultimate parent entity), as the case may be (if not the Company), expressly assumes the due and punctual performance and observance of each and every covenant, agreement and condition of this Agreement to be performed and observed by the Company.

4.4 Transfer of Purchased Securities and Warrant Shares; Restrictions on Exercise of the Warrant. Subject to compliance with applicable securities laws, the Investor shall be permitted to transfer, sell, assign or otherwise dispose of (“*Transfer*”) all or a portion of the Purchased Securities or Warrant Shares at any time, and the Company shall take all steps as may be reasonably requested by the Investor to facilitate the Transfer of the Purchased Securities and the Warrant Shares; *provided* that the Investor shall not Transfer any Purchased Securities or Warrant Shares if such transfer would require the Company to be subject to the periodic reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 (the “*Exchange Act*”). In furtherance of the foregoing, the Company shall provide reasonable cooperation to facilitate any Transfers of the Purchased Securities or Warrant Shares, including, as is reasonable under the circumstances, by furnishing such information concerning the Company and its business as a proposed transferee may reasonably request (including such information as is required by Section 4.5(k)) and making management of the Company reasonably available to respond to questions of a proposed transferee in accordance with customary practice, subject in all cases to the proposed transferee agreeing to a customary confidentiality agreement.

4.5 Registration Rights.

(a) Unless and until the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall have no obligation to comply with the provisions of this Section 4.5 (other than Section 4.5(b)(iv)-(vi)); *provided* that the Company covenants and agrees that it shall comply with this Section 4.5 as soon as practicable after the date that it becomes subject to such reporting requirements.

(b) Registration.

(i) Subject to the terms and conditions of this Agreement, the Company covenants and agrees that as promptly as practicable after the date that the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act (and in any event no later

than 30 days thereafter), the Company shall prepare and file with the SEC a Shelf Registration Statement covering all Registrable Securities (or otherwise designate an existing Shelf Registration Statement filed with the SEC to cover the Registrable Securities), and, to the extent the Shelf Registration Statement has not theretofore been declared effective or is not automatically effective upon such filing, the Company shall use reasonable best efforts to cause such Shelf Registration Statement to be declared or become effective and to keep such Shelf Registration Statement continuously effective and in compliance with the Securities Act and usable for resale of such Registrable Securities for a period from the date of its initial effectiveness until such time as there are no Registrable Securities remaining (including by refiling such Shelf Registration Statement (or a new Shelf Registration Statement) if the initial Shelf Registration Statement expires). Notwithstanding the foregoing, if the Company is not eligible to file a registration statement on Form S-3, then the Company shall not be obligated to file a Shelf Registration Statement unless and until requested to do so in writing by the Investor.

(ii) Any registration pursuant to Section 4.5(b)(i) shall be effected by means of a shelf registration on an appropriate form under Rule 415 under the Securities Act (a "*Shelf Registration Statement*"). If the Investor or any other Holder intends to distribute any Registrable Securities by means of an underwritten offering it shall promptly so advise the Company and the Company shall take all reasonable steps to facilitate such distribution, including the actions required pursuant to Section 4.5(d); *provided* that the Company shall not be required to facilitate an underwritten offering of Registrable Securities unless the expected gross proceeds from such offering exceed (i) 2% of the initial aggregate liquidation preference of the Preferred Shares if such initial aggregate liquidation preference is less than \$2 billion and (ii) \$200 million if the initial aggregate liquidation preference of the Preferred Shares is equal to or greater than \$2 billion. The lead underwriters in any such distribution shall be selected by the Holders of a majority of the Registrable Securities to be distributed; *provided* that to the extent appropriate and permitted under applicable law, such Holders shall consider the qualifications of any broker-dealer Affiliate of the Company in selecting the lead underwriters in any such distribution.

(iii) The Company shall not be required to effect a registration (including a resale of Registrable Securities from an effective Shelf Registration Statement) or an underwritten offering pursuant to Section 4.5(b): (A) with respect to securities that are not Registrable Securities; or (B) if the Company has notified the Investor and all other Holders that in the good faith judgment of the Board of Directors, it would be materially detrimental to the Company or its securityholders for such registration or underwritten offering to be effected at such time, in which event the Company shall have the right to defer such registration for a period of not more than 45 days after receipt of the request of the Investor or any other Holder; *provided* that such right to delay a registration or underwritten offering shall be exercised by the Company (1) only if the Company has generally exercised (or is concurrently exercising) similar black-out rights against holders of similar securities that have registration rights and (2) not more than three times in any 12-month period and not more than 90 days in the aggregate in any 12-month period.

(iv) If during any period when an effective Shelf Registration Statement is not available, the Company proposes to register any of its equity securities, other than a registration

pursuant to Section 4.5(b)(i) or a Special Registration, and the registration form to be filed may be used for the registration or qualification for distribution of Registrable Securities, the Company will give prompt written notice to the Investor and all other Holders of its intention to effect such a registration (but in no event less than ten days prior to the anticipated filing date) and will include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within ten business days after the date of the Company's notice (a "Piggyback Registration"). Any such person that has made such a written request may withdraw its Registrable Securities from such Piggyback Registration by giving written notice to the Company and the managing underwriter, if any, on or before the fifth business day prior to the planned effective date of such Piggyback Registration. The Company may terminate or withdraw any registration under this Section 4.5(b)(iv) prior to the effectiveness of such registration, whether or not Investor or any other Holders have elected to include Registrable Securities in such registration.

(v) If the registration referred to in Section 4.5(b)(iv) is proposed to be underwritten, the Company will so advise Investor and all other Holders as a part of the written notice given pursuant to Section 4.5(b)(iv). In such event, the right of Investor and all other Holders to registration pursuant to Section 4.5(b) will be conditioned upon such persons' participation in such underwriting and the inclusion of such person's Registrable Securities in the underwriting if such securities are of the same class of securities as the securities to be offered in the underwritten offering, and each such person will (together with the Company and the other persons distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company; *provided* that the Investor (as opposed to other Holders) shall not be required to indemnify any person in connection with any registration. If any participating person disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company, the managing underwriters and the Investor (if the Investor is participating in the underwriting).

(vi) If either (x) the Company grants "piggyback" registration rights to one or more third parties to include their securities in an underwritten offering under the Shelf Registration Statement pursuant to Section 4.5(b)(ii) or (y) a Piggyback Registration under Section 4.5(b)(iv) relates to an underwritten offering on behalf of the Company, and in either case the managing underwriters advise the Company that in their reasonable opinion the number of securities requested to be included in such offering exceeds the number which can be sold without adversely affecting the marketability of such offering (including an adverse effect on the per share offering price), the Company will include in such offering only such number of securities that in the reasonable opinion of such managing underwriters can be sold without adversely affecting the marketability of the offering (including an adverse effect on the per share offering price), which securities will be so included in the following order of priority: (A) first, in the case of a Piggyback Registration under Section 4.5(b)(iv), the securities the Company proposes to sell, (B) then the Registrable Securities of the Investor and all other Holders who have requested inclusion of Registrable Securities pursuant to Section 4.5(b)(ii) or Section 4.5(b)(iv), as applicable, *pro rata* on the basis of the aggregate number of such securities or shares owned by each such person and (C) lastly, any other securities of the Company that have been requested to be so included, subject to the terms of this Agreement; *provided, however*, that if

the Company has, prior to the Signing Date, entered into an agreement with respect to its securities that is inconsistent with the order of priority contemplated hereby then it shall apply the order of priority in such conflicting agreement to the extent that it would otherwise result in a breach under such agreement.

(c) Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance hereunder shall be borne by the Company. All Selling Expenses incurred in connection with any registrations hereunder shall be borne by the holders of the securities so registered *pro rata* on the basis of the aggregate offering or sale price of the securities so registered.

(d) Obligations of the Company. Whenever required to effect the registration of any Registrable Securities or facilitate the distribution of Registrable Securities pursuant to an effective Shelf Registration Statement, the Company shall, as expeditiously as reasonably practicable:

(i) Prepare and file with the SEC a prospectus supplement or post-effective amendment with respect to a proposed offering of Registrable Securities pursuant to an effective registration statement, subject to Section 4.5(d), keep such registration statement effective and keep such prospectus supplement current until the securities described therein are no longer Registrable Securities.

(ii) Prepare and file with the SEC such amendments and supplements to the applicable registration statement and the prospectus or prospectus supplement used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(iii) Furnish to the Holders and any underwriters such number of copies of the applicable registration statement and each such amendment and supplement thereto (including in each case all exhibits) and of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned or to be distributed by them.

(iv) Use its reasonable best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders or any managing underwriter(s), to keep such registration or qualification in effect for so long as such registration statement remains in effect, and to take any other action which may be reasonably necessary to enable such seller to consummate the disposition in such jurisdictions of the securities owned by such Holder; *provided* that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(v) Notify each Holder of Registrable Securities at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any

event as a result of which the applicable prospectus, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing.

(vi) Give written notice to the Holders:

(A) when any registration statement filed pursuant to Section 4.5(a) or any amendment thereto has been filed with the SEC (except for any amendment effected by the filing of a document with the SEC pursuant to the Exchange Act) and when such registration statement or any post-effective amendment thereto has become effective;

(B) of any request by the SEC for amendments or supplements to any registration statement or the prospectus included therein or for additional information;

(C) of the issuance by the SEC of any stop order suspending the effectiveness of any registration statement or the initiation of any proceedings for that purpose;

(D) of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the applicable Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

(E) of the happening of any event that requires the Company to make changes in any effective registration statement or the prospectus related to the registration statement in order to make the statements therein not misleading (which notice shall be accompanied by an instruction to suspend the use of the prospectus until the requisite changes have been made); and

(F) if at any time the representations and warranties of the Company contained in any underwriting agreement contemplated by Section 4.5(d)(x) cease to be true and correct.

(vii) Use its reasonable best efforts to prevent the issuance or obtain the withdrawal of any order suspending the effectiveness of any registration statement referred to in Section 4.5(d)(vi)(C) at the earliest practicable time.

(viii) Upon the occurrence of any event contemplated by Section 4.5(d)(v) or 4.5(d)(vi)(E), promptly prepare a post-effective amendment to such registration statement or a supplement to the related prospectus or file any other required document so that, as thereafter delivered to the Holders and any underwriters, the prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Holders in accordance with Section 4.5(d)(vi)(E) to suspend the use of the prospectus until the requisite changes to the prospectus have been made, then the Holders and any underwriters shall suspend use of such prospectus and use their reasonable best efforts to

return to the Company all copies of such prospectus (at the Company's expense) other than permanent file copies then in such Holders' or underwriters' possession. The total number of days that any such suspension may be in effect in any 12-month period shall not exceed 90 days.

(ix) Use reasonable best efforts to procure the cooperation of the Company's transfer agent in settling any offering or sale of Registrable Securities, including with respect to the transfer of physical stock certificates into book-entry form in accordance with any procedures reasonably requested by the Holders or any managing underwriter(s).

(x) If an underwritten offering is requested pursuant to Section 4.5(b)(ii), enter into an underwriting agreement in customary form, scope and substance and take all such other actions reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith or by the managing underwriter(s), if any, to expedite or facilitate the underwritten disposition of such Registrable Securities, and in connection therewith in any underwritten offering (including making members of management and executives of the Company available to participate in "road shows", similar sales events and other marketing activities), (A) make such representations and warranties to the Holders that are selling stockholders and the managing underwriter(s), if any, with respect to the business of the Company and its subsidiaries, and the Shelf Registration Statement, prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, in customary form, substance and scope, and, if true, confirm the same if and when requested, (B) use its reasonable best efforts to furnish the underwriters with opinions of counsel to the Company, addressed to the managing underwriter(s), if any, covering the matters customarily covered in such opinions requested in underwritten offerings, (C) use its reasonable best efforts to obtain "cold comfort" letters from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any business acquired by the Company for which financial statements and financial data are included in the Shelf Registration Statement) who have certified the financial statements included in such Shelf Registration Statement, addressed to each of the managing underwriter(s), if any, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters, (D) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures customary in underwritten offerings (provided that the Investor shall not be obligated to provide any indemnity), and (E) deliver such documents and certificates as may be reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith, their counsel and the managing underwriter(s), if any, to evidence the continued validity of the representations and warranties made pursuant to clause (i) above and to evidence compliance with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

(xi) Make available for inspection by a representative of Holders that are selling stockholders, the managing underwriter(s), if any, and any attorneys or accountants retained by such Holders or managing underwriter(s), at the offices where normally kept, during reasonable business hours, financial and other records, pertinent corporate documents and properties of the Company, and cause the officers, directors and employees of the Company to supply all

information in each case reasonably requested (and of the type customarily provided in connection with due diligence conducted in connection with a registered public offering of securities) by any such representative, managing underwriter(s), attorney or accountant in connection with such Shelf Registration Statement.

(xii) Use reasonable best efforts to cause all such Registrable Securities to be listed on each national securities exchange on which similar securities issued by the Company are then listed or, if no similar securities issued by the Company are then listed on any national securities exchange, use its reasonable best efforts to cause all such Registrable Securities to be listed on such securities exchange as the Investor may designate.

(xiii) If requested by Holders of a majority of the Registrable Securities being registered and/or sold in connection therewith, or the managing underwriter(s), if any, promptly include in a prospectus supplement or amendment such information as the Holders of a majority of the Registrable Securities being registered and/or sold in connection therewith or managing underwriter(s), if any, may reasonably request in order to permit the intended method of distribution of such securities and make all required filings of such prospectus supplement or such amendment as soon as practicable after the Company has received such request.

(xiv) Timely provide to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

(e) Suspension of Sales. Upon receipt of written notice from the Company that a registration statement, prospectus or prospectus supplement contains or may contain an untrue statement of a material fact or omits or may omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that circumstances exist that make inadvisable use of such registration statement, prospectus or prospectus supplement, the Investor and each Holder of Registrable Securities shall forthwith discontinue disposition of Registrable Securities until the Investor and/or Holder has received copies of a supplemented or amended prospectus or prospectus supplement, or until the Investor and/or such Holder is advised in writing by the Company that the use of the prospectus and, if applicable, prospectus supplement may be resumed, and, if so directed by the Company, the Investor and/or such Holder shall deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in the Investor and/or such Holder's possession, of the prospectus and, if applicable, prospectus supplement covering such Registrable Securities current at the time of receipt of such notice. The total number of days that any such suspension may be in effect in any 12-month period shall not exceed 90 days.

(f) Termination of Registration Rights. A Holder's registration rights as to any securities held by such Holder (and its Affiliates, partners, members and former members) shall not be available unless such securities are Registrable Securities.

(g) Furnishing Information.

(i) Neither the Investor nor any Holder shall use any free writing prospectus (as defined in Rule 405) in connection with the sale of Registrable Securities without the prior written consent of the Company.

(ii) It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 4.5(d) that Investor and/or the selling Holders and the underwriters, if any, shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to effect the registered offering of their Registrable Securities.

(h) Indemnification.

(i) The Company agrees to indemnify each Holder and, if a Holder is a person other than an individual, such Holder's officers, directors, employees, agents, representatives and Affiliates, and each Person, if any, that controls a Holder within the meaning of the Securities Act (each, an "*Indemnitee*"), against any and all losses, claims, damages, actions, liabilities, costs and expenses (including reasonable fees, expenses and disbursements of attorneys and other professionals incurred in connection with investigating, defending, settling, compromising or paying any such losses, claims, damages, actions, liabilities, costs and expenses), joint or several, arising out of or based upon any untrue statement or alleged untrue statement of material fact contained in any registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto or any documents incorporated therein by reference or contained in any free writing prospectus (as such term is defined in Rule 405) prepared by the Company or authorized by it in writing for use by such Holder (or any amendment or supplement thereto); or any omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided*, that the Company shall not be liable to such Indemnitee in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon (A) an untrue statement or omission made in such registration statement, including any such preliminary prospectus or final prospectus contained therein or any such amendments or supplements thereto or contained in any free writing prospectus (as such term is defined in Rule 405) prepared by the Company or authorized by it in writing for use by such Holder (or any amendment or supplement thereto), in reliance upon and in conformity with information regarding such Indemnitee or its plan of distribution or ownership interests which was furnished in writing to the Company by such Indemnitee for use in connection with such registration statement, including any such preliminary prospectus or final prospectus contained therein or any such amendments or supplements thereto, or (B) offers or sales effected by or on behalf of such Indemnitee "by means of" (as defined in Rule 159A) a "free writing prospectus" (as defined in Rule 405) that was not authorized in writing by the Company.

(ii) If the indemnification provided for in Section 4.5(h)(i) is unavailable to an Indemnitee with respect to any losses, claims, damages, actions, liabilities, costs or expenses referred to therein or is insufficient to hold the Indemnitee harmless as contemplated therein, then the Company, in lieu of indemnifying such Indemnitee, shall contribute to the amount paid or payable by such Indemnitee as a result of such losses, claims, damages, actions, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative fault of the Indemnitee, on the one hand, and the Company, on the other hand, in connection with the

statements or omissions which resulted in such losses, claims, damages, actions, liabilities, costs or expenses as well as any other relevant equitable considerations. The relative fault of the Company, on the one hand, and of the Indemnitee, on the other hand, shall be determined by reference to, among other factors, whether the untrue statement of a material fact or omission to state a material fact relates to information supplied by the Company or by the Indemnitee and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; the Company and each Holder agree that it would not be just and equitable if contribution pursuant to this Section 4.5(h)(ii) were determined by *pro rata* allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 4.5(h)(i). No Indemnitee guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from the Company if the Company was not guilty of such fraudulent misrepresentation.

(i) Assignment of Registration Rights. The rights of the Investor to registration of Registrable Securities pursuant to Section 4.5(b) may be assigned by the Investor to a transferee or assignee of Registrable Securities with a liquidation preference or, in the case of the Warrant, the liquidation preference of the underlying shares of Warrant Preferred Stock, no less than an amount equal to (i) 2% of the initial aggregate liquidation preference of the Preferred Shares if such initial aggregate liquidation preference is less than \$2 billion and (ii) \$200 million if the initial aggregate liquidation preference of the Preferred Shares is equal to or greater than \$2 billion; *provided, however*, the transferor shall, within ten days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the number and type of Registrable Securities that are being assigned.

(j) Clear Market. With respect to any underwritten offering of Registrable Securities by the Investor or other Holders pursuant to this Section 4.5, the Company agrees not to effect (other than pursuant to such registration or pursuant to a Special Registration) any public sale or distribution, or to file any Shelf Registration Statement (other than such registration or a Special Registration) covering any preferred stock of the Company or any securities convertible into or exchangeable or exercisable for preferred stock of the Company, during the period not to exceed ten days prior and 60 days following the effective date of such offering or such longer period up to 90 days as may be requested by the managing underwriter for such underwritten offering. The Company also agrees to cause such of its directors and senior executive officers to execute and deliver customary lock-up agreements in such form and for such time period up to 90 days as may be requested by the managing underwriter. "*Special Registration*" means the registration of (A) equity securities and/or options or other rights in respect thereof solely registered on Form S4 or Form S-8 (or successor form) or (B) shares of equity securities and/or options or other rights in respect thereof to be offered to directors, members of management, employees, consultants, customers, lenders or vendors of the Company or Company Subsidiaries or in connection with dividend reinvestment plans.

(k) Rule 144; Rule 144A. With a view to making available to the Investor and Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its reasonable best efforts to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144(c)(1) or any similar or analogous rule promulgated under the Securities Act, at all times after the Signing Date;

(ii) (A) file with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act, and (B) if at any time the Company is not required to file such reports, make available, upon the request of any Holder, such information necessary to permit sales pursuant to Rule 144A (including the information required by Rule 144A(d)(4) under the Securities Act);

(iii) so long as the Investor or a Holder owns any Registrable Securities, furnish to the Investor or such Holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of Rule 144 under the Securities Act, and of the Exchange Act; a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as the Investor or Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities to the public without registration; and

(iv) take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act.

(l) As used in this Section 4.5, the following terms shall have the following respective meanings:

(i) “*Holder*” means the Investor and any other holder of Registrable Securities to whom the registration rights conferred by this Agreement have been transferred in compliance with Section 4.5(h) hereof.

(ii) “*Holders’ Counsel*” means one counsel for the selling Holders chosen by Holders holding a majority interest in the Registrable Securities being registered.

(iii) “*Register*,” “*registered*,” and “*registration*” shall refer to a registration effected by preparing and (A) filing a registration statement or amendment thereto in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of effectiveness of such registration statement or amendment thereto or (B) filing a prospectus and/or prospectus supplement in respect of an appropriate effective registration statement on Form S-3.

(iv) “*Registrable Securities*” means (A) all Preferred Shares, (B) the Warrant (subject to Section 4.5(q)) and (C) any equity securities issued or issuable directly or indirectly with respect to the securities referred to in the foregoing clauses (A) or (B) by way of conversion, exercise or exchange thereof, including the Warrant Shares, or share dividend or share split or in connection with a combination of shares, recapitalization, reclassification, merger, amalgamation, arrangement, consolidation or other reorganization, *provided* that, once issued, such securities will not be Registrable Securities when (1) they are sold pursuant to an effective

registration statement under the Securities Act, (2) except as provided below in Section 4.5(p), they may be sold pursuant to Rule 144 without limitation thereunder on volume or manner of sale, (3) they shall have ceased to be outstanding or (4) they have been sold in a private transaction in which the transferor's rights under this Agreement are not assigned to the transferee of the securities. No Registrable Securities may be registered under more than one registration statement at any one time.

(v) “*Registration Expenses*” mean all expenses incurred by the Company in effecting any registration pursuant to this Agreement (whether or not any registration or prospectus becomes effective or final) or otherwise complying with its obligations under this Section 4.5, including all registration, filing and listing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses, expenses incurred in connection with any “road show”, the reasonable fees and disbursements of Holders’ Counsel, and expenses of the Company’s independent accountants in connection with any regular or special reviews or audits incident to or required by any such registration, but shall not include Selling Expenses.

(vi) “*Rule 144*”, “*Rule 144A*”, “*Rule 159A*”, “*Rule 405*” and “*Rule 415*” mean, in each case, such rule promulgated under the Securities Act (or any successor provision), as the same shall be amended from time to time.

(vii) “*Selling Expenses*” mean all discounts, selling commissions and stock transfer taxes applicable to the sale of Registrable Securities and fees and disbursements of counsel for any Holder (other than the fees and disbursements of Holders’ Counsel included in Registration Expenses).

(m) At any time, any holder of Securities (including any Holder) may elect to forfeit its rights set forth in this Section 4.5 from that date forward; *provided*, that a Holder forfeiting such rights shall nonetheless be entitled to participate under Section 4.5(b)(iv) – (vi) in any Pending Underwritten Offering to the same extent that such Holder would have been entitled to if the holder had not withdrawn; and *provided, further*, that no such forfeiture shall terminate a Holder’s rights or obligations under Section 4.5(g) with respect to any prior registration or Pending Underwritten Offering. “*Pending Underwritten Offering*” means, with respect to any Holder forfeiting its rights pursuant to this Section 4.5(m), any underwritten offering of Registrable Securities in which such Holder has advised the Company of its intent to register its Registrable Securities either pursuant to Section 4.5(b)(ii) or 4.5(b)(iv) prior to the date of such Holder’s forfeiture.

(n) Specific Performance. The parties hereto acknowledge that there would be no adequate remedy at law if the Company fails to perform any of its obligations under this Section 4.5 and that the Investor and the Holders from time to time may be irreparably harmed by any such failure, and accordingly agree that the Investor and such Holders, in addition to any other remedy to which they may be entitled at law or in equity, to the fullest extent permitted and enforceable under applicable law shall be entitled to compel specific performance of the obligations of the Company under this Section 4.5 in accordance with the terms and conditions of this Section 4.5.

(o) No Inconsistent Agreements. The Company shall not, on or after the Signing Date, enter into any agreement with respect to its securities that may impair the rights granted to the Investor and the Holders under this Section 4.5 or that otherwise conflicts with the provisions hereof in any manner that may impair the rights granted to the Investor and the Holders under this Section 4.5. In the event the Company has, prior to the Signing Date, entered into any agreement with respect to its securities that is inconsistent with the rights granted to the Investor and the Holders under this Section 4.5 (including agreements that are inconsistent with the order of priority contemplated by Section 4.5(b)(vi)) or that may otherwise conflict with the provisions hereof, the Company shall use its reasonable best efforts to amend such agreements to ensure they are consistent with the provisions of this Section 4.5.

(p) Certain Offerings by the Investor. In the case of any securities held by the Investor that cease to be Registrable Securities solely by reason of clause (2) in the definition of “Registrable Securities,” the provisions of Sections 4.5(b)(ii), clauses (iv), (ix) and (x)-(xii) of Section 4.5(d), Section 4.5(h) and Section 4.5(j) shall continue to apply until such securities otherwise cease to be Registrable Securities. In any such case, an “underwritten” offering or other disposition shall include any distribution of such securities on behalf of the Investor by one or more broker-dealers, an “underwriting agreement” shall include any purchase agreement entered into by such broker-dealers, and any “registration statement” or “prospectus” shall include any offering document approved by the Company and used in connection with such distribution.

(q) Registered Sales of the Warrant. The Holders agree to sell the Warrant or any portion thereof under the Shelf Registration Statement only beginning 30 days after notifying the Company of any such sale, during which 30-day period the Investor and all Holders of the Warrant shall take reasonable steps to agree to revisions to the Warrant to permit a public distribution of the Warrant, including entering into a warrant agreement and appointing a warrant agent.

4.6 Depository Shares. Upon request by the Investor at any time following the Closing Date, the Company shall promptly enter into a depository arrangement, pursuant to customary agreements reasonably satisfactory to the Investor and with a depository reasonably acceptable to the Investor, pursuant to which the Preferred Shares or the Warrant Shares may be deposited and depository shares, each representing a fraction of a Preferred Share or Warrant Share, as applicable, as specified by the Investor, may be issued. From and after the execution of any such depository arrangement, and the deposit of any Preferred Shares or Warrant Shares, as applicable, pursuant thereto, the depository shares issued pursuant thereto shall be deemed “Preferred Shares”, “Warrant Shares” and, as applicable, “Registrable Securities” for purposes of this Agreement.

4.7 Restriction on Dividends and Repurchases.

(a) Prior to the earlier of (x) the third anniversary of the Closing Date and (y) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, declare or pay any dividend or make any distribution on capital stock or other equity securities of any kind of the Company or any Company Subsidiary (other than (i) regular quarterly cash dividends of not more than the amount of the last quarterly cash dividend per share declared or, if lower, announced to

its holders of Common Stock an intention to declare, on the Common Stock prior to November 17, 2008, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction, (ii) dividends payable solely in shares of Common Stock, (iii) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, (iv) dividends or distributions by any wholly-owned Company Subsidiary or (v) dividends or distributions by any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008).

(b) During the period beginning on the third anniversary of the Closing Date and ending on the earlier of (i) the tenth anniversary of the Closing Date and (ii) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, (A) pay any per share dividend or distribution on capital stock or other equity securities of any kind of the Company at a per annum rate that is in excess of 103% of the aggregate per share dividends and distributions for the immediately prior fiscal year (other than regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares); *provided* that no increase in the aggregate amount of dividends or distributions on Common Stock shall be permitted as a result of any dividends or distributions paid in shares of Common Stock, any stock split or any similar transaction or (B) pay aggregate dividends or distributions on capital stock or other equity securities of any kind of any Company Subsidiary that is in excess of 103% of the aggregate dividends and distributions paid for the immediately prior fiscal year (other than in the case of this clause (B), (1) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, (2) dividends or distributions by any wholly-owned Company Subsidiary, (3) dividends or distributions by any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008) or (4) dividends or distributions on newly issued shares of capital stock for cash or other property.

(c) Prior to the earlier of (x) the tenth anniversary of the Closing Date and (y) the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, redeem, purchase or acquire any shares of Common Stock or other capital stock or other equity securities of any kind of the Company or any Company Subsidiary, or any trust preferred securities issued by the Company or any Affiliate of the Company, other than (i) redemptions, purchases or other acquisitions of the Preferred Shares and Warrant Shares, (ii) in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice, (iii) the acquisition by the Company or any of the Company Subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Company or any other Company Subsidiary), including as trustees or custodians, (iv) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock or trust preferred securities for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case set forth in this clause (iv), solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock (clauses (ii) and (iii), collectively, the "*Permitted Repurchases*"),

(v) redemptions of securities held by the Company or any wholly-owned Company Subsidiary or (vi) redemptions, purchases or other acquisitions of capital stock or other equity securities of any kind of any Company Subsidiary required pursuant to binding contractual agreements entered into prior to November 17, 2008.

(d) Until such time as the Investor ceases to own any Preferred Shares or Warrant Shares, the Company shall not repurchase any Preferred Shares or Warrant Shares from any holder thereof, whether by means of open market purchase, negotiated transaction, or otherwise, other than Permitted Repurchases, unless it offers to repurchase a ratable portion of the Preferred Shares or Warrant Shares, as the case may be, then held by the Investor on the same terms and conditions.

(e) During the period beginning on the tenth anniversary of the Closing and ending on the date on which all of the Preferred Shares and Warrant Shares have been redeemed in whole or the Investor has transferred all of the Preferred Shares and Warrant Shares to third parties which are not Affiliates of the Investor, neither the Company nor any Company Subsidiary shall, without the consent of the Investor, (i) declare or pay any dividend or make any distribution on capital stock or other equity securities of any kind of the Company or any Company Subsidiary; or (ii) redeem, purchase or acquire any shares of Common Stock or other capital stock or other equity securities of any kind of the Company or any Company Subsidiary, or any trust preferred securities issued by the Company or any Affiliate of the Company, other than (A) redemptions, purchases or other acquisitions of the Preferred Shares and Warrant Shares, (B) regular dividends on shares of preferred stock in accordance with the terms thereof and which are permitted under the terms of the Preferred Shares and the Warrant Shares, or (C) dividends or distributions by any wholly-owned Company Subsidiary.

(f) “*Junior Stock*” means Common Stock and any other class or series of stock of the Company the terms of which expressly provide that it ranks junior to the Preferred Shares as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Company. “*Parity Stock*” means any class or series of stock of the Company the terms of which do not expressly provide that such class or series will rank senior or junior to the Preferred Shares as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Company (in each case without regard to whether dividends accrue cumulatively or non-cumulatively).

4.8 Executive Compensation. Until such time as the Investor ceases to own any debt or equity securities of the Company acquired pursuant to this Agreement or the Warrant, the Company shall take all necessary action to ensure that its Benefit Plans with respect to its Senior Executive Officers comply in all respects with Section 111(b) of the EESA as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the Closing Date, and shall not adopt any new Benefit Plan with respect to its Senior Executive Officers that does not comply therewith. “*Senior Executive Officers*” means the Company's "senior executive officers" as defined in subsection 111(b)(3) of the EESA and regulations issued thereunder, including the rules set forth in 31 C.F.R. Part 30.

4.9 Related Party Transactions. Until such time as the Investor ceases to own any Purchased Securities or Warrant Shares, the Company and the Company Subsidiaries shall not enter into transactions with Affiliates or related persons (within the meaning of Item 404 under the SEC's Regulation S-K) unless (i) such transactions are on terms no less favorable to the Company and the

Company Subsidiaries than could be obtained from an unaffiliated third party, and (ii) have been approved by the audit committee of the Board of Directors or comparable body of independent directors of the Company.

4.10 Bank and Thrift Holding Company Status. If the Company is a Bank Holding Company or a Savings and Loan Holding Company on the Signing Date, then the Company shall maintain its status as a Bank Holding Company or Savings and Loan Holding Company, as the case may be, for as long as the Investor owns any Purchased Securities or Warrant Shares. The Company shall redeem all Purchased Securities and Warrant Shares held by the Investor prior to terminating its status as a Bank Holding Company or Savings and Loan Holding Company, as applicable. “*Bank Holding Company*” means a company registered as such with the Board of Governors of the Federal Reserve System (the “*Federal Reserve*”) pursuant to 12 U.S.C. §1842 and the regulations of the Federal Reserve promulgated thereunder. “*Savings and Loan Holding Company*” means a company registered as such with the Office of Thrift Supervision pursuant to 12 U.S.C. §1467(a) and the regulations of the Office of Thrift Supervision promulgated thereunder.

4.11 Predominantly Financial. For as long as the Investor owns any Purchased Securities or Warrant Shares, the Company, to the extent it is not itself an insured depository institution, agrees to remain predominantly engaged in financial activities. A company is predominantly engaged in financial activities if the annual gross revenues derived by the company and all subsidiaries of the company (excluding revenues derived from subsidiary depository institutions), on a consolidated basis, from engaging in activities that are financial in nature or are incidental to a financial activity under subsection (k) of Section 4 of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(k)) represent at least 85 percent of the consolidated annual gross revenues of the company.

Article V Miscellaneous

5.1 Termination. This Agreement may be terminated at any time prior to the Closing:(a) by either the Investor or the Company if the Closing shall not have occurred by the 30th calendar day following the Signing Date; *provided, however*, that in the event the Closing has not occurred by such 30th calendar day, the parties will consult in good faith to determine whether to extend the term of this Agreement, it being understood that the parties shall be required to consult only until the fifth day after such 30th calendar day and not be under any obligation to extend the term of this Agreement thereafter; *provided, further*, that the right to terminate this Agreement under this Section 5.1(a) shall not be available to any party whose breach of any representation or warranty or failure to perform any obligation under this Agreement shall have caused or resulted in the failure of the Closing to occur on or prior to such date; or

(b) by either the Investor or the Company in the event that any Governmental Entity shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and nonappealable; or

(c) by the mutual written consent of the Investor and the Company.

In the event of termination of this Agreement as provided in this Section 5.1, this Agreement shall forthwith become void and there shall be no liability on the part of either party hereto except that nothing herein shall relieve either party from liability for any breach of this Agreement.

5.2 Survival of Representations and Warranties. All covenants and agreements, other than those which by their terms apply in whole or in part after the Closing, shall terminate as of the Closing. The representations and warranties of the Company made herein or in any certificates delivered in connection with the Closing shall survive the Closing without limitation.

5.3 Amendment. No amendment of any provision of this Agreement will be effective unless made in writing and signed by an officer or a duly authorized representative of each party; *provided* that the Investor may unilaterally amend any provision of this Agreement to the extent required to comply with any changes after the Signing Date in applicable federal statutes. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative of any rights or remedies provided by law.

5.4 Waiver of Conditions. The conditions to each party's obligation to consummate the Purchase are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable law. No waiver will be effective unless it is in a writing signed by a duly authorized officer of the waiving party that makes express reference to the provision or provisions subject to such waiver.

5.5 Governing Law: Submission to Jurisdiction, Etc. This Agreement will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the parties hereto agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia and the United States Court of Federal Claims for any and all civil actions, suits or proceedings arising out of or relating to this Agreement or the Warrant or the transactions contemplated hereby or thereby, and (b) that notice may be served upon (i) the Company at the address and in the manner set forth for notices to the Company in Section 5.6 and (ii) the Investor in accordance with federal law. To the extent permitted by applicable law, each of the parties hereto hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to this Agreement or the Warrant or the transactions contemplated hereby or thereby.

5.6 Notices. Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second business day following the date of dispatch if delivered by a recognized next day courier service. All notices to the Company shall be delivered as set forth in Schedule A, or pursuant to such other instruction as may be designated in writing by the Company to the Investor. All notices to the Investor shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the Investor to the Company.

If to the Investor:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW, Room 2312
Washington, D.C. 20220
Attention: Assistant General Counsel (Banking and Finance)
Facsimile: (202) 622-1974

5.7 Definitions.

(a) When a reference is made in this Agreement to a subsidiary of a person, the term “*subsidiary*” means any corporation, partnership, joint venture, limited liability company or other entity (x) of which such person or a subsidiary of such person is a general partner or (y) of which a majority of the voting securities or other voting interests, or a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or persons performing similar functions with respect to such entity, is directly or indirectly owned by such person and/or one or more subsidiaries thereof.

(b) The term “*Affiliate*” means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, “*control*” (including, with correlative meanings, the terms “*controlled by*” and “*under common control with*”) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management and/or policies of such person, whether through the ownership of voting securities by contract or otherwise.

(c) The terms “*knowledge of the Company*” or “*Company's knowledge*” mean the actual knowledge after reasonable and due inquiry of the “*officers*” (as such term is defined in Rule 3b-2 under the Exchange Act, but excluding any Vice President or Secretary) of the Company.

5.8 Assignment. Neither this Agreement nor any right, remedy, obligation nor liability arising hereunder or by reason hereof shall be assignable by any party hereto without the prior written consent of the other party, and any attempt to assign any right, remedy, obligation or liability hereunder without such consent shall be void, except (a) an assignment, in the case of a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Company's stockholders (a “*Business Combination*”) where such party is not the surviving entity, or a sale of substantially all of its assets, to the entity which is the survivor of such Business Combination or the purchaser in such sale and (b) as provided in Sections 3.5 and 4.5.

5.9 Severability. If any provision of this Agreement or the Warrant, or the application thereof to any person or circumstance, is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, will remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination, the parties shall negotiate in good faith in an

effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

5.10 No Third Party Beneficiaries. Nothing contained in this Agreement, expressed or implied, is intended to confer upon any person or entity other than the Company and the Investor any benefit, right or remedies, except that the provisions of Section 4.5 shall inure to the benefit of the persons referred to in that Section.

* * *

ANNEX A

FORM OF CERTIFICATE OF DESIGNATIONS FOR PREFERRED STOCK

[SEE ATTACHED]

FORM OF [CERTIFICATE OF DESIGNATIONS]
OF
FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]
OF
[●]

[*Insert name of Issuer*], a [corporation/bank/banking association] organized and existing under the laws of the [*Insert jurisdiction of organization*] (the “Issuer”), in accordance with the provisions of Section[s] [●] of the [*Insert applicable statute*] thereof, does hereby certify:

The board of directors of the Issuer (the “Board of Directors”) or an applicable committee of the Board of Directors, in accordance with the [[certificate of incorporation/articles of association] and bylaws] of the Issuer and applicable law, adopted the following resolution on [●] creating a series of [●] shares of Preferred Stock of the Issuer designated as “Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]”.

RESOLVED, that pursuant to the provisions of the [[certificate of incorporation/articles of association] and the bylaws] of the Issuer and applicable law, a series of Preferred Stock, par value \$[●] per share, of the Issuer be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Part 1. Designation and Number of Shares. There is hereby created out of the authorized and unissued shares of preferred stock of the Issuer a series of preferred stock designated as the “Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]” (the “Designated Preferred Stock”). The authorized number of shares of Designated Preferred Stock shall be [●].

Part 2. Standard Provisions. The Standard Provisions contained in Schedule A attached hereto are incorporated herein by reference in their entirety and shall be deemed to be a part of this [Certificate of Designations] to the same extent as if such provisions had been set forth in full herein.

Part 3. Definitions. The following terms are used in this [Certificate of Designations] (including the Standard Provisions in Schedule A hereto) as defined below:

(a) “Common Stock” means the common stock, par value \$[●] per share, of the Issuer.

(b) “Dividend Payment Date” means February 15, May 15, August 15 and November 15 of each year.

(c) “Junior Stock” means the Common Stock, *[Insert titles of any existing Junior Stock]* and any other class or series of stock of the Issuer the terms of which expressly provide that it ranks junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer.

(d) “Liquidation Amount” means \$[1,000]¹ per share of Designated Preferred Stock.

(e) “Minimum Amount” means \$*[Insert \$ amount equal to 25% of the aggregate value of the Designated Preferred Stock issued on the Original Issue Date]*.

(f) “Parity Stock” means any class or series of stock of the Issuer (other than Designated Preferred Stock) the terms of which do not expressly provide that such class or series will rank senior or junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer (in each case without regard to whether dividends accrue cumulatively or non-cumulatively). Without limiting the foregoing, Parity Stock shall include the Issuer’s *[Insert title(s) of existing classes or series of Parity Stock]*.

(g) “Signing Date” means *[Insert date of applicable securities purchase agreement]*.

Part. 4. Certain Voting Matters. *[To be inserted if the Charter provides for voting in proportion to liquidation preferences:* Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Designated Preferred Stock and any Voting Parity Stock has been cast or given on any matter on which the holders of shares of Designated Preferred Stock are entitled to vote shall be determined by the Issuer by reference to the specified liquidation amount of the shares voted or covered by the consent as if the Issuer were liquidated on the record date for such vote or consent, if any, or, in the absence of a record date, on the date for such vote or consent. For purposes of determining the voting rights of the holders of Designated Preferred Stock under Section 7 of the Standard Provisions forming part of this [Certificate of Designations], each holder will be entitled to one vote for each \$1,000 of liquidation preference to which such holder’s shares are entitled.] *[To be inserted if the Charter does not provide for voting in proportion to liquidation preferences:* Holders of shares of Designated Preferred Stock will be entitled to one vote for each such share on any matter on which holders of Designated Preferred Stock are entitled to vote, including any action by written consent.]

[Remainder of Page Intentionally Left Blank]

¹ If Issuer desires to issue shares with a higher dollar amount liquidation preference, liquidation preference references will be modified accordingly. In such case (in accordance with Section 4.6 of the Securities Purchase Agreement), the issuer will be required to enter into a deposit agreement.

IN WITNESS WHEREOF, *[Insert name of Issuer]* has caused this [Certificate of Designations] to be signed by [●], its [●], this [●] day of [●].

[Insert name of Issuer]

By: _____

Name:

Title:

STANDARD PROVISIONS

Section 1. General Matters. Each share of Designated Preferred Stock shall be identical in all respects to every other share of Designated Preferred Stock. The Designated Preferred Stock shall be perpetual, subject to the provisions of Section 5 of these Standard Provisions that form a part of the Certificate of Designations. The Designated Preferred Stock shall rank equally with Parity Stock and shall rank senior to Junior Stock with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Issuer.

Section 2. Standard Definitions. As used herein with respect to Designated Preferred Stock:

(a) “Applicable Dividend Rate” means (i) during the period from the Original Issue Date to, but excluding, the first day of the first Dividend Period commencing on or after the fifth anniversary of the Original Issue Date, 5% per annum and (ii) from and after the first day of the first Dividend Period commencing on or after the fifth anniversary of the Original Issue Date, 9% per annum.

(b) “Appropriate Federal Banking Agency” means the “appropriate Federal banking agency” with respect to the Issuer as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)), or any successor provision.

(c) “Business Combination” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Issuer’s stockholders.

(d) “Business Day” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

(e) “Bylaws” means the bylaws of the Issuer, as they may be amended from time to time.

(f) “Certificate of Designations” means the Certificate of Designations or comparable instrument relating to the Designated Preferred Stock, of which these Standard Provisions form a part, as it may be amended from time to time.

(g) “Charter” means the Issuer’s certificate or articles of incorporation, articles of association, or similar organizational document.

(h) “Dividend Period” has the meaning set forth in Section 3(a).

(i) “Dividend Record Date” has the meaning set forth in Section 3(a).

(j) “Liquidation Preference” has the meaning set forth in Section 4(a).

(k) “Original Issue Date” means the date on which shares of Designated Preferred Stock are first issued.

(l) “Preferred Director” has the meaning set forth in Section 7(b).

(m) “Preferred Stock” means any and all series of preferred stock of the Issuer, including the Designated Preferred Stock.

(n) “Qualified Equity Offering” means the sale and issuance for cash by the Issuer to persons other than the Issuer or any of its subsidiaries after the Original Issue Date of shares of perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Issuer at the time of issuance under the applicable risk-based capital guidelines of the Issuer’s Appropriate Federal Banking Agency (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to November 17, 2008).

(o) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.

(p) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

(q) “Voting Parity Stock” means, with regard to any matter as to which the holders of Designated Preferred Stock are entitled to vote as specified in Sections 7(a) and 7(b) of these Standard Provisions that form a part of the Certificate of Designations, any and all series of Parity Stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 3. Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, cumulative cash dividends with respect to each Dividend Period (as defined below) at a rate per annum equal to the Applicable Dividend Rate on (i) the Liquidation Amount per share of Designated Preferred Stock and (ii) the amount of accrued and unpaid dividends for any prior Dividend Period on such share of Designated Preferred Stock, if any. Such dividends shall begin to accrue and be cumulative from the Original Issue Date, shall compound on each subsequent Dividend Payment Date (*i.e.*, no dividends shall accrue on other dividends unless and until the first Dividend Payment Date for such other dividends has passed without such other dividends having been paid on such date) and shall be payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend Period”, provided that the initial

Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

Dividends that are payable on Designated Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable on Designated Preferred Stock on any date prior to the end of a Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Dividends that are payable on Designated Preferred Stock on any Dividend Payment Date will be payable to holders of record of Designated Preferred Stock as they appear on the stock register of the Issuer on the applicable record date, which shall be the 15th calendar day immediately preceding such Dividend Payment Date or such other record date fixed by the Board of Directors or any duly authorized committee of the Board of Directors that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a “Dividend Record Date”). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Holders of Designated Preferred Stock shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on Designated Preferred Stock as specified in this Section 3 (subject to the other provisions of the Certificate of Designations).

(b) Priority of Dividends. So long as any share of Designated Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than dividends payable solely in shares of Common Stock) or Parity Stock, subject to the immediately following paragraph in the case of Parity Stock, and no Common Stock, Junior Stock or Parity Stock shall be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by the Issuer or any of its subsidiaries unless all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been or are contemporaneously declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set aside for the benefit of the holders of shares of Designated Preferred Stock on the applicable record date). The foregoing limitation shall not apply to (i) redemptions, purchases or other acquisitions of shares of Common Stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice; (ii) the acquisition by the Issuer or any of its subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Issuer or any of its subsidiaries), including as trustees or custodians; and (iii) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside for the benefit of the holders thereof on the applicable record date) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period related to such Dividend Payment Date) in full upon Designated Preferred Stock and any shares of Parity Stock, all dividends declared on Designated Preferred Stock and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared *pro rata* so that the respective amounts of such dividends declared shall bear the same ratio to each other as all accrued and unpaid dividends per share on the shares of Designated Preferred Stock (including, if applicable as provided in Section 3(a) above, dividends on such amount) and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) (subject to their having been declared by the Board of Directors or a duly authorized committee of the Board of Directors out of legally available funds and including, in the case of Parity Stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other. If the Board of Directors or a duly authorized committee of the Board of Directors determines not to pay any dividend or a full dividend on a Dividend Payment Date, the Issuer will provide written notice to the holders of Designated Preferred Stock prior to such Dividend Payment Date.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or any duly authorized committee of the Board of Directors may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and holders of Designated Preferred Stock shall not be entitled to participate in any such dividends.

Section 4. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Issuer, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Issuer or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Issuer, subject to the rights of any creditors of the Issuer, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Issuer ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount), whether or not declared, to the date of payment (such amounts collectively, the "Liquidation Preference").

(b) Partial Payment. If in any distribution described in Section 4(a) above the assets of the Issuer or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as

to such distribution, holders of Designated Preferred Stock and the holders of such other stock shall share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such distribution has been paid in full, the holders of other stock of the Issuer shall be entitled to receive all remaining assets of the Issuer (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 4, the merger or consolidation of the Issuer with any other corporation or other entity, including a merger or consolidation in which the holders of Designated Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Issuer, shall not constitute a liquidation, dissolution or winding up of the Issuer.

Section 5. Redemption.

(a) Optional Redemption. Except as provided below, the Designated Preferred Stock may not be redeemed prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date. On or after the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, out of funds legally available therefor, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption.

Notwithstanding the foregoing, prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption; *provided* that (x) the Issuer (or any successor by Business Combination) has received aggregate gross proceeds of not less than the Minimum Amount (plus the “Minimum Amount” as defined in the relevant certificate of designations for each other outstanding series of preferred stock of such successor that was originally issued to the United States Department of the Treasury (the “Successor Preferred Stock”) in connection with the Troubled Asset Relief Program Capital Purchase Program) from one or more Qualified Equity Offerings (including Qualified Equity Offerings of such successor), and (y) the aggregate

redemption price of the Designated Preferred Stock (and any Successor Preferred Stock) redeemed pursuant to this paragraph may not exceed the aggregate net cash proceeds received by the Issuer (or any successor by Business Combination) from such Qualified Equity Offerings (including Qualified Equity Offerings of such successor).

The redemption price for any shares of Designated Preferred Stock shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Issuer or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 3 above.

(b) No Sinking Fund. The Designated Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Designated Preferred Stock will have no right to require redemption or repurchase of any shares of Designated Preferred Stock.

(c) Notice of Redemption. Notice of every redemption of shares of Designated Preferred Stock shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Issuer. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Designated Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Designated Preferred Stock. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Designated Preferred Stock at such time and in any manner permitted by such facility. Each notice of redemption given to a holder shall state: (1) the redemption date; (2) the number of shares of Designated Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of part of the shares of Designated Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either *pro rata* or in such other manner as the Board of Directors or a duly authorized committee thereof may determine to be fair and equitable. Subject to the provisions hereof, the Board of Directors or a duly authorized committee thereof shall have full power and authority to prescribe the terms and conditions upon which shares of Designated Preferred Stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption

have been deposited by the Issuer, in trust for the *pro rata* benefit of the holders of the shares called for redemption, with a bank or trust company doing business in the Borough of Manhattan, The City of New York, and having a capital and surplus of at least \$500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Issuer, after which time the holders of the shares so called for redemption shall look only to the Issuer for payment of the redemption price of such shares.

(f) Status of Redeemed Shares. Shares of Designated Preferred Stock that are redeemed, repurchased or otherwise acquired by the Issuer shall revert to authorized but unissued shares of Preferred Stock (*provided* that any such cancelled shares of Designated Preferred Stock may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

Section 6. Conversion. Holders of Designated Preferred Stock shares shall have no right to exchange or convert such shares into any other securities.

Section 7. Voting Rights.

(a) General. The holders of Designated Preferred Stock shall not have any voting rights except as set forth below or as otherwise from time to time required by law.

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at the Issuer's next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been declared and paid in full at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to reversion in the event of each and every subsequent default of the character above mentioned; *provided* that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Issuer to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Issuer may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any

termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

(c) Class Voting Rights as to Particular Matters. So long as any shares of Designated Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Charter, the vote or consent of the holders of at least 66 2/3% of the shares of Designated Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) Authorization of Senior Stock. Any amendment or alteration of the Certificate of Designations for the Designated Preferred Stock or the Charter to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock of the Issuer ranking senior to Designated Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Issuer;

(ii) Amendment of Designated Preferred Stock. Any amendment, alteration or repeal of any provision of the Certificate of Designations for the Designated Preferred Stock or the Charter (including, unless no vote on such merger or consolidation is required by Section 7(c)(iii) below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Designated Preferred Stock; or

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions

thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole;

provided, however, that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

(d) Changes after Provision for Redemption. No vote or consent of the holders of Designated Preferred Stock shall be required pursuant to Section 7(c) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of the Designated Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been deposited in trust for such redemption, in each case pursuant to Section 5 above.

(e) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Designated Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules of the Board of Directors or any duly authorized committee of the Board of Directors, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Charter, the Bylaws, and applicable law and the rules of any national securities exchange or other trading facility on which Designated Preferred Stock is listed or traded at the time.

Section 8. Record Holders. To the fullest extent permitted by applicable law, the Issuer and the transfer agent for Designated Preferred Stock may deem and treat the record holder of any share of Designated Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Issuer nor such transfer agent shall be affected by any notice to the contrary.

Section 9. Notices. All notices or communications in respect of Designated Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Charter or Bylaws or by applicable law. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any similar facility, such notices may be given to the holders of Designated Preferred Stock in any manner permitted by such facility.

Section 10. No Preemptive Rights. No share of Designated Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Issuer, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 11. Replacement Certificates. The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

Section 12. Other Rights. The shares of Designated Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Charter or as provided by applicable law.

FORM OF [CERTIFICATE OF DESIGNATIONS]
OF
FIXED RATE CUMULATIVE PERPETUAL PREFERRED STOCK, SERIES [●]
OF
[●]

[*Insert name of Issuer*], a [corporation/bank/banking association] organized and existing under the laws of the [*Insert jurisdiction of organization*] (the “Issuer”), in accordance with the provisions of Section[s] [●] of the [*Insert applicable statute*] thereof, does hereby certify:

The board of directors of the Issuer (the “Board of Directors”) or an applicable committee of the Board of Directors, in accordance with the [[certificate of incorporation/articles of association] and bylaws] of the Issuer and applicable law, adopted the following resolution on [●] creating a series of [●] shares of Preferred Stock of the Issuer designated as “Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]”.

RESOLVED, that pursuant to the provisions of the [[certificate of incorporation/articles of association] and the bylaws] of the Issuer and applicable law, a series of Preferred Stock, par value \$[●] per share, of the Issuer be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Part 1. Designation and Number of Shares. There is hereby created out of the authorized and unissued shares of preferred stock of the Issuer a series of preferred stock designated as the “Fixed Rate Cumulative Perpetual Preferred Stock, Series [●]” (the “Designated Preferred Stock”). The authorized number of shares of Designated Preferred Stock shall be [●].

Part 2. Standard Provisions. The Standard Provisions contained in Schedule A attached hereto are incorporated herein by reference in their entirety and shall be deemed to be a part of this [Certificate of Designations] to the same extent as if such provisions had been set forth in full herein.

Part 3. Definitions. The following terms are used in this [Certificate of Designations] (including the Standard Provisions in Schedule A hereto) as defined below:

(a) “Common Stock” means the common stock, par value \$[●] per share, of the Issuer.

(b) “Dividend Payment Date” means February 15, May 15, August 15 and November 15 of each year.

(c) “Junior Stock” means the Common Stock, *[Insert titles of any existing Junior Stock]* and any other class or series of stock of the Issuer the terms of which expressly provide that it ranks junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer.

(d) “Liquidation Amount” means \$[1,000]¹ per share of Designated Preferred Stock.

(e) “Minimum Amount” means \$*[Insert \$ amount equal to 25% of the aggregate value of the Designated Preferred Stock issued on the Original Issue Date]*.

(f) “Parity Stock” means any class or series of stock of the Issuer (other than Designated Preferred Stock) the terms of which do not expressly provide that such class or series will rank senior or junior to Designated Preferred Stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Issuer (in each case without regard to whether dividends accrue cumulatively or non-cumulatively). Without limiting the foregoing, Parity Stock shall include the Issuer’s UST Preferred Stock [and] *[Insert title(s) of any other classes or series of Parity Stock]*.

(g) “Signing Date” means *[Insert date of applicable securities purchase agreement]*.

(h) “UST Preferred Stock” means the Issuer’s Fixed Rate Cumulative Perpetual Preferred Stock, Series [●].

Part. 4. Certain Voting Matters. *[To be inserted if the Charter provides for voting in proportion to liquidation preferences:* Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Designated Preferred Stock and any Voting Parity Stock has been cast or given on any matter on which the holders of shares of Designated Preferred Stock are entitled to vote shall be determined by the Issuer by reference to the specified liquidation amount of the shares voted or covered by the consent as if the Issuer were liquidated on the record date for such vote or consent, if any, or, in the absence of a record date, on the date for such vote or consent. For purposes of determining the voting rights of the holders of Designated Preferred Stock under Section 7 of the Standard Provisions forming part of this [Certificate of Designations], each holder will be entitled to one vote for each \$1,000 of liquidation preference to which such holder’s shares are entitled.] *[To be inserted if the Charter does not provide for voting in proportion to liquidation preferences:* Holders of shares of Designated Preferred Stock will be entitled to one vote for each such share on any matter on which holders of Designated Preferred Stock are entitled to vote, including any action by written consent.]

[Remainder of Page Intentionally Left Blank]

¹ If Issuer desires to issue shares with a higher dollar amount liquidation preference, liquidation preference references will be modified accordingly. In such case (in accordance with Section 4.6 of the Securities Purchase Agreement), the issuer will be required to enter into a deposit agreement.

IN WITNESS WHEREOF, *[Insert name of Issuer]* has caused this [Certificate of Designations] to be signed by [●], its [●], this [●] day of [●].

[Insert name of Issuer]

By: _____

Name:

Title:

STANDARD PROVISIONS

Section 1. General Matters. Each share of Designated Preferred Stock shall be identical in all respects to every other share of Designated Preferred Stock. The Designated Preferred Stock shall be perpetual, subject to the provisions of Section 5 of these Standard Provisions that form a part of the Certificate of Designations. The Designated Preferred Stock shall rank equally with Parity Stock and shall rank senior to Junior Stock with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Issuer.

Section 2. Standard Definitions. As used herein with respect to Designated Preferred Stock:

(a) “Appropriate Federal Banking Agency” means the “appropriate Federal banking agency” with respect to the Issuer as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)), or any successor provision.

(b) “Business Combination” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Issuer’s stockholders.

(c) “Business Day” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

(d) “Bylaws” means the bylaws of the Issuer, as they may be amended from time to time.

(e) “Certificate of Designations” means the Certificate of Designations or comparable instrument relating to the Designated Preferred Stock, of which these Standard Provisions form a part, as it may be amended from time to time.

(f) “Charter” means the Issuer’s certificate or articles of incorporation, articles of association, or similar organizational document.

(g) “Dividend Period” has the meaning set forth in Section 3(a).

(h) “Dividend Record Date” has the meaning set forth in Section 3(a).

(i) “Liquidation Preference” has the meaning set forth in Section 4(a).

(j) “Original Issue Date” means the date on which shares of Designated Preferred Stock are first issued.

(k) “Preferred Director” has the meaning set forth in Section 7(b).

(l) “Preferred Stock” means any and all series of preferred stock of the Issuer, including the Designated Preferred Stock.

(m) “Qualified Equity Offering” means the sale and issuance for cash by the Issuer to persons other than the Issuer or any of its subsidiaries after the Original Issue Date of shares of perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Issuer at the time of issuance under the applicable risk-based capital guidelines of the Issuer’s Appropriate Federal Banking Agency (other than any such sales and issuances made pursuant to agreements or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to November 17, 2008).

(n) “Standard Provisions” mean these Standard Provisions that form a part of the Certificate of Designations relating to the Designated Preferred Stock.

(o) “Successor Preferred Stock” has the meaning set forth in Section 5(a).

(p) “Voting Parity Stock” means, with regard to any matter as to which the holders of Designated Preferred Stock are entitled to vote as specified in Sections 7(a) and 7(b) of these Standard Provisions that form a part of the Certificate of Designations, any and all series of Parity Stock upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 3. Dividends.

(a) Rate. Holders of Designated Preferred Stock shall be entitled to receive, on each share of Designated Preferred Stock if, as and when declared by the Board of Directors or any duly authorized committee of the Board of Directors, but only out of assets legally available therefor, cumulative cash dividends with respect to each Dividend Period (as defined below) at a per annum rate of 9.0% on (i) the Liquidation Amount per share of Designated Preferred Stock and (ii) the amount of accrued and unpaid dividends for any prior Dividend Period on such share of Designated Preferred Stock, if any. Such dividends shall begin to accrue and be cumulative from the Original Issue Date, shall compound on each subsequent Dividend Payment Date (*i.e.*, no dividends shall accrue on other dividends unless and until the first Dividend Payment Date for such other dividends has passed without such other dividends having been paid on such date) and shall be payable quarterly in arrears on each Dividend Payment Date, commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date. In the event that any Dividend Payment Date would otherwise fall on a day that is not a Business Day, the dividend payment due on that date will be postponed to the next day that is a Business Day and no additional dividends will accrue as a result of that postponement. The period from and including any Dividend Payment Date to, but excluding, the next Dividend Payment Date is a “Dividend Period”, provided that the initial Dividend Period shall be the period from and including the Original Issue Date to, but excluding, the next Dividend Payment Date.

Dividends that are payable on Designated Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends payable on Designated Preferred Stock on any date prior to the end of a

Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

Dividends that are payable on Designated Preferred Stock on any Dividend Payment Date will be payable to holders of record of Designated Preferred Stock as they appear on the stock register of the Issuer on the applicable record date, which shall be the 15th calendar day immediately preceding such Dividend Payment Date or such other record date fixed by the Board of Directors or any duly authorized committee of the Board of Directors that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a “Dividend Record Date”). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Holders of Designated Preferred Stock shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on Designated Preferred Stock as specified in this Section 3 (subject to the other provisions of the Certificate of Designations).

(b) Priority of Dividends. So long as any share of Designated Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than dividends payable solely in shares of Common Stock) or Parity Stock, subject to the immediately following paragraph in the case of Parity Stock, and no Common Stock, Junior Stock or Parity Stock shall be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by the Issuer or any of its subsidiaries unless all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been or are contemporaneously declared and paid in full (or have been declared and a sum sufficient for the payment thereof has been set aside for the benefit of the holders of shares of Designated Preferred Stock on the applicable record date). The foregoing limitation shall not apply to (i) redemptions, purchases or other acquisitions of shares of Common Stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice; (ii) the acquisition by the Issuer or any of its subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than the Issuer or any of its subsidiaries), including as trustees or custodians; and (iii) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the Signing Date or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for Common Stock.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside for the benefit of the holders thereof on the applicable record date) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period related to such Dividend Payment Date) in full upon Designated Preferred Stock and any shares of Parity Stock, all dividends declared on Designated Preferred Stock and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend

payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared *pro rata* so that the respective amounts of such dividends declared shall bear the same ratio to each other as all accrued and unpaid dividends per share on the shares of Designated Preferred Stock (including, if applicable as provided in Section 3(a) above, dividends on such amount) and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) (subject to their having been declared by the Board of Directors or a duly authorized committee of the Board of Directors out of legally available funds and including, in the case of Parity Stock that bears cumulative dividends, all accrued but unpaid dividends) bear to each other. If the Board of Directors or a duly authorized committee of the Board of Directors determines not to pay any dividend or a full dividend on a Dividend Payment Date, the Issuer will provide written notice to the holders of Designated Preferred Stock prior to such Dividend Payment Date.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or any duly authorized committee of the Board of Directors may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and holders of Designated Preferred Stock shall not be entitled to participate in any such dividends.

Section 4. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Issuer, whether voluntary or involuntary, holders of Designated Preferred Stock shall be entitled to receive for each share of Designated Preferred Stock, out of the assets of the Issuer or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Issuer, subject to the rights of any creditors of the Issuer, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Issuer ranking junior to Designated Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount), whether or not declared, to the date of payment (such amounts collectively, the "Liquidation Preference").

(b) Partial Payment. If in any distribution described in Section 4(a) above the assets of the Issuer or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such distribution, holders of Designated Preferred Stock and the holders of such other stock shall share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Designated Preferred Stock and the corresponding amounts payable with respect of any other stock of the Issuer ranking equally with Designated Preferred Stock as to such

distribution has been paid in full, the holders of other stock of the Issuer shall be entitled to receive all remaining assets of the Issuer (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 4, the merger or consolidation of the Issuer with any other corporation or other entity, including a merger or consolidation in which the holders of Designated Preferred Stock receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Issuer, shall not constitute a liquidation, dissolution or winding up of the Issuer.

Section 5. Redemption.

(a) Optional Redemption. Except as provided below, the Designated Preferred Stock may not be redeemed prior to the later of (i) first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date; and (ii) the date on which all outstanding shares of UST Preferred Stock have been redeemed, repurchased or otherwise acquired by the Issuer. On or after the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency, may redeem, in whole or in part, at any time and from time to time, out of funds legally available therefor, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption.

Notwithstanding the foregoing, prior to the first Dividend Payment Date falling on or after the third anniversary of the Original Issue Date, the Issuer, at its option, subject to the approval of the Appropriate Federal Banking Agency and subject to the requirement that all outstanding shares of UST Preferred Stock shall previously have been redeemed, repurchased or otherwise acquired by the Issuer, may redeem, in whole or in part, at any time and from time to time, the shares of Designated Preferred Stock at the time outstanding, upon notice given as provided in Section 5(c) below, at a redemption price equal to the sum of (i) the Liquidation Amount per share and (ii) except as otherwise provided below, any accrued and unpaid dividends (including, if applicable as provided in Section 3(a) above, dividends on such amount) (regardless of whether any dividends are actually declared) to, but excluding, the date fixed for redemption; *provided* that (x) the Issuer (or any successor by Business Combination) has received aggregate gross proceeds of not less than the Minimum Amount (plus the “Minimum Amount” as defined in the relevant certificate of designations for each other outstanding series of preferred stock of such successor that was originally issued to the United States Department of the Treasury (the “Successor Preferred Stock”) in connection with the Troubled Asset Relief Program Capital Purchase Program) from one or more Qualified Equity Offerings (including Qualified Equity Offerings of such successor), and (y) the aggregate redemption price of the Designated Preferred Stock (and any Successor Preferred Stock) redeemed pursuant to this paragraph may not exceed the aggregate net cash proceeds received by the Issuer (or any

successor by Business Combination) from such Qualified Equity Offerings (including Qualified Equity Offerings of such successor).

The redemption price for any shares of Designated Preferred Stock shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Issuer or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 3 above.

(b) No Sinking Fund. The Designated Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Designated Preferred Stock will have no right to require redemption or repurchase of any shares of Designated Preferred Stock.

(c) Notice of Redemption. Notice of every redemption of shares of Designated Preferred Stock shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Issuer. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Designated Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Designated Preferred Stock. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Designated Preferred Stock at such time and in any manner permitted by such facility. Each notice of redemption given to a holder shall state: (1) the redemption date; (2) the number of shares of Designated Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of part of the shares of Designated Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either *pro rata* or in such other manner as the Board of Directors or a duly authorized committee thereof may determine to be fair and equitable. Subject to the provisions hereof, the Board of Directors or a duly authorized committee thereof shall have full power and authority to prescribe the terms and conditions upon which shares of Designated Preferred Stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been deposited by the Issuer, in trust for the *pro rata* benefit of the holders of the shares called for redemption, with a bank or trust company doing business in the Borough of

Manhattan, The City of New York, and having a capital and surplus of at least \$500 million and selected by the Board of Directors, so as to be and continue to be available solely therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption from such bank or trust company, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Issuer, after which time the holders of the shares so called for redemption shall look only to the Issuer for payment of the redemption price of such shares.

(f) Status of Redeemed Shares. Shares of Designated Preferred Stock that are redeemed, repurchased or otherwise acquired by the Issuer shall revert to authorized but unissued shares of Preferred Stock (*provided* that any such cancelled shares of Designated Preferred Stock may be reissued only as shares of any series of Preferred Stock other than Designated Preferred Stock).

Section 6. Conversion. Holders of Designated Preferred Stock shares shall have no right to exchange or convert such shares into any other securities.

Section 7. Voting Rights.

(a) General. The holders of Designated Preferred Stock shall not have any voting rights except as set forth below or as otherwise from time to time required by law.

(b) Preferred Stock Directors. Whenever, at any time or times, dividends payable on the shares of Designated Preferred Stock have not been paid for an aggregate of six quarterly Dividend Periods or more, whether or not consecutive, the authorized number of directors of the Issuer shall automatically be increased by two and the holders of the Designated Preferred Stock shall have the right, with holders of shares of any one or more other classes or series of Voting Parity Stock outstanding at the time, voting together as a class, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at the Issuer's next annual meeting of stockholders (or at a special meeting called for that purpose prior to such next annual meeting) and at each subsequent annual meeting of stockholders until all accrued and unpaid dividends for all past Dividend Periods, including the latest completed Dividend Period (including, if applicable as provided in Section 3(a) above, dividends on such amount), on all outstanding shares of Designated Preferred Stock have been declared and paid in full at which time such right shall terminate with respect to the Designated Preferred Stock, except as herein or by law expressly provided, subject to revesting in the event of each and every subsequent default of the character above mentioned; *provided* that it shall be a qualification for election for any Preferred Director that the election of such Preferred Director shall not cause the Issuer to violate any corporate governance requirements of any securities exchange or other trading facility on which securities of the Issuer may then be listed or traded that listed or traded companies must have a majority of independent directors. Upon any termination of the right of the holders of shares of Designated Preferred Stock and Voting Parity Stock as a class to vote for directors as provided above, the Preferred Directors shall cease to be

qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto. Any Preferred Director may be removed at any time, with or without cause, and any vacancy created thereby may be filled, only by the affirmative vote of the holders a majority of the shares of Designated Preferred Stock at the time outstanding voting separately as a class together with the holders of shares of Voting Parity Stock, to the extent the voting rights of such holders described above are then exercisable. If the office of any Preferred Director becomes vacant for any reason other than removal from office as aforesaid, the remaining Preferred Director may choose a successor who shall hold office for the unexpired term in respect of which such vacancy occurred.

(c) Class Voting Rights as to Particular Matters. So long as any shares of Designated Preferred Stock are outstanding, in addition to any other vote or consent of stockholders required by law or by the Charter, the vote or consent of the holders of at least 66 2/3% of the shares of Designated Preferred Stock at the time outstanding, voting as a separate class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) Authorization of Senior Stock. Any amendment or alteration of the Certificate of Designations for the Designated Preferred Stock or the Charter to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of capital stock of the Issuer ranking senior to Designated Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Issuer;

(ii) Amendment of Designated Preferred Stock. Any amendment, alteration or repeal of any provision of the Certificate of Designations for the Designated Preferred Stock or the Charter (including, unless no vote on such merger or consolidation is required by Section 7(c)(iii) below, any amendment, alteration or repeal by means of a merger, consolidation or otherwise) so as to adversely affect the rights, preferences, privileges or voting powers of the Designated Preferred Stock; or

(iii) Share Exchanges, Reclassifications, Mergers and Consolidations. Any consummation of a binding share exchange or reclassification involving the Designated Preferred Stock, or of a merger or consolidation of the Issuer with another corporation or other entity, unless in each case (x) the shares of Designated Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Issuer is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of Designated Preferred Stock immediately prior to such consummation, taken as a whole;

provided, however, that for all purposes of this Section 7(c), any increase in the amount of the authorized Preferred Stock, including any increase in the authorized amount of Designated Preferred Stock necessary to satisfy preemptive or similar rights granted by the Issuer to other persons prior to the Signing Date, or the creation and issuance, or an increase in the authorized or issued amount, whether pursuant to preemptive or similar rights or otherwise, of any other series of Preferred Stock, or any securities convertible into or exchangeable or exercisable for any other series of Preferred Stock, ranking equally with and/or junior to Designated Preferred Stock with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and the distribution of assets upon liquidation, dissolution or winding up of the Issuer will not be deemed to adversely affect the rights, preferences, privileges or voting powers, and shall not require the affirmative vote or consent of, the holders of outstanding shares of the Designated Preferred Stock.

(d) Changes after Provision for Redemption. No vote or consent of the holders of Designated Preferred Stock shall be required pursuant to Section 7(c) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of the Designated Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been deposited in trust for such redemption, in each case pursuant to Section 5 above.

(e) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Designated Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules of the Board of Directors or any duly authorized committee of the Board of Directors, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Charter, the Bylaws, and applicable law and the rules of any national securities exchange or other trading facility on which Designated Preferred Stock is listed or traded at the time.

Section 8. Record Holders. To the fullest extent permitted by applicable law, the Issuer and the transfer agent for Designated Preferred Stock may deem and treat the record holder of any share of Designated Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Issuer nor such transfer agent shall be affected by any notice to the contrary.

Section 9. Notices. All notices or communications in respect of Designated Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Charter or Bylaws or by applicable law. Notwithstanding the foregoing, if shares of Designated Preferred Stock are issued in book-entry form through The Depository Trust Company or any similar facility, such notices may be given to the holders of Designated Preferred Stock in any manner permitted by such facility.

Section 10. No Preemptive Rights. No share of Designated Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Issuer, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 11. Replacement Certificates. The Issuer shall replace any mutilated certificate at the holder's expense upon surrender of that certificate to the Issuer. The Issuer shall replace certificates that become destroyed, stolen or lost at the holder's expense upon delivery to the Issuer of reasonably satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be reasonably required by the Issuer.

Section 12. Other Rights. The shares of Designated Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Charter or as provided by applicable law.

FORM OF WAIVER

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

FORM OF OPINION

(a) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of its incorporation.

(b) The Preferred Shares have been duly and validly authorized, and, when issued and delivered pursuant to the Agreement, the Preferred Shares will be duly and validly issued and fully paid and non-assessable, will not be issued in violation of any preemptive rights, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock issued on the Closing Date with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(c) The Warrant has been duly authorized and, when executed and delivered as contemplated by the Agreement, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity.

(d) The shares of Warrant Preferred Stock issuable upon exercise of the Warrant have been duly authorized and reserved for issuance upon exercise of the Warrant and when so issued in accordance with the terms of the Warrant will be validly issued, fully paid and non-assessable, and will rank *pari passu* with or senior to all other series or classes of Preferred Stock, whether or not issued or outstanding, with respect to the payment of dividends and the distribution of assets in the event of any dissolution, liquidation or winding up of the Company.

(e) The Company has the corporate power and authority to execute and deliver the Agreement and the Warrant and to carry out its obligations thereunder (which includes the issuance of the Preferred Shares, Warrant and Warrant Shares).

(f) The execution, delivery and performance by the Company of the Agreement and the Warrant and the consummation of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company.

(g) The Agreement is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity; *provided, however*, such counsel need express no opinion with respect to Section 4.5(h) or the severability provisions of the Agreement insofar as Section 4.5(h) is concerned.

ANNEX E

FORM OF WARRANT

[SEE ATTACHED]

FORM OF WARRANT TO PURCHASE PREFERRED STOCK

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS. THIS INSTRUMENT IS ISSUED SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER PROVISIONS OF A SECURITIES PURCHASE AGREEMENT BETWEEN THE ISSUER OF THESE SECURITIES AND THE INVESTOR REFERRED TO THEREIN, A COPY OF WHICH IS ON FILE WITH THE ISSUER. THE SECURITIES REPRESENTED BY THIS INSTRUMENT MAY NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH SAID AGREEMENT. ANY SALE OR OTHER TRANSFER NOT IN COMPLIANCE WITH SAID AGREEMENT WILL BE VOID.

**WARRANT
to purchase**

Shares of Preferred Stock

of _____

Issue Date: _____

1. **Definitions.** Unless the context otherwise requires, when used herein the following terms shall have the meanings indicated.

“*Board of Directors*” means the board of directors of the Company, including any duly authorized committee thereof.

“*business day*” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

“*Charter*” means, with respect to any Person, its certificate or articles of incorporation, articles of association, or similar organizational document.

“*Company*” means the Person whose name, corporate or other organizational form and jurisdiction of organization is set forth in Item 1 of Schedule A hereto.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Exercise Price*” means the amount set forth in Item 2 of Schedule A hereto.

“*Expiration Time*” has the meaning set forth in Section 3.

“*Issue Date*” means the date set forth in Item 3 of Schedule A hereto.

“*Liquidation Amount*” means the amount set forth in Item 4 of Schedule A hereto.

“*Original Warrantholder*” means the United States Department of the Treasury. Any actions specified to be taken by the Original Warrantholder hereunder may only be taken by such Person and not by any other Warrantholder.

“*Person*” has the meaning given to it in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

“*Preferred Stock*” means the series of perpetual preferred stock set forth in Item 5 of Schedule A hereto.

“*Purchase Agreement*” means the Securities Purchase Agreement – Standard Terms incorporated into the Letter Agreement, dated as of the date set forth in Item 6 of Schedule A hereto, as amended from time to time, between the Company and the United States Department of the Treasury (the “*Letter Agreement*”), including all annexes and schedules thereto.

“*Regulatory Approvals*” with respect to the Warrantholder, means, to the extent applicable and required to permit the Warrantholder to exercise this Warrant for shares of Preferred Stock and to own such Preferred Stock without the Warrantholder being in violation of applicable law, rule or regulation, the receipt of any necessary approvals and authorizations of, filings and registrations with, notifications to, or expiration or termination of any applicable waiting period under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Securities Act*” means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Shares*” has the meaning set forth in Section 2.

“*Warrantholder*” has the meaning set forth in Section 2.

“*Warrant*” means this Warrant, issued pursuant to the Purchase Agreement.

2. Number of Shares; Exercise Price. This certifies that, for value received, the United States Department of the Treasury or its permitted assigns (the “*Warrantholder*”) is entitled, upon the terms and subject to the conditions hereinafter set forth, to acquire from the

Company, in whole or in part, after the receipt of all applicable Regulatory Approvals, if any, up to an aggregate of the number of fully paid and nonassessable shares of Preferred Stock set forth in Item 7 of Schedule A hereto (the “*Shares*”), at a purchase price per share of Preferred Stock equal to the Exercise Price.

3. Exercise of Warrant; Term. Subject to Section 2, to the extent permitted by applicable laws and regulations, the right to purchase the Shares represented by this Warrant is exercisable, in whole or in part by the Warrantholder, at any time or from time to time after the execution and delivery of this Warrant by the Company on the date hereof, but in no event later than 5:00 p.m., New York City time on the tenth anniversary of the Issue Date (the “*Expiration Time*”), by (A) the surrender of this Warrant and Notice of Exercise annexed hereto, duly completed and executed on behalf of the Warrantholder, at the principal executive office of the Company located at the address set forth in Item 8 of Schedule A hereto (or such other office or agency of the Company in the United States as it may designate by notice in writing to the Warrantholder at the address of the Warrantholder appearing on the books of the Company), and (B) payment of the Exercise Price for the Shares thereby purchased, by having the Company withhold, from the shares of Preferred Stock that would otherwise be delivered to the Warrantholder upon such exercise, shares of Preferred Stock issuable upon exercise of the Warrant with an aggregate Liquidation Amount equal in value to the aggregate Exercise Price as to which this Warrant is so exercised.

If the Warrantholder does not exercise this Warrant in its entirety, the Warrantholder will be entitled to receive from the Company within a reasonable time, and in any event not exceeding three business days, a new warrant in substantially identical form for the purchase of that number of Shares equal to the difference between the number of Shares subject to this Warrant and the number of Shares as to which this Warrant is so exercised. Notwithstanding anything in this Warrant to the contrary, the Warrantholder hereby acknowledges and agrees that its exercise of this Warrant for Shares is subject to the condition that the Warrantholder will have first received any applicable Regulatory Approvals.

4. Issuance of Shares; Authorization. Certificates for Shares issued upon exercise of this Warrant will be issued in such name or names as the Warrantholder may designate and will be delivered to such named Person or Persons within a reasonable time, not to exceed three business days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant. The Company hereby represents and warrants that any Shares issued upon the exercise of this Warrant in accordance with the provisions of Section 3 will be duly and validly authorized and issued, fully paid and nonassessable and free from all taxes, liens and charges (other than liens or charges created by the Warrantholder, income and franchise taxes incurred in connection with the exercise of the Warrant or taxes in respect of any transfer occurring contemporaneously therewith). The Company agrees that the Shares so issued will be deemed to have been issued to the Warrantholder as of the close of business on the date on which this Warrant and payment of the Exercise Price are delivered to the Company in accordance with the terms of this Warrant, notwithstanding that the stock transfer books of the Company may then be closed or certificates representing such Shares may not be actually delivered on such date. The Company will at all times reserve and keep available, out of its authorized but unissued preferred stock, solely for the purpose of providing for the exercise of this Warrant, the aggregate number of shares of Preferred Stock then issuable upon exercise of this Warrant at any

time. The Company will use reasonable best efforts to ensure that the Shares may be issued without violation of any applicable law or regulation or of any requirement of any securities exchange on which the Shares are listed or traded.

5. No Rights as Stockholders; Transfer Books. This Warrant does not entitle the Warrantholder to any voting rights or other rights as a stockholder of the Company prior to the date of exercise hereof. The Company will at no time close its transfer books against transfer of this Warrant in any manner which interferes with the timely exercise of this Warrant.

6. Charges, Taxes and Expenses. Issuance of certificates for Shares to the Warrantholder upon the exercise of this Warrant shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company.

7. Transfer/Assignment.

(A) Subject to compliance with clause (B) of this Section 7, this Warrant and all rights hereunder are transferable, in whole or in part, upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and a new warrant shall be made and delivered by the Company, of the same tenor and date as this Warrant but registered in the name of one or more transferees, upon surrender of this Warrant, duly endorsed, to the office or agency of the Company described in Section 3. All expenses (other than stock transfer taxes) and other charges payable in connection with the preparation, execution and delivery of the new warrants pursuant to this Section 7 shall be paid by the Company.

(B) The transfer of the Warrant and the Shares issued upon exercise of the Warrant are subject to the restrictions set forth in Section 4.4 of the Purchase Agreement. If and for so long as required by the Purchase Agreement, this Warrant shall contain the legends as set forth in Section 4.2(a) of the Purchase Agreement.

8. Exchange and Registry of Warrant. This Warrant is exchangeable, upon the surrender hereof by the Warrantholder to the Company, for a new warrant or warrants of like tenor and representing the right to purchase the same aggregate number of Shares. The Company shall maintain a registry showing the name and address of the Warrantholder as the registered holder of this Warrant. This Warrant may be surrendered for exchange or exercise in accordance with its terms, at the office of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

9. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in the case of any such loss, theft or destruction, upon receipt of a bond, indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company shall make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Shares as provided for in such lost, stolen, destroyed or mutilated Warrant.

10. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a business day, then such action may be taken or such right may be exercised on the next succeeding day that is a business day.

11. Rule 144 Information. The Company covenants that it will use its reasonable best efforts to timely file all reports and other documents required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations promulgated by the SEC thereunder (or, if the Company is not required to file such reports, it will, upon the request of any Warrantholder, make publicly available such information as necessary to permit sales pursuant to Rule 144 under the Securities Act), and it will use reasonable best efforts to take such further action as any Warrantholder may reasonably request, in each case to the extent required from time to time to enable such holder to, if permitted by the terms of this Warrant and the Purchase Agreement, sell this Warrant without registration under the Securities Act within the limitation of the exemptions provided by (A) Rule 144 under the Securities Act, as such rule may be amended from time to time, or (B) any successor rule or regulation hereafter adopted by the SEC. Upon the written request of any Warrantholder, the Company will deliver to such Warrantholder a written statement that it has complied with such requirements.

12. Adjustments and Other Rights. For so long as the Original Warrantholder holds this Warrant or any portion thereof, if any event occurs that, in the good faith judgment of the Board of Directors of the Company, would require adjustment of the Exercise Price or number of Shares into which this Warrant is exercisable in order to fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of the Purchase Agreement and this Warrant, then the Board of Directors shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of the Board of Directors, to protect such purchase rights as aforesaid.

Whenever the Exercise Price or the number of Shares into which this Warrant is exercisable shall be adjusted as provided in this Section 12, the Company shall forthwith file at the principal office of the Company a statement showing in reasonable detail the facts requiring such adjustment and the Exercise Price that shall be in effect and the number of Shares into which this Warrant shall be exercisable after such adjustment, and the Company shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each Warrantholder at the address appearing in the Company's records.

13. No Impairment. The Company will not, by amendment of its Charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder.

14. Governing Law. This Warrant will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and

to be performed entirely within such State. Each of the Company and the Warrantholder agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia for any civil action, suit or proceeding arising out of or relating to this Warrant or the transactions contemplated hereby, and (b) that notice may be served upon the Company at the address in Section 17 below and upon the Warrantholder at the address for the Warrantholder set forth in the registry maintained by the Company pursuant to Section 8 hereof. To the extent permitted by applicable law, each of the Company and the Warrantholder hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to the Warrant or the transactions contemplated hereby or thereby.

15. Binding Effect. This Warrant shall be binding upon any successors or assigns of the Company.

16. Amendments. This Warrant may be amended and the observance of any term of this Warrant may be waived only with the written consent of the Company and the Warrantholder.

17. Notices. Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second business day following the date of dispatch if delivered by a recognized next day courier service. All notices hereunder shall be delivered as set forth in Item 9 of Schedule A hereto, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

18. Entire Agreement. This Warrant, the forms attached hereto and Schedule A hereto (the terms of which are incorporated by reference herein), and the Letter Agreement (including all documents incorporated therein), contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or undertakings with respect thereto.

[Remainder of page intentionally left blank]

[Form of Notice of Exercise]

Date: _____

TO: **[Company]**

RE: Election to Purchase Preferred Stock

The undersigned, pursuant to the provisions set forth in the attached Warrant, hereby agrees to subscribe for and purchase such number of shares of Preferred Stock covered by the Warrant such that after giving effect to an exercise pursuant to Section 3(B) of the Warrant, the undersigned will receive the net number of shares of Preferred Stock set forth below. The undersigned, in accordance with Section 3 of the Warrant, hereby agrees to pay the aggregate Exercise Price for such shares of Preferred Stock in the manner set forth in Section 3(B) of the Warrant.

Number of Shares of Preferred Stock:¹ _____

The undersigned agrees that it is exercising the attached Warrant in full and that, upon receipt by the undersigned of the number of shares of Preferred Stock set forth above, such Warrant shall be deemed to be cancelled and surrendered to the Company.

Holder: _____
By: _____
Name: _____
Title: _____

1. Number of shares to be received by the undersigned upon exercise of the attached Warrant pursuant to Section 3(B) thereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by a duly authorized officer.

Dated: _____

COMPANY: _____

By: _____

Name:

Title:

Attest:

By: _____

Name:

Title:

[Signature Page to Warrant]

SCHEDULE A

Item 1

Name:

Corporate or other organizational form:

Jurisdiction of organization:

Item 2

Exercise Price:²

Item 3

Issue Date:

Item 4

Liquidation Amount:

Item 5

Series of Perpetual Preferred Stock:

Item 6

Date of Letter Agreement between the Company and the United States Department of the Treasury:

Item 7

Number of shares of Preferred Stock:³

Item 8

Company's address:

Item 9

Notice information:

² \$0.01 per share or such greater amount as the Charter may require as the par value of the Preferred Stock.

³ The initial number of shares of Preferred Stock for which this Warrant is exercisable shall include the number of shares required to effect the cashless exercise pursuant to Section 3(B) of this Warrant (e.g., such number of shares of Preferred Stock having an aggregate Liquidation Amount equal in value to the aggregate Exercise Price) such that, following exercise of this Warrant and payment of the Exercise Price in accordance with such Section 3(B), the net number of shares of Preferred Stock delivered to the Warrantholder (and rounded to the nearest whole share) would have an aggregate Liquidation Amount equal to 5% of the aggregate amount invested by the United States Department of the Treasury on the investment date.

SCHEDULE A

ADDITIONAL TERMS AND CONDITIONS

Company Information:

Name of the Company: **Northwest Bancorporation, Inc.**

Corporate or other organizational form: **Corporation**

Jurisdiction of Organization: **Washington**

Appropriate Federal Banking Agency: **Federal Deposit Insurance Corporation**

Notice Information: **Randall L. Fewel
421 W. Riverside
Spokane, WA 99201**

Terms of the Purchase:

Series of Preferred Stock Purchased: **Fixed Rate Cumulative Perpetual Preferred Stock, Series A**

Per Share Liquidation Preference of Preferred Stock: **\$1,000**

Number of Shares of Preferred Stock Purchased: **10,500**

Dividend Payment Dates on the Preferred Stock: **February 15, May 15, August 15, November 15**

Series of Warrant Preferred Stock: **Fixed Rate Cumulative Perpetual Preferred Stock, Series B**

Number of Warrant Shares: **525.00525**

Number of Net Warrant Shares (after net settlement): **525**

Exercise Price of the Warrant: **\$0.01 per share**

Purchase Price: **\$10,500,000**

Closing:

Location of Closing: **Telephonic**

Time of Closing: **10:30 a.m. EST**

Date of Closing: **February 13, 2009**

Wire Information for Closing:

[REDACTED]

Contact for Confirmation of Wire Information:

[REDACTED]

CAPITALIZATION

Capitalization Date: [REDACTED]

Common Stock

Par value: [REDACTED]

Total Authorized: [REDACTED]

Outstanding: [REDACTED]

Subject to warrants, options, convertible securities, etc.: [REDACTED]

Reserved for benefit plans and other issuances: [REDACTED]

Remaining authorized but unissued: [REDACTED]

Shares issued after Capitalization Date (other than pursuant to warrants, options, convertible securities, etc. as set forth above) [REDACTED]

Preferred Stock

Par value: [REDACTED]

Total Authorized: [REDACTED]

Outstanding (by series) [REDACTED]

Reserved for issuance: [REDACTED]

Remaining authorized but unissued [REDACTED]

Holder of 5% or more of any class of capital stock

[REDACTED]

[REDACTED]

Primary Address

[REDACTED]

[REDACTED]

SCHEDULE C

LITIGATION

List any exceptions to the representation and warranty in Section 2.2(1) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box: .

SCHEDULE D

COMPLIANCE WITH LAWS

List any exceptions to the representation and warranty in the second sentence of Section 2.2(m) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box: .

List any exceptions to the representation and warranty in the last sentence of Section 2.2(m) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box: .

SCHEDULE E

REGULATORY AGREEMENTS

List any exceptions to the representation and warranty in Section 2.2(s) of the Securities Purchase Agreement – Standard Terms.

If none, please so indicate by checking the box: .

SCHEDULE F

COMPANY FINANCIAL STATEMENTS

The December 31, 2008 financial statements are not yet completed and will be provided to the Investor promptly when available. The remaining Company Financial Statements that were Previously Disclosed pursuant to Section 2.2(h) of the Securities Purchase Agreement – Standard Terms are attached hereto.

Table of Contents**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

Unaudited
(Dollars in thousands)

	September 30 2008	December 31 2007
Assets		
Cash and due from banks	\$ 6,357	\$ 8,155
Federal funds sold/interest bearing balances at other financial institutions	997	4,116
Securities held-to-maturity (fair value, \$7,632 and \$7,693, respectively)	7,629	7,650
Securities available-for-sale (amortized cost, \$18,403 and \$28,714, respectively)	18,529	28,910
Federal Home Loan Bank stock, at cost	924	646
Loans, net of allowance for loan losses of \$3,488 in 2008 and \$2,711 in 2007	331,538	274,713
Loans held for sale	853	2,226
Accrued interest receivable	1,535	1,519
Foreclosed real estate and other repossessed assets	299	6
Premises and equipment, net	15,236	10,134
Bank owned life insurance	3,659	3,560
Other assets	2,175	2,081
TOTAL ASSETS	\$ 389,731	\$ 343,716
Liabilities		
Noninterest bearing demand deposits	\$ 54,540	\$ 45,623
Money Market accounts	32,947	32,308
NOW accounts	13,311	14,533
Savings accounts	35,603	16,602
Time Certificates of Deposit, \$100,000 and over	71,653	67,020
Time Certificates of Deposit, under \$100,000	101,858	96,454
TOTAL DEPOSITS	309,912	272,540
Securities sold under agreement to repurchase	15,424	26,760
Federal Funds Purchased	8,910	0
Borrowed funds	16,283	8,486
Capital lease liability	599	599
Junior subordinated debentures issued in connection with trust preferred securities	5,155	5,155
Other borrowings	2,941	0
Accrued interest payable	876	1,170
Other liabilities	1,518	1,660
TOTAL OTHER LIABILITIES	51,706	43,830
TOTAL DEPOSITS & OTHER LIABILITIES	361,618	316,370
Shareholders' Equity		
Common stock, no par, 5,000,000 shares authorized; issued and outstanding 2,367,246 on September 30, 2008 and 2,361,746 on December 31, 2007	23,185	23,039
Retained earnings	4,845	4,178
Accumulated other comprehensive income, net of tax effect of (\$43) for 2008 and (\$66) for 2007	83	129
TOTAL SHAREHOLDERS' EQUITY	28,113	27,346
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 389,731	\$ 343,716

Table of ContentsNORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(Dollars in thousands, except number of shares and per share information)

	Three months ended September 30		Nine-months, year-to-date, ended September 30	
	2008	2007	2008	2007
Interest Income				
Interest and fees on loans	\$ 5,583	\$ 4,928	\$ 16,302	\$ 13,965
Interest on securities	305	507	992	1,367
Interest on federal funds sold	13	88	103	409
TOTAL INTEREST INCOME	5,901	5,523	17,397	15,741
Interest Expense				
Interest on deposits	2,254	1,873	6,763	5,300
Interest on securities sold under agreement to repurchase	57	327	205	883
Interest on borrowed funds	303	141	754	432
TOTAL INTEREST EXPENSE	2,614	2,341	7,722	6,615
NET INTEREST INCOME	3,287	3,182	9,675	9,126
Provision for loan losses	625	90	1,000	270
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,662	3,092	8,675	8,856
Noninterest Income				
Fees and service charges	344	220	898	656
Net gain from sale of loans	88	155	347	479
Other noninterest income	210	183	616	536
TOTAL NONINTEREST INCOME	642	558	1,861	1,671
Noninterest Expense				
Salaries and employee benefits	1,679	1,447	5,023	4,381
Occupancy, premises & equipment expense	278	249	845	752
Depreciation and amortization expense	220	137	569	416
Other operating expense	814	702	2,394	2,123
TOTAL NONINTEREST EXPENSE	2,991	2,535	8,831	7,672
INCOME BEFORE PROVISION FOR INCOME TAX EXPENSE	313	1,115	1,705	2,855
Provision for income tax expense	110	367	564	955
NET INCOME	\$ 203	\$ 748	\$ 1,141	\$ 1,900
Weighted average shares outstanding	2,367,246	2,354,563	2,364,817	2,351,633
Basic earnings per share	\$ 0.09	\$ 0.32	\$ 0.48	\$ 0.81
Weighted average shares outstanding	2,367,246	2,354,563	2,364,817	2,351,633
Effect of dilutive securities	10,280	35,343	17,807	37,778
Weighted average shares outstanding, adjusted for dilutive securities	2,377,526	2,389,906	2,382,624	2,389,411
Earnings per share assuming full dilution	\$ 0.09	\$ 0.31	\$ 0.48	\$ 0.80

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NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unaudited

(Dollars in thousands)

As of September 30, 2008

	<u>Total</u>	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Comprehensive Income</u>
Balance, December 31, 2006	\$24,521	\$20,821	\$ 3,889	(\$ 189)	
Net income 2007	2,638		2,638		\$ 2,638
Stock repurchased	(3)	(3)			
Stock options exercised	80	80			
Stock issued due to stock grants	3	3			
Stock issued to directors	73	73			
Equity based compensation expense	98	98			
Tax benefits of exercised options	25	25			
5% stock dividend	0	1,942	(1,942)		
Fractional shares paid in cash	(4)		(4)		
Cash dividend (\$0.18 per share)	(403)		(403)		
Change in unrealized losses on available for sale securities, net of taxes	318			318	318
Comprehensive income					<u>2,956</u>
Balance December 31, 2007	27,346	23,039	4,178	129	
Net income, 2008, year-to-date	1,141		1,141		1,141
Stock issued to directors	69	69			
Equity-based compensation expense	77	77			
Cash dividend (\$0.20 per share)	(474)		(474)		
Change in unrealized gain on available for sale securities, net of taxes	(46)			(46)	(46)
Comprehensive income					<u>\$ 1,095</u>
Balance, end-of-quarter, September 30, 2008	<u>\$28,113</u>	<u>\$23,185</u>	<u>\$ 4,845</u>	<u>\$ 83</u>	
Disclosure of 2008 reclassification amount:					
Unrealized holding gain on available for sale securities	(\$70)				
Reclassification adjustment for gains realized in income	0				
Net unrealized gain	(70)				
Tax effect	(24)				
Net of tax amount	<u>(\$46)</u>				

Table of ContentsNORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWUnaudited
(Dollars in thousands)

	Nine-months, year-to-date, ended	
	September 30	
	2008	2007
Net income	\$ 1,141	\$ 1,900
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	1,000	270
Depreciation and amortization	569	416
Net decrease in loans held for sale	1,373	798
Net increase in bank owned life insurance	(99)	(96)
Foreclosed real estate activity (net)	(293)	0
Change in assets and liabilities:		
Accrued interest receivable	(16)	(372)
Other assets	(348)	(111)
Interest payable	(294)	132
Other liabilities	(142)	315
Equity-based compensation expense	77	69
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,968	3,321
Cash flows from investing activities:		
Net (increase)/decrease in federal funds sold/interest bearing balances at other financial institutions	3,119	(1,736)
Net (increase)/decrease in investment securities	10,332	(7,531)
Net increase in loans	(57,825)	(34,573)
Purchase of premises and equipment net of gain or loss on asset disposal	(5,671)	(1,804)
NET CASH USED BY INVESTING ACTIVITIES	(50,045)	(45,644)
Cash flows from financing activities:		
Net increase in deposits	37,372	38,884
Net increase/(decrease) in securities sold under agreement to repurchase	(11,336)	6,016
Net increase/(decrease) in federal funds purchased	8,910	(3,630)
Repayment of borrowed funds	0	(2,814)
Proceeds from issuance of borrowed funds	10,738	0
Cash received from stock sales	69	102
Cash paid to repurchase stock	0	(3)
Cash dividend paid	(474)	(408)
NET CASH PROVIDED BY FINANCING ACTIVITIES	45,279	38,147
Net decrease in cash and cash equivalents:	(1,798)	(4,176)
Cash and due from banks, beginning of year	8,155	12,132
CASH AND DUE FROM BANKS, END OF PERIOD	\$ 6,357	\$ 7,956
SUPPLEMENTAL CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	\$ 8,016	\$ 6,483
Income taxes	\$ 704	\$ 827
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Net change in unrealized gain on securities available for sale	(\$46)	\$ 31
Acquisition of real estate and other repossessed assets in settlement of loans	\$ 299	\$ 0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Per share data is in actual dollars, other amounts are in thousands or millions, as noted)
Unaudited

NOTE 1. Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of Northwest Bancorporation, Inc. (the "Company") and its wholly-owned subsidiary, Inland Northwest Bank (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation.

The foregoing unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, these financial statements do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes included in the annual report on Form 10-K for the year ended December 31, 2007. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods presented. The results of operations for the three months and nine months ended September 30, 2008 and 2007 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified to conform to the current year presentation. These reclassifications had no effect on retained earnings or net income as previously presented.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of the Company's consolidated financial position and results of operations.

NOTE 2. Equity Based Compensation

On May 15, 2006, shareholders approved the Inland Northwest Bank 2006 Share Incentive Plan (the "Plan") and the issuance of shares of common stock of the Company pursuant to the Plan. This Plan is an amendment and restatement of the Inland Northwest Bank Non-Qualified Stock Option Plan originally effective July 21, 1992, as revised December 21, 1993, December 21, 1999 and April 16, 2002. Prior to 2006, the Plan allowed only for the award of stock options; with the approval of the amendment and restatement of the Plan in May 2006, the Company was also authorized to grant restricted stock awards to key employees of the Bank.

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Restricted stock-award activity in 2007 is detailed in Note 14 "Stock Based Compensation" in the audited consolidated financial statements and the accompanying notes included in the annual report on Form 10-K for the year ended December 31, 2007. There have been no restricted stock-award grants in 2008. Likewise, no shares have been issued in 2008 in connection with previously granted restricted stock-awards. The number of restricted stock-awards outstanding as of September 30, 2008 is as follows:

	<u>Number of shares</u>	<u>Weighted average fair value at date of grant</u>
Outstanding at December 31, 2006	10,658	\$ 17.11
Granted	5,050	13.34
Forfeited	-567	17.11
Exercised	-168	17.11
Outstanding at December 31, 2007	<u>14,973</u>	\$ 15.84
Granted	—	—
Forfeited	—	—
Exercised	—	—
Outstanding at September 30, 2008	<u>14,973</u>	\$ 15.84

Stock options outstanding at the end of last year are also detailed in Note 14 "Stock Based Compensation" in the audited consolidated financial statements and the accompanying notes included in the annual report on Form 10-K for the year ended December 31, 2007. Since the adoption of the amendments to the Plan in May 2006, stock options are, for the most part, expected to be awarded during the process of recruiting new employees to the Bank.

Stock options vest over a five-year period and expire ten years from the date of the grant. The exercise price of each option equals the fair market value of the Company's stock on the date of grant.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes model uses a number of assumptions, including: a risk-free discount rate of interest, which is based on the U.S. Treasury yield curve in effect at the time of grant; the expected life of options granted, which represents the period of time that options granted are expected to be outstanding; expected volatilities, based on the historical volatility of the Company's stock price; a historical forfeiture rate, which has been nominal; and, expected dividend yield, which reflects the Company's expected future dividend rate. The assumptions used in calculating the fair value of options granted in 2006 and 2007 are detailed in Note 14 "Stock Based Compensation" in the audited consolidated financial statements and the accompanying notes included in the annual report on Form 10-K for the year ended December 31, 2007. No stock options have been awarded during 2008.

The number of stock options outstanding and exercisable as of September 30, 2008 is as follows:

	<u>Shares actual</u>	<u>Weighted- average exercise price</u>
Outstanding options, December 31, 2007	125,988	\$ 10.25
Granted	—	—
Exercised	—	—
Forfeited	—	—
Outstanding options, September 30, 2008	<u>125,988</u>	\$ 10.25
Options exercisable, September 30, 2008	<u>110,002</u>	

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The method of accounting for stock-based compensation expense is also detailed in Note 14 "Stock Based Compensation" in the audited consolidated financial statements and the accompanying notes included in the annual report on Form 10-K for the year ended December 31, 2007. The expense related to the grant of stock options is recognized over the vesting period of the stock options in accordance with results obtained using the Black-Scholes option pricing model. The Black-Scholes option pricing model provides for a greater recognition of expense in the early years of the vesting period, with decreasing amounts to be recognized in subsequent years.

NOTE 3. Securities

Most of the securities in the Bank's investment portfolio are classified as available-for-sale and are stated at fair value, and unrealized holding gains and losses, net of related deferred taxes, are reported as a separate component of shareholders' equity. Realized gains or losses on available-for-sale securities sales are reported as part of non-interest income based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Premiums and discounts are recognized in interest income using the effective yield method over the period to maturity unless the security is called prior to maturity. When a security is called prior to maturity any remaining premium or discount is reported as non-interest income; un-accreted discount on called securities will increase non-interest income, unamortized premium on called securities will reduce non-interest income. There were no securities sold in the three months or nine months ended September 30, 2008 and 2007; consequently, there were no gains or losses included in non-interest income due to the sale of securities. Several securities were called prior to maturity during the nine-month period ended September 30, 2008; remaining discounts on those securities resulted in \$18 thousand in non-interest income for that period. Carrying amounts and fair values at September 30, 2008 and December 31, 2007 were as follows (in thousands):

	September 30, 2008		December 31, 2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:				
Obligations of federal government agencies	\$ 8,491	\$ 8,536	\$ 23,466	\$23,636
US Treasury securities	2,997	3,000	2,964	2,970
Mortgage backed securities	6,415	6,542	1,784	1,821
Corporate Bonds	500	451	500	483
TOTAL	<u>\$ 18,403</u>	<u>\$18,529</u>	<u>\$ 28,714</u>	<u>\$28,910</u>
Available-for-sale marketable equity securities ¹	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 250</u>
Securities held-to-maturity:				
Obligations of states, municipalities and political subdivisions	7,629	7,632	7,650	7,693
TOTAL	<u>\$ 7,629</u>	<u>\$ 7,632</u>	<u>\$ 7,650</u>	<u>\$ 7,693</u>
Equity securities with a limited market ²	<u>\$ 395</u>	<u>\$ 395</u>	<u>\$ 395</u>	<u>\$ 395</u>

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- (1) Represents those available-for-sale marketable equity securities that are recorded in "Other Assets" on the Consolidated Balance Sheet. Securities consist of a \$250 thousand investment, at fair market value, in the common stock of a bank holding company headquartered in Bellevue, WA. As this company is relatively new, it is anticipated that it will be some time before an active market in its stock develops. To determine fair market value, the Company reviews the financial performance of the bank subsidiary of the Bellevue-based holding company and, pursuant to the latest review, believes that the current fair market value approximates cost.
- (2) Represents those equity securities with limited marketability that are recorded in "Other Assets," on the Consolidated Balance Sheet. These securities are reviewed quarterly to determine whether there has been any impairment in value. Securities consist of a \$155 thousand equity investment in a Trust created by the Company in connection with issuance of trust preferred securities, a \$190 thousand investment in the common stock of Pacific Coast Bankers Bank and a \$50 thousand investment in an economic development company, each of these investments is reported at cost.

NOTE 4. Loans

Loan detail by category is as follows (dollars in thousands):

	<u>September 30</u> <u>2008</u>	<u>December 31</u> <u>2007</u>
1-4 family and multi-family real estate loans	\$ 30,969	\$ 26,155
Commercial real estate, term loans	136,225	111,277
Commercial, construction loans	72,455	54,564
Commercial loans, non-real estate	64,777	58,624
Consumer loans	<u>31,601</u>	<u>27,448</u>
TOTAL LOANS	<u>\$ 336,027</u>	<u>\$ 278,068</u>
Allowance for loan losses	(3,488)	(2,711)
Net deferred loan fees	<u>(1,001)</u>	<u>(644)</u>
NET LOANS	<u>\$ 331,538</u>	<u>\$ 274,713</u>

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NOTE 5. Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level that represents management's best estimate of the probable credit losses inherent in the Bank's loan portfolio as of the balance sheet date. Future credit losses are estimated through an analysis of various factors affecting the performance of the loan portfolio, including: individual review of problem loans, including an evaluation of the quality of underlying collateral; current business conditions and the Bank's historical loan loss experience; the term, in years, that the average loan is expected to remain on the Bank's books; and other factors that management determines to be relevant at the time of the analysis. In accordance with accounting and regulatory requirements, the portion of the allowance relating to unused loan commitments and other off-balance sheet items is reclassified to "Other liabilities." Changes in the allowance for loan losses for the periods indicated were as follows (in thousands):

	Three-months ended		Nine-months YTD ended	
	9/30/2008	9/30/2007	9/30/2008	9/30/2007
Balance, beginning of period	\$ 3,225	\$ 2,693	\$ 2,711	\$ 2,586
Add reserve for probable losses on unused loan commitments and off-balance sheet items (OBS)	96	236	267	199
Balance, beginning of period, including OBS reserve	3,321	2,929	2,978	2,785
Provision for loan losses	625	90	1,000	270
Loan Charge-offs	(357)	(45)	(406)	(90)
Loan Recoveries	5	8	22	17
Balance, end of period, prior to adjustment for off-balance sheet items	3,594	2,982	3,594	2,982
Reclassification of reserve for probable losses on unused loan commitments and off-balance sheet items to "Other liabilities"	(106)	(269)	(106)	(269)
Balance, end of period	<u>\$ 3,488</u>	<u>\$ 2,713</u>	<u>\$ 3,488</u>	<u>\$ 2,713</u>

NOTE 6. Borrowed Funds

The Bank has a line of credit with the Federal Home Loan Bank of Seattle (the "FHLB") and operating lines of credit with several other financial institutions. The FHLB line provides the Bank access to long-term funding, with repayment terms as long as thirty years, as well as short-term funding to meet current liquidity needs. The operating lines with other financial institutions are available for short-term funding, to meet current liquidity needs. Although general market trends in connection with the current distress in financial markets may impact the availability of such operating lines from other financial institutions, the Bank believes that the financial institutions with which it has relationships are stable and that the Bank will continue to have sufficient access to short term funding. There can be no assurance that short-term funding will continue to be available.

The following table outlines amounts outstanding and the availability of borrowed funds for the periods covered in this report:

	Line amount ⁽¹⁾ (\$ in thousands)	Maturity ⁽³⁾	Collateral	Purpose	Outstanding as of:	
					9/30/2008	12/31/2007
Federal Home Loan Bank of Seattle ⁽²⁾	\$ 58,251	Annual	General pledge of assets ⁽⁴⁾	Line of credit, with access to short and long-term funds	\$21,183	\$ 8,486
KeyBank of Washington ⁽⁵⁾	\$ 10,000	Annual	Unsecured	Short-term line of credit	—	—
	\$ 100	Annual	Unsecured	Supports foreign currency transactions	—	—
	\$ 100	Annual	Unsecured	Supports letters of credit	—	—
Pacific Coast Bankers Bank ⁽⁵⁾	\$ 10,000	Annual	Unsecured	Short-term line of credit	—	—
U.S. Bank ⁽⁵⁾	\$ 1,500	Annual	Unsecured	Short-term line of credit	1,500	—
Zions Bank ⁽⁵⁾	\$ 5,000	Annual	Unsecured	Short-term line of credit	2,510	—
				Total	25,193	8,486
Less overnight borrowings reported						

as "Federal Funds
Purchased" on the
Consolidated
Statements of
Financial Condition

	<u>(8,910)</u>	<u>—</u>
Total borrowed funds	\$16,283	\$ 8,486

(1) The FHLB line amount is computed as 15% of Bank assets as of the reporting date and will change from quarter to quarter as asset totals change.

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- (2) Access to the FHLB line is conditioned on stock ownership and additional stock purchases may be required to access the full amount of the line. The FHLB may be used for overnight borrowings (federal funds purchased) or for short-term (between 7 days and 1-year) or intermediate/long-term borrowings (as long as thirty years). The balances outstanding for the reporting dates are predominately intermediate-term, with just \$233 thousand maturing after 2013.
- (3) Correspondents providing credit to the Bank typically inform the Bank on an annual basis that they have reviewed the Bank's financial condition and that they will continue to provide the Bank with access to credit on an uncommitted basis. Review of the Bank's financial condition is likely performed more often, as the Bank files its quarterly financial reports.
- (4) The FHLB requires a general pledge of all Bank assets. Actual advances are limited by the amount of single family and multi-family real estate loans in the Bank's loan portfolio, as well as certain commercial real estate loans. In practice, these loans provide the FHLB with adequate collateral coverage, exclusive of other Bank assets. The Bank may be unable to access the full amount of its FHLB line if the amount of qualifying real estate loans available to pledge in support of advances against the line is inadequate; at September 30, 2008, the amount of qualifying collateral pledged to the FHLB limited total advances to approximately \$53 million, including advances already taken.
- (5) Federal funds purchased line of credit to cover short-term liquidity needs.

NOTE 7. Capital Lease Liability

The capital lease liability outstanding on September 30, 2008 and December 31, 2007 is related to a ground lease, with a purchase option, that the Bank entered into in early 2005. A copy of the ground lease was filed as Exhibit 10.1.10 to the Company's Form 10-KSB filing on March 24, 2005. As a "capitalized" lease, the value of the property is included as an asset on the consolidated statement of financial condition in "Premises and equipment, net" and the net present value of future payments is included as a liability in "Capital lease liability."

NOTE 8. Material Contracts

In the third-quarter of 2006, the Bank entered into an agreement with the Spokane Public Facilities District (the "PFD") for the purchase of naming rights to the Spokane Opera House; that facility is now known as the INB Performing Arts Center. Under the agreement, the Bank will pay the PFD \$150 thousand per year for a period of ten years. The contract expires July 20, 2016; however, the Bank has the right to extend the contract for an additional ten years, at an annual rate that will not exceed the current annual rate by more than twenty-percent. Expenses related to the agreement are recognized as "Other operating expense" and reduce net income by about \$25 thousand per quarter.

In the second-quarter of 2008, the Bank entered into a contract for the construction of a new branch office, to be located in Airway Heights, Washington. The contract is in the amount of \$1.8 million, exclusive of sales tax and subject to any change orders that may occur during the course of construction. At September 30, 2008, approximately \$1.2 million remains to be paid.

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NOTE 9. Junior Subordinated Debentures

In June 2005, the Company issued junior subordinated debentures with an aggregate value of \$5.155 million to Northwest Bancorporation Capital Trust I (the "Trust"), with interest fixed at 5.95% through June 30, 2010, thereafter re-pricing quarterly at three-month LIBOR plus 1.70%. The Trust issued \$155 thousand of common securities to the Company and capital securities with an aggregate liquidation amount of \$5 million to third-party investors. The common securities are included in "Other assets" on the consolidated statement of financial condition; the subordinated debentures are detailed individually in this report and are included in "Borrowed funds" in the consolidated financial statements included in the annual report on Form 10-K for the year ended December 31, 2007. The subordinated debentures are includable as Tier I capital for regulatory purposes. The subordinated debentures and the capital securities pay interest and dividends, respectively, on a quarterly basis, which are included in interest expense. The subordinated debentures will mature on June 30, 2035, at which time the capital securities must be redeemed. The subordinated debentures and capital securities can be redeemed prior to maturity, at the Company's discretion, in whole or in part, beginning June 30, 2010, at par value. The Company has provided a full and unconditional guarantee of the obligations of the Trust under the capital securities in the event of default. Northwest Bancorporation Capital Trust I is not consolidated in these financial statements, pursuant to Financial Accounting Standards Board Interpretation No. 46(R), "Consolidation of Variable Interest Entities." The Company reports the junior subordinated debentures within the liabilities section of the consolidated statements of financial condition.

The following table presents a summary of trust preferred securities at September 30, 2008 and December 31, 2007 (dollars in thousands):

<u>Name of Trust</u>	<u>Aggregate liquidation amount of trust preferred securities</u>	<u>Aggregate liquidation amount of common capital securities</u>	<u>Aggregate principal amount of junior subordinated debentures</u>	<u>Stated maturity</u>	<u>Per annum interest rate</u>	<u>Extension period</u>	<u>Redemption option</u>
Northwest Bancorporation Capital Trust I	\$ 5,000	\$ 155	\$ 5,155	2035	5.95%	20 consecutive quarters	On or after 6/30/2010

NOTE 10. Other Borrowings

On August 29, 2008, the Company obtained a loan in the amount of \$3 million from another community financial institution. Proceeds of the loan were injected into the Company's bank subsidiary in order to enhance the Bank's capital position. Interest on the loan is calculated at an interest rate of 8% per annum and monthly payments are based on an amortization of 120 months. The loan matures in 5 years, with a balloon payment of approximately \$1.8 million due on August 31, 2013. The Company pledged Bank stock as collateral for the loan.

NOTE 11. Common Stock

On April 17, 2007, the Board of Directors declared an eighteen-cent (\$0.18) per share annual cash dividend which was paid on June 15, 2007 to shareholders of record as of May 11, 2007. On April 15, 2008, the Board of Directors declared a twenty-cent (\$0.20) per share annual cash dividend which was paid on June 13, 2008 to shareholders of record as of May 9, 2008.

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Note 12. Fair Value Measurement

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("Statement 157"). Statement 157 provides enhanced guidance for measuring assets and liabilities using fair value and applies to situations where other standards require or permit assets or liabilities to be measured at fair value. Statement 157 also requires expanded disclosure of items that are measured at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings.

Valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about market value. These two types of inputs create the following fair value hierarchy:

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable.
- Level 3 - Instruments whose significant value drivers are unobservable.

The following table summarizes the Company's financial instruments that were measured at fair value at September 30, 2008:

Description of Financial Instrument	Fair Value (dollars in thousands)	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value on a Recurring Basis				
Securities available-for-sale	\$ 18,529	3,000	15,529	0
Foreclosed real estate and other repossessed assets	\$ 299	0	299	0
Assets Measured at Fair Value on a Nonrecurring Basis				
Impaired loans	\$ 10,263	0	0	10,263

The Bank's U.S. Treasury securities included in securities available-for-sale trade in a very active market of identical instruments and their valuation is therefore included under Level 1. The remainder of the Bank's securities available-for-sale at September 30, 2008 primarily consisted of U.S. Agency obligations and mortgage-backed securities that trade in active markets. These securities are included under Level 2 because there may or may not be daily trades in each of the individual securities and because the valuation of these securities may be based on instruments that are not exactly identical to those owned by the Bank. Temporary changes in the valuation of securities available-for-sale do not affect current income; instead, unrealized gains or losses on available-for-sale securities are reported as a net amount in accumulated comprehensive income. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. No such write-downs have occurred during the periods presented.

Foreclosed real estate and other repossessed assets are carried on the Bank's books at estimated net sales value; valuation is obtained by reducing current market value by the cost of preparing the asset for sale and any selling or other costs that will be incurred. Current market value is updated at least annually and is typically

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determined by applying a discount to an independent appraisal; market value is updated more frequently when appropriate. When an asset is transferred from loans to foreclosed real estate and other repossessed assets it is written-down to its net sales value, if necessary, by a charge to the allowance for loan losses; there will not be a direct effect on income at the time of the transfer, unless the write-down causes the Bank to increase its provision to the allowance for loan losses. If subsequent periodic valuations of the asset indicate a decline in value, the Bank will write the asset down to its newly determined net sales value. No such write-downs have occurred during the periods presented.

Impaired loans are individually reviewed to determine the amount of each loan considered to be at risk of non-collection. In determining the amount of each loan at risk, the Bank reviews real property appraisals, equipment valuations, accounts receivable and payable listings and other financial information. The estimated amount of impaired loans at risk of non-collection at September 30, 2008 was \$778 thousand and is included as a part of the allowance for loan losses as a component of the category "Specifically Identified Potential Loss." The Bank has recorded \$1 million as an allowance for loan losses through the first nine months of 2008.

Note 13. Subsequent Event

Troubled Asset Relief Program

On October 3, 2008, in response to upheaval within the financial markets, the President signed into law the Emergency Economic Stabilization Act of 2008 (the "Act"), which authorized the United States Department of Treasury (the "UST") to establish the Troubled Assets Relief Program ("TARP") to purchase "troubled assets" held by financial institutions. Under the TARP program the UST is authorized to purchase, and to make and fund commitments to purchase, troubled assets from any financial institution, on such terms and conditions as are determined by the UST. The purpose of this program is to restore confidence and stability to the financial markets and to encourage the flow of credit within the financial system.

On October 14, 2008, the UST announced the terms of the TARP Capital Purchase Program ("CPP"), through which the UST will make capital investments in banking institutions by purchasing senior preferred shares.

The terms of the CPP program are standardized and any qualifying financial institution may elect to participate by notifying its federal banking agency by November 14, 2008, 5:00 p.m. Only institutions determined to be eligible for CPP by the UST and the financial institution's primary federal regulator will be allowed to participate. Once the eligible institutions are selected, the UST will determine the allocations of capital to each institution and has announced that it will fund the purchase of the preferred stock no later than December 31, 2008.

The terms of the CPP program have been announced as follows:

Participating institutions will be required to subscribe for no less than the minimum subscription amount of 1 percent of their risk-weighted assets. The maximum subscription amount to be allowed is the lesser of \$25 billion or 3 percent of risk-weighted assets.

The senior preferred shares to be issued to the UST pursuant to the program will qualify as Tier 1 capital and will rank senior to common stock. The senior preferred shares will be *pari passu*, or equal in priority to, existing preferred shares, other than preferred shares which by their terms rank junior to any other existing preferred shares. The senior preferred shares will pay a cumulative dividend rate of 5 percent per annum for the first five years and will reset to a rate of 9 percent per annum after year five. The senior preferred shares will generally be non-voting, but will retain class voting rights on matters that could adversely affect the shares. The

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senior preferred shares will be callable at par after three years. Prior to the end of three years, the senior preferred shares may be redeemed with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred or common stock. The UST may also transfer the senior preferred shares to a third party at any time.

In conjunction with the purchase of senior preferred shares, the UST will receive warrants to purchase common stock with an aggregate market price equal to 15 percent of the senior preferred investment. The per share exercise price of the shares underlying the warrants will be the market price of the participating institution's common stock at the time of issuance, calculated on a 20-trading day trailing average.

Companies participating in the program are required to adopt the UST standards for executive compensation and corporate governance, for the period during which the UST holds equity issued under this program. These standards generally apply to the chief executive officer, chief financial officer, plus the next three most highly compensated executive officers. These standards require participating institutions to: (1) ensure that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) require clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibit making any golden parachute payment to a senior executive based on the Internal Revenue Code provision; and (4) agree not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive.

Management and the Board of Directors of the Company are considering the favorable features of the program, the costs and potentially negative features of the program and those attributes and consequences of the program that have yet to be fully detailed by the Treasury. The most obvious positive consequences of participating in the program are that it should allow for growth in lending by the Bank and that it significantly enhances Bank and Company capital, which is desirable if the currently volatile financial environment persists for some period of time. On the other hand, Company shareholders would experience a small dilution in ownership if the Treasury exercises the warrants to purchase Company common stock that it will be granted if the Company participates in the program and the dividend rate on the preferred stock steps up to 9% if the preferred stock is not redeemed within five years. There are a number of other features and issues that management is investigating prior to deciding whether to participate in the program. If the Company participates in the program, the Treasury has indicated that it intends to fund the purchase of the preferred stock no later than December 31, 2008.

Temporary Liquidity Guarantee Program

On October 14, 2008, the FDIC announced the Transaction Account Guarantee Program as part of the Temporary Liquidity Guarantee Program. The FDIC expects the program to enhance confidence in the safety and soundness of non-interest bearing transaction accounts generally held by businesses for the purposes of payroll processing and other payment processing functions. Coverage under the new program, funded through insurance premiums paid by participating financial institutions, is in addition to the coverage announced under the Emergency Economic Stabilization Act of 2008. That Act temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The increased coverage provisions under both the Transaction Account Guarantee Program and the Emergency Economic Stabilization Act of 2008 are currently scheduled to expire on December 31, 2009. The Bank has determined that it will participate in this program through its currently scheduled expiration date.

The Temporary Liquidity Guarantee Program also provides for the guarantee of newly issued senior unsecured debt of eligible financial institutions. The Debt Guarantee Program, funded through insurance premiums on newly issued debt, is intended to increase liquidity by helping eligible institutions to replace existing debt that is scheduled to mature on or before June 30, 2009. The Bank has not yet determined whether it will participate in this provision of the Temporary Liquidity Guarantee Program.

Item 8. Financial Statements

**NORTHWEST BANCORPORATION, INC.
AND SUBSIDIARY**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2007 AND 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Northwest Bancorporation, Inc.
and Subsidiary
Spokane, Washington

We have audited the accompanying consolidated statements of financial condition of Northwest Bancorporation, Inc. and subsidiary, Inland Northwest Bank, as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated financial position of Northwest Bancorporation, Inc. and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Spokane, Washington
March 20, 2008

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and due from banks	\$ 8,155,305	\$ 12,131,668
Interest bearing deposits in other institutions	1,279,897	68,630
Federal funds sold	2,836,349	167,895
Securities available for sale	28,909,889	31,337,393
Securities held to maturity, fair value 2007 \$7,693,355 and 2006 \$3,971,944	7,650,440	3,971,864
Federal Home Loan Bank stock, at cost	645,900	645,900
Loans receivable, net of allowance for loan losses 2007 \$2,710,989; 2006 \$2,586,094	274,713,461	215,122,007
Loans held for sale	2,226,471	1,574,718
Premises and equipment, net	10,133,801	7,252,448
Accrued interest receivable	1,518,704	1,372,731
Foreclosed real estate and other repossessed assets	6,459	—
Bank owned life insurance	3,559,843	3,432,503
Other assets	2,079,403	1,868,862
TOTAL ASSETS	<u>\$343,715,922</u>	<u>\$278,946,619</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$272,539,440	\$210,566,807
Securities sold under agreements to repurchase	26,760,049	25,783,940
Accrued interest payable	1,169,617	765,415
Federal funds purchased	—	3,630,000
Borrowed funds	14,240,308	12,160,171
Other liabilities	1,660,048	1,519,682
Total liabilities	<u>316,369,462</u>	<u>254,426,015</u>
STOCKHOLDERS' EQUITY		
Common stock, no par value, authorized 5,000,000 shares; issued and outstanding 2,361,746 and 2,236,460 shares	23,039,239	20,820,819
Retained earnings	4,177,774	3,889,105
Accumulated other comprehensive income (loss)	129,447	(189,320)
Total stockholders' equity	<u>27,346,460</u>	<u>24,520,604</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$343,715,922</u>	<u>\$278,946,619</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	<u>Year Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Interest Income:		
Loans, including fees	\$19,443,860	\$16,107,894
Investment securities:		
U.S. government agency securities	1,365,207	1,103,551
U.S. treasury securities	251,417	259,283
Other securities	241,766	172,310
Federal funds sold and interest bearing deposits	465,615	241,008
Total interest income	<u>21,767,865</u>	<u>17,884,046</u>
Interest Expense:		
Deposits	7,490,461	4,998,335
Borrowed funds and securities sold under agreements to repurchase	1,791,947	1,641,690
Total interest expense	<u>9,282,408</u>	<u>6,640,025</u>
Net interest income	<u>12,485,457</u>	<u>11,244,021</u>
Provision for loan losses	420,000	360,000
Net interest income after provision for loan losses	<u>12,065,457</u>	<u>10,884,021</u>
Noninterest Income:		
Service charges on deposits	874,897	885,948
Net gains from sale of loans	581,073	612,206
Other income	711,136	709,242
Total noninterest income	<u>2,167,106</u>	<u>2,207,396</u>
Noninterest Expense:		
Salaries and employee benefits	5,951,681	5,232,840
Occupancy and equipment expense	1,565,266	1,469,425
Advertising and promotion expense	576,553	338,284
Loss on foreclosed real estate and other repossessed assets	1,816	5,120
Other operating expenses	2,302,644	1,915,456
Total noninterest expense	<u>10,397,960</u>	<u>8,961,125</u>
Net income before income taxes	<u>3,834,603</u>	<u>4,130,292</u>
Income tax expense	1,196,843	1,350,392
NET INCOME	<u>\$ 2,637,760</u>	<u>\$ 2,779,900</u>
Basic earnings per share	<u>\$ 1.12</u>	<u>\$ 1.18</u>
Diluted earnings per share assuming full dilution	<u>\$ 1.10</u>	<u>\$ 1.16</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
	Shares	Amount				
Balance, December 31, 2005	2,108,864	\$18,636,573	\$ 3,306,113	\$ (256,318)	\$21,686,368	
Net income	—	—	2,779,900	—	2,779,900	\$ 2,779,900
Stock repurchased	(200)	(3,522)	—	—	(3,522)	
Stock options exercised	18,652	167,162	—	—	167,162	
Stock issued to directors	3,700	68,339	—	—	68,339	
Equity-based compensation	—	97,507	—	—	97,507	
5% stock dividend	105,444	1,854,760	(1,854,760)	—	—	
Fractional shares paid in cash	—	—	(4,000)	—	(4,000)	
Cash dividend (\$0.16 per share)	—	—	(338,148)	—	(338,148)	
Net change in unrealized loss on securities available for sale, net of taxes	—	—	—	66,998	66,998	66,998
Comprehensive income						<u>\$ 2,846,898</u>
Balance, December 31, 2006	2,236,460	20,820,819	3,889,105	(189,320)	24,520,604	
Net income	—	—	2,637,760	—	2,637,760	\$ 2,637,760
Stock repurchased	(162)	(2,719)	—	—	(2,719)	
Stock options exercised	9,488	79,787	—	—	79,787	
Stock issued due to stock grants	160	2,789	—	—	2,789	
Stock issued to directors	4,000	73,080	—	—	73,080	
Equity-based compensation	—	98,380	—	—	98,380	
Tax benefits of exercised options	—	25,137	—	—	25,137	
5% stock dividend	111,800	1,941,966	(1,941,966)	—	—	
Fractional shares paid in cash	—	—	(3,849)	—	(3,849)	
Cash dividend (\$0.18 per share)	—	—	(403,276)	—	(403,276)	
Net change in unrealized loss on securities available for sale, net of taxes	—	—	—	318,767	318,767	318,767
Comprehensive income						<u>\$ 2,956,527</u>
Balance, December 31, 2007	<u>2,361,746</u>	<u>\$23,039,239</u>	<u>\$ 4,177,774</u>	<u>\$ 129,447</u>	<u>\$27,346,460</u>	

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,637,760	\$ 2,779,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	557,719	562,193
Provision for loan losses	420,000	360,000
Provision for losses on foreclosed real estate and other repossessed assets	—	5,120
Accretion of securities discounts	(256,741)	(195,706)
Amortization of securities premiums	30,159	24,044
Increase in cash surrender value of bank owned life insurance	(127,340)	(118,732)
Loss on disposal of assets	2,113	3,812
Net loss on sale of foreclosed real estate and other repossessed assets	1,816	—
Deferred income taxes	(236,399)	(53,192)
Equity-based compensation expense	171,460	165,846
Excess tax benefits from equity awards	(27,926)	(56,324)
Change in assets and liabilities:		
Accrued interest receivable	(145,973)	(332,524)
Other assets	(110,431)	(376,929)
Loans held for sale	(651,753)	(1,426,718)
Accrued interest payable	404,202	273,438
Other liabilities	140,366	233,601
Net cash provided by operating activities	<u>2,809,032</u>	<u>1,847,829</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in federal funds sold	(2,668,454)	1,860,513
Securities available for sale:		
Proceeds from maturities and principal payments	29,159,904	20,749,104
Purchases	(25,994,818)	(19,591,567)
Securities held to maturity:		
Proceeds from maturities and principal payments	275,000	535,000
Purchases	(3,981,594)	(439,951)
Purchases of premises and equipment	(3,441,185)	(2,168,080)
Proceeds from sale of foreclosed real estate and other repossessed assets	185,184	11,401
Net increase in loans	(60,204,913)	(29,164,063)
Net cash used by investing activities	<u>(66,670,876)</u>	<u>(28,207,643)</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	<u>Year Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	\$61,972,633	\$18,890,265
Net increase in securities sold under agreements to repurchase	976,109	8,029,269
Proceeds from issuance of common stock	79,787	167,162
Excess tax benefit, equity-based compensation	27,926	56,324
Payment of fractional shares	(3,849)	(4,000)
Repurchase of common stock	(2,719)	(3,522)
Payment of cash dividends	(403,276)	(338,148)
Proceeds from issuance of borrowed funds	5,000,000	3,000,000
Repayment of borrowed funds	(2,919,863)	(3,409,167)
Net increase (decrease) in fed funds purchased	(3,630,000)	3,630,000
Net cash provided by financing activities	<u>61,096,748</u>	<u>30,018,183</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(2,765,096)</u>	<u>3,658,369</u>
Cash and cash equivalents, beginning of year	<u>12,200,298</u>	<u>8,541,929</u>
Cash and cash equivalents, end of year	<u>\$ 9,435,202</u>	<u>\$12,200,298</u>
SUPPLEMENTAL CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 8,878,206</u>	<u>\$ 6,366,587</u>
Income taxes	<u>\$ 1,296,606</u>	<u>\$ 1,528,653</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Net change in unrealized loss on securities available for sale	<u>\$ 482,982</u>	<u>\$ 101,512</u>
Acquisition of real estate and other repossessed assets in settlement of loans	<u>\$ 193,459</u>	<u>\$ —</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies

Basis of presentation and consolidation:

The consolidated financial statements include the accounts of Northwest Bancorporation, Inc. (the Company) and its wholly-owned subsidiary, Inland Northwest Bank (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Nature of business:

The Bank is a state chartered commercial bank under the laws of the state of Washington, and provides banking services primarily in eastern Washington and northern Idaho. The Bank is subject to competition from other financial institutions, as well as nonfinancial intermediaries. The Company and the Bank are also subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

Segment reporting:

The Company has not established any independent business activity apart from acting as the parent company of the Bank. The Company and the Bank are managed as a single entity and not by departments or lines of business. Based on management's analysis, no department or line of business meets the criteria established in Statement of Financial Accounting Standards (SFAS) No. 131 "*Disclosures about Segments of an Enterprise and Related Information*" for reporting of selected information about operating segments.

Use of estimates:

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities as of the date of the consolidated statements of financial condition and certain revenues and expenses for the period. Actual results could differ, either positively or negatively, from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of deferred taxes, the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures, or in satisfaction of loans, and stock options.

Management believes that the allowance for loan losses and other real estate owned is adequate. While management uses currently available information to recognize losses on loans and other real estate (when owned), future additions to the allowances may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and other real estate owned. Such agencies may require the Bank to recognize additions to the allowances based on their judgments of information available to them at the time of their examination.

Cash and cash equivalents:

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the statements of financial condition caption "cash and due from banks" and "interest-bearing deposits in other institutions," which mature within 90 days. Cash and cash equivalents on

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

deposit with other financial institutions periodically exceed the federal insurance limit. The Bank is required to maintain a reserve balance with the Federal Reserve Bank, or maintain such reserve in cash on hand. Cash balances on hand were sufficient to meet the required reserves at December 31, 2007 and 2006.

Securities held to maturity:

Bonds for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity or call date if it is probable that the security will be called.

Securities available for sale:

Securities available for sale consist of bonds, notes and mortgage-backed securities not classified as securities held to maturity or trading securities. Unrealized holding gains and losses, net of tax, on securities available for sale are reported as a net amount in accumulated comprehensive income. Gains and losses on the sale of securities available for sale are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity or call date if it is probable that the security will be called.

Declines in the fair value of individual held to maturity and available for sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. No such write-downs have occurred.

Loans held for sale:

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income. Gains or losses on the sale of such loans are based on the specific identification method.

Loans:

The Bank grants mortgage, commercial, installment and consumer loans to its customers. A substantial portion of the loan portfolio is represented by loans throughout eastern Washington and northern Idaho. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Management may also discontinue accrual of interest if management feels the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income, with interest income subsequently recognized only to the extent cash payments are received. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Allowance for loan losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments, principal, or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Foreclosed real estate and other repossessed assets:

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new carrying value. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less selling cost. An allowance for impairment losses is used for declines in estimated fair value.

Premises and equipment:

Buildings, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization over estimated useful lives or the related lease terms of the assets, which range from 3 to 39 years. Land is carried at cost. Depreciation and amortization expense is calculated using the straight-line method for financial statement purposes. Normal costs of maintenance and repairs are charged to expense as incurred.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

Bank owned life insurance:

The carrying amount of bank owned life insurance approximates its fair value. Fair value of bank owned life insurance is estimated using the cash surrender value, net of surrender charges.

Valuation of long-lived assets:

The Company, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, impaired assets are reported at the lower of cost or fair value. At December 31, 2007 and 2006, no assets had been written down for impairment.

Stock options:

At December 31, 2007, the Company had in effect several stock-based employee compensation plans, including Directors, which are described more fully in Note 14. Prior to 2006, the Company accounted for these plans under the recognition and measurement principals of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Beginning in 2006, the Company applied the fair value recognition provision of Financial Accounting Standards Board (FASB) Statement No. 123R, *Accounting for Share Based Compensation*, to its stock-based employee compensation (SFAS 123R).

Income taxes:

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Earnings per share:

Earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Earnings per share assuming full dilution reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company related solely to outstanding stock options, and are determined using the treasury stock method (see Note 19).

Comprehensive income:

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as separate components of the equity section of the balance sheet, such items, along with net income are components of comprehensive income.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

The components of other comprehensive income and related tax effects are as follows:

	<u>Years Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Unrealized holding gains/(losses) on available for sale securities	<u>\$ 482,982</u>	<u>\$101,512</u>
Reclassification adjustment for gains realized in income	<u>—</u>	<u>—</u>
Net unrealized losses	<u>482,982</u>	<u>101,512</u>
Tax effect	<u>(164,215)</u>	<u>(34,514)</u>
NET OF TAX AMOUNT	<u>\$ 318,767</u>	<u>\$ 66,998</u>

Reclassifications:

Certain reclassifications have been made in the December 31, 2006 consolidated financial statements in order to conform to the December 31, 2007 presentation, with no effect on previously reported net income or stockholders' equity.

Advertising costs:

Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2007 and 2006 was \$262,133 and \$120,700, respectively.

New accounting pronouncements:

On November 5, 2007, the SEC staff issued Staff Accounting Bulletin (SAB) No. 109, which supersedes SAB 105. In a manner consistent with Statements 156 and 159, SAB 109 requires a company to include expected net future cash flows related to the associated servicing of the loan in the measurement of its written loan commitments that are accounted for at fair value through earnings. SAB 105 had stated that this treatment was inappropriate. SAB 109 reaffirms the SEC staff's view that internally developed intangible assets should not be included in the fair value of a derivative loan commitment and extends this view to all written loan commitments accounted for at fair value through earnings.

On December 21, 2007, the SEC staff issued SAB No. 110, which amends and replaces Question 6 of Section D2 of SAB Topic 14, *Share-Based Payment—Certain Assumptions Used in Valuation Methods—Expected Term* (SAB 107). In this release, the SEC staff documents its views regarding the use of a "simplified" method in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123 (Revised 2004), *Share-Based Payment*. The guidance in this release is effective January 1, 2008. SAB No. 110 eliminates the scheduled date of December 31, 2007, after which the Staff would no longer accept use of the simplified method for estimating the term of plain vanilla options.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities—Including an amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective on January 1, 2008 and is not expected to have a material impact.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurements. SFAS No. 157 is effective on January 1, 2008 and the implementation of this guidance is not expected to have a material impact.

Note 2—Investments in Securities

Securities held by the Bank have been classified in the consolidated statements of financial condition according to management's intent. The amortized cost of securities and their approximate fair values at December 31, 2007 and 2006, were as follows:

	December 31, 2007			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities available for sale:				
U.S. government agency securities	\$23,465,426	\$176,811	\$ (6,640)	\$23,635,597
U.S. treasury securities	2,964,258	5,442	—	2,969,700
Corporate debt obligations	500,000	—	(16,530)	483,470
Mortgage backed securities	1,784,073	37,049	—	1,821,122
	<u>\$28,713,757</u>	<u>\$219,302</u>	<u>\$ (23,170)</u>	<u>\$28,909,889</u>
	December 31, 2006			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities available for sale:				
U.S. government agency securities	\$23,195,000	\$ 4,370	\$(275,583)	\$22,923,787
U.S. treasury securities	6,959,627	10,476	(7,283)	6,962,820
Corporate debt obligations	500,000	—	(44,740)	455,260
Mortgage backed securities	969,616	25,910	—	995,526
	<u>\$31,624,243</u>	<u>\$ 40,756</u>	<u>\$(327,606)</u>	<u>\$31,337,393</u>
	December 31, 2007			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities held to maturity:				
State and municipal securities	<u>\$ 7,650,440</u>	<u>\$ 61,718</u>	<u>\$ (18,803)</u>	<u>\$ 7,693,355</u>
	December 31, 2006			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities held to maturity:				
State and municipal securities	<u>\$ 3,971,864</u>	<u>\$ 25,655</u>	<u>\$ (25,575)</u>	<u>\$ 3,971,944</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 2—Investments in Securities—(Continued)

The following table shows the investments' gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2007.

	December 31, 2007					
	Impaired Less Than 12 Months		Impaired 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agency securities	\$ —	\$ —	\$4,993,360	\$ (6,640)	\$4,993,360	\$ (6,640)
U.S. treasury securities	—	—	—	—	—	—
Corporate debt obligations	—	—	483,470	(16,530)	483,470	(16,530)
State and municipal securities	1,838,769	(18,803)	—	—	1,838,769	(18,803)
	<u>\$1,838,769</u>	<u>\$(18,803)</u>	<u>\$5,476,830</u>	<u>\$(23,170)</u>	<u>\$7,315,599</u>	<u>\$(41,973)</u>

Management has evaluated the above securities and does not believe that any individual unrealized loss as of December 31, 2007, represents an other-than-temporary impairment. The decline in fair market value of these securities is generally due to changes in interest rates since purchase and is not related to any known decline in the creditworthiness of the issuer. At December 31, 2007, fifteen securities have unrealized losses.

Scheduled maturities of securities held to maturity and securities available for sale at December 31, 2007, are as follows:

	Held to maturity		Available for sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 503,258	\$ 502,952	\$ 3,964,258	\$ 3,968,390
Due from one year to five years	1,707,108	1,720,617	6,501,065	6,579,075
Due from five to ten years	4,266,479	4,292,350	11,659,361	11,746,064
Due after ten years	1,173,595	1,177,436	4,805,000	4,795,238
Mortgage backed securities	—	—	1,784,073	1,821,122
	<u>\$7,650,440</u>	<u>\$7,693,355</u>	<u>\$28,713,757</u>	<u>\$28,909,889</u>

At December 31, 2007 and 2006, investment securities with a carrying value of \$36,560,329 and \$35,309,257, respectively, were pledged to secure public deposits, repurchase agreements, and for other purposes as required or permitted by law.

For the years ended December 31, 2007 and 2006, there were no sales of securities available for sale.

Note 3—Federal Home Loan Bank (FHLB) Stock

The Bank's investment in the Federal Home Loan Bank of Seattle (class B stock) is carried at par value (\$100 per share), which reasonably approximates its fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specified percentages of its outstanding FHLB advances. The Bank may request redemption at par value of any stock in excess of the amount the Bank is required to hold. Stock redemptions are at the discretion of the FHLB and generally require five years prior written notice to FHLB.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 3—Federal Home Loan Bank (FHLB) Stock—(Continued)

The Seattle FHLB is regulated by the Federal Housing Finance Board (the "Finance Board"). In connection with a 2004 examination, the Seattle FHLB presented a three-year business and capital management plan to the Finance Board's Office of Supervision. In a Written Agreement with the Seattle FHLB, the Finance Board accepted the plan subject to certain restrictions on stock repurchases and dividend payments. The Seattle FHLB did not pay dividends on its stock in 2005. On January 12, 2007, the Finance Board terminated the Written Agreement. According to the Seattle FHLB, the termination of the agreement was because it is now in full compliance with the terms of the agreement and that it has made significant progress in implementing its business and capital management plan. The Seattle FHLB resumed dividend payments in late 2006 at a very modest level; the Company received less than \$1,000 in cash dividends from the FHLB in 2006, while holding \$645,900 in FHLB common stock. The 2007 dividend yield on the Bank's investment in FHLB stock was less than one-percent; the Company received a little under \$4,000 in cash dividends from the FHLB in 2007, also based on ownership of \$645,900 in FHLB common stock. Future dividend payments are subject to a formula outlined in the Seattle FHLB's Form 8-K filing with the Securities and Exchange Commission, dated October 11, 2006.

Note 4—Loans Receivable and Allowance for Loan Losses

The components of loans in the consolidated statements of financial condition were as follows:

	December 31,	
	2007	2006
1-4 family and multi-family real estate loans	\$ 26,155,442	\$ 18,916,559
Commercial real estate, term loans	111,276,530	83,436,884
Commercial, construction loans	54,563,834	43,274,967
Commercial, non-real estate loans	58,624,280	48,602,246
Consumer loans	27,448,301	23,877,271
	<u>278,068,387</u>	<u>218,107,927</u>
Allowance for loan losses	(2,710,989)	(2,586,094)
Net deferred loan fees	(643,937)	(399,826)
	<u>\$274,713,461</u>	<u>\$215,122,007</u>

An analysis of the change in the allowance for loan losses follows:

	December 31,	
	2007	2006
Balance, beginning of year	\$2,586,094	\$2,252,329
Reverse prior year reclassification of reserve for probable losses on unused loan commitments and off-balance sheet items	199,526	178,190
Balance, beginning of year, including off-balance sheet reserve	2,785,620	2,430,519
Provision charged to operations	420,000	360,000
Loans charged off, net of recoveries	(227,559)	(4,899)
Balance, end of year, prior to adjustment for off-balance sheet items	2,978,061	2,785,620
Reclassification of reserve for probable losses on unused loan commitments and off-balance sheet items to "other liabilities"	(267,072)	(199,526)
Balance, end of year	<u>\$2,710,989</u>	<u>\$2,586,094</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4—Loans Receivable and Allowance for Loan Losses—(Continued)

The loans fall into the following fixed and variable components:

	December 31,	
	2007	2006
Fixed rate loans	\$ 81,553,046	\$ 61,246,767
Variable rate loans	<u>196,515,341</u>	<u>156,861,160</u>
	<u>\$278,068,387</u>	<u>\$218,107,927</u>

Impairment of loans having recorded investments of \$691,298 and \$467,278 at December 31, 2007 and 2006, respectively, has been recognized in conformity with FASB Statement No. 114 as amended by FASB Statement No. 118. The total allowance for loan losses related to these loans was \$65,256 and \$265,760 at December 31, 2007 and 2006, respectively. The Bank is not committed to lend additional funds to debtors whose loans have been modified. The average recorded investment in impaired loans during the years ended December 31, 2007 and 2006, was \$604,123 and \$533,743, respectively. Interest income on impaired loans of \$60,562 and \$2,725 was recognized for cash payments received in 2007 and 2006, respectively. The Company had \$546,958 and \$319,922 of loans placed on nonaccrual at December 31, 2007 and 2006, respectively. Loans over 90 days past due and still on accrual status were zero at December 31, 2007 and 2006.

Note 5—Premises and Equipment

Components of premises and equipment included in the consolidated statements of financial condition at December 31, 2007 and 2006, were as follows:

	December 31,	
	2007	2006
Premises	\$ 3,061,533	\$ 2,314,849
Furniture, fixtures and equipment	4,192,046	4,255,825
Leasehold improvements	<u>2,753,074</u>	<u>2,252,280</u>
	10,006,653	8,822,954
Less accumulated depreciation and amortization	<u>(4,200,708)</u>	<u>(4,395,170)</u>
	5,805,945	4,427,784
Land	2,809,542	2,809,542
Construction in progress	<u>1,518,314</u>	<u>15,122</u>
Premises and equipment, net	<u>\$10,133,801</u>	<u>\$ 7,252,448</u>

Depreciation and amortization expense was \$557,719 and \$562,193 for the years ended December 31, 2007 and 2006, respectively.

The Bank has operating leases on a number of its branches that expire on various dates through 2026. The lease agreements have various renewal options.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 5—Premises and Equipment—(Continued)

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2007:

<u>Year ending December 31,</u>	
2008	\$ 472,578
2009	218,838
2010	89,340
2011	96,171
2012	98,448
Thereafter	<u>1,356,130</u>
TOTAL MINIMUM PAYMENTS REQUIRED	<u>\$2,331,505</u>

Total lease payments under the above mentioned operating leases and other month-to-month rentals for the years ended December 31, 2007 and 2006, were \$504,748 and \$437,910, respectively.

The Bank acquired \$600,404 in land under a capital lease agreement that expires in 2031. The minimum annual lease commitments under this capital lease agreement are summarized as follows:

<u>Year ending December 31,</u>	
2008	\$ 48,000
2009	48,000
2010	49,500
2011	54,000
2012	54,000
Thereafter	<u>997,417</u>
	1,250,917
Less amount representing interest	<u>651,513</u>
PRESENT VALUE OF LEASE PAYMENTS	<u>\$ 599,404</u>

In 2006, the Bank entered into an agreement with the Spokane Public Facilities District (PFD) for the purchase of naming rights to the Spokane Opera House; now known as the INB Performing Arts Center. Under the agreement, the Bank will pay the PFD \$150,000 per year for a period of ten years, with the final payment due in 2015.

In August 2007, the Bank entered into an agreement with a general contractor for the construction of a \$1.6 million branch facility in North Spokane with full amount of the contract remaining to be paid as of December 31, 2007. This branch facility will replace one of the Bank's in-store branches and is expected to be completed in May 2008.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6—Foreclosed Real Estate and Other Repossessed Assets

An allowance for losses on foreclosed real estate and other repossessed assets has been established. Activity in the account is as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	—	—
Charge offs	—	\$ —
Provision charged to income	—	(5,120)
	—	<u>5,120</u>
Balance, end of year	<u>—</u>	<u>\$ —</u>

Included in the losses on foreclosed real estate and other repossessed assets in the consolidated statements of income for the years ending December 31, 2007 and 2006, are impairment losses of \$0 and \$5,120, respectively. Realized gains (losses) of \$(1,816) and \$0 are included in (gain) loss on foreclosed real estate and other repossessed assets for the years ended December 31, 2007 and 2006, respectively.

Note 7—Deposits

Major classifications of deposits at December 31, 2007 and 2006, were as follows:

	<u>2007</u>	<u>2006</u>
Non-interest bearing demand deposits	\$ 45,622,811	\$ 49,069,895
Money market	32,307,940	36,322,976
NOW accounts	14,532,505	13,222,069
Savings deposits	16,601,937	8,825,525
Time deposits, \$100,000 and over	67,020,435	38,658,512
Other time deposits	96,453,812	64,467,830
	<u>\$272,539,440</u>	<u>\$210,566,807</u>

Maturities for time deposits at December 31, 2007, are summarized as follows:

Maturing one year or less	\$100,066,933
Maturing one to five years	62,812,314
Maturing five to ten years	595,000
	<u>\$163,474,247</u>

Overdraft deposit accounts with balances of \$99,309 and \$73,506 at December 31, 2007 and 2006, respectively, were reclassified as loans receivable.

Note 8—Borrowed Funds

In June 2005, the Company issued junior subordinated debentures aggregating \$5,155,000 to Northwest Bancorporation Capital Trust I, with interest fixed at 5.95% through June 30, 2010, thereafter re-pricing quarterly at three-month LIBOR plus 1.70%. The Trust issued \$155,000 of common securities to the Company and capital securities with an aggregate liquidation amount of \$5,000,000 (\$1,000 per capital security) to third-party investors. The common securities are included in "other assets" on the consolidated statements of financial

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 8—Borrowed Funds—(Continued)

condition; the subordinated debentures are included in “borrowed funds.” The subordinated debentures are includable as Tier I capital for regulatory purposes. The subordinated debentures and the capital securities pay interest and dividends, respectively, on a quarterly basis, which are included in interest expense. The subordinated debentures will mature on June 30, 2035, at which time the capital securities must be redeemed. The subordinated debentures and capital securities can be redeemed, in whole or in part, beginning June 30, 2010, at a redemption price of \$1,000 per capital security. The Company has provided a full and unconditional guarantee of the obligations of the Trust under the capital securities in the event of default. Northwest Bancorporation Capital Trust I is not consolidated in these financial statements. Pursuant to FIN 46R, the Company reports the junior subordinated debentures within the liabilities section of the consolidated statements of financial condition.

Other borrowed funds reported by the Bank consist primarily of Federal Home Loan Bank advances and overnight Federal Funds Purchased from correspondent banks. Federal Home Loan Bank advances are secured by a blanket pledge on Bank assets and specifically by loans with a carrying value of \$94,444,618 at December 31, 2007.

Total borrowed funds consist of the following at December 31:

<u>Advance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>2007</u>	<u>2006</u>
07/29/97	07/29/27	6.60%	\$ 41,551	\$ 43,664
04/20/98	04/19/13	6.15%	905,274	1,033,554
05/11/98	05/11/28	6.28%	96,883	98,698
08/19/98	08/18/28	6.09%	99,509	101,450
02/11/02	02/09/07	5.05%	—	2,500,000
02/11/02	02/11/09	4.94%	342,687	628,401
04/11/05	04/09/10	4.64%	2,000,000	2,000,000
10/11/07	10/09/09	4.96%	3,000,000	—
10/11/07	10/08/10	5.02%	2,000,000	—
			<u>8,485,904</u>	<u>6,405,767</u>
Total Federal Home Loan Bank advances			5,155,000	5,155,000
Junior subordinated debentures			599,404	599,404
Capital lease obligation (see Note 5)			<u>\$14,240,308</u>	<u>\$12,160,171</u>
TOTAL BORROWED FUNDS				

The scheduled maturities of the Federal Home Loan Bank advances at December 31, 2007, are as follows:

<u>Years Ending December 31,</u>	<u>Weighted- Average Interest Rate</u>	<u>Amount</u>
2008	5.35%	\$ 431,503
2009	5.02%	3,215,428
2010	4.88%	4,172,239
2011	6.16%	187,238
2012	6.16%	203,560
Thereafter	6.22%	275,936
		<u>\$8,485,904</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 9—Securities Sold Under Repurchase Agreements

Securities sold under agreements to repurchase generally mature within one to four days from the transaction date. For the year, securities sold under agreements to repurchase averaged \$29,028,252; the high balance during the year was \$37,624,843. The average rate paid during the year was 3.93%. Securities underlying the agreements are presented in Note 2. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

Note 10—Commitments and Contingencies

The Bank is a party to various legal collection actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition of Northwest Bancorporation.

The Bank has three unsecured operating lines of credit with KeyBank of Washington for \$10,200,000, maturing July 1, 2008. In addition, the Bank maintains lines of credit with Pacific Coast Bankers Bank for \$10,000,000, maturing June 30, 2008; U.S. Bank for \$1,500,000, with no stated maturity; and, Zions Bank for \$1,500,000, with no stated maturity. There was \$0 outstanding on any of the lines at December 31, 2007 and \$3,630,000 outstanding on the KeyBank line at December 31, 2006 (detailed in the Consolidated Statements of Financial Condition as "Federal funds purchased"). The Bank also has a line of credit with Federal Home Loan Bank for \$51,473,000 at December 31, 2007, with \$42,987,000 available in overnight funds and long-term funds. This line is collateralized by a general pledge of all assets of the Bank. There were \$8,485,904 and \$6,405,768 of outstanding long-term advances on the Federal Home Loan Bank line at December 31, 2007 and 2006, respectively (see Note 8). There was zero outstanding on overnight funds on the FHLB line at December 31, 2007 and 2006.

In the ordinary course of business the Bank makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The Bank uses the same credit policies in making such commitments as they do for instruments that are included in the consolidated statements of financial condition. These commitments and contingent liabilities include various commitments to extend credit and standby letters of credit. At December 31, 2007 and 2006, commitments under standby letters of credit were \$1,287,952 and \$1,276,927, respectively, and firm loan commitments were \$105,499,928 and \$99,724,243, respectively. Substantially all of the commitments provide for repayment at a variable rate of interest. The Bank does not anticipate any material losses as a result of these commitments.

Note 11—Concentrations of Credit Risk

The majority of the Bank's loans, commitments, and standby letters of credit have been granted to customers in the Bank's market area, which is the eastern Washington and northern Idaho area. Substantially all such customers are depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Outstanding commitments and standby letters of credit were granted primarily to commercial borrowers.

The Bank places its cash with high credit quality institutions. The amount on deposit fluctuates, and at times exceeds the insured limit by the U.S. Federal Deposit Insurance Corporation, which potentially subjects the Bank to credit risk.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12—Income Taxes

The components of income tax expense are as follows:

	<u>2007</u>	<u>2006</u>
Current tax expense	\$1,433,242	\$1,403,584
Deferred tax benefit	(236,399)	(53,192)
INCOME TAX EXPENSE	<u>\$1,196,843</u>	<u>\$1,350,392</u>

The components of the deferred tax assets and deferred tax liabilities are as follows:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Allowance for loan losses	\$ 899,891	\$ 763,455
Net unrealized loss on securities available for sale	—	97,529
Deferred compensation	177,665	153,361
Stock options	27,957	13,978
Goodwill amortization	31,010	35,642
Net unrealized loss on securities available for sale	97,529	132,042
Nonaccrual loan interest	9,416	3,740
Other	752	4,910
	<u>1,146,691</u>	<u>1,072,615</u>
Deferred tax liabilities:		
Fixed asset basis differentials	406,754	434,720
Federal Home Loan Bank stock	95,092	95,092
Deferred loan fees and costs	114,547	148,227
Prepaid expenses	98,679	101,827
Net unrealized gain on securities available for sale	66,685	—
	<u>781,757</u>	<u>779,866</u>
NET DEFERRED TAX ASSET	<u>\$ 364,934</u>	<u>\$ 292,749</u>

The effective tax rate differs from the statutory federal tax rate for the years presented as follows:

	<u>2007</u>	<u>2006</u>
Federal income tax at statutory rate	\$1,303,765	\$1,404,299
Effect of tax-exempt interest income	(90,346)	(50,248)
Effect of nondeductible interest expense	13,503	8,354
Effect of state income taxes	30,047	35,231
Other	(60,126)	(47,244)
INCOME TAX EXPENSE	<u>\$1,196,843</u>	<u>\$1,350,392</u>

At December 31, 2007, an income tax receivable of \$144,750 and a net deferred tax asset of \$364,934 were included in other assets on the consolidated statements of financial condition. At December 31, 2006, an income tax receivable of \$271,971 and a net deferred tax asset of \$292,749 were included in other assets on the consolidated statements of financial condition; a state income tax payable of \$18,511 was included in other liabilities.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12—Income Taxes—(Continued)

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. The Company had no unrecognized tax benefits which would require an adjustment to the January 1, 2007 beginning balance of retained earnings. The Company had no unrecognized tax benefits at January 1, 2007 and at December 31, 2007.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2007 and 2006 the Company recognized no interest and penalties.

The Company files a United States federal income tax return and an Idaho income tax return. With few exceptions, the Company is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2004.

Note 13—Employee Benefits

The Bank maintains a 401(k) profit sharing plan covering all employees who meet certain eligibility requirements. The plan provides for employees to elect up to 50% of their compensation to be paid into the plan. In 2007, the Bank's policy was to match contributions equal to 50% of the participant's contribution, not to exceed 3.0% of the participant's compensation. In 2006, the Bank's policy was to match contributions equal to 50% of the participant's contribution, not to exceed 2.5% of the participant's compensation. Vesting occurs over a six-year graded vesting schedule. Expenses associated with the plan were \$120,753 and \$99,492 for the years ended December 31, 2007 and 2005, respectively.

The Bank maintains a nonqualified deferred compensation plan under which eligible participants may elect to defer a portion of their compensation, with prior annual approval of the Board of Directors. The Bank does not match contributions to this plan, but does credit interest on amounts deferred based on the tax-equivalent rate earned on its bank-owned life insurance products. Expenses associated with the plan were \$14,533 and \$10,489 for the years ended December 31, 2007 and 2006, respectively. Liabilities associated with the plan were \$275,736 and \$220,283 for December 31, 2007 and 2006, respectively. To fund benefits under this plan, the Bank is the owner and beneficiary of single premium life insurance policies on certain current and past employees. At December 31, 2007 and 2006, the cash value of these policies was \$3,559,843 and \$3,432,503, respectively.

The Bank maintains unfunded, nonqualified executive income and retirement plans for certain of its current and retired senior executives under which participants designated by the Board of Directors are entitled to supplemental income or retirement benefits. Expenses associated with these plans were \$38,624 and \$37,826 for the years ended December 31, 2007 and 2006, respectively. Liabilities associated with these plans were \$231,879 and \$217,892 for December 31, 2007 and 2006, respectively.

Note 14—Stock Based Compensation

On May 15, 2006, stockholders approved the Inland Northwest Bank 2006 Share Incentive Plan and the issuance of shares of common stock of the Company pursuant to the Plan. This Plan is an amendment and restatement of the Inland Northwest Bank Non-Qualified Stock Option Plan originally effective July 21, 1992, as revised December 21, 1993, December 21, 1999 and April 16, 2002. The Plan allows the Board of Directors of Inland Northwest Bank to grant stock options and restricted stock awards to key employees of the Bank. At a meeting of the Board of Directors in July 2006, the Directors delegated the administration of the Plan to the Compensation and Insurance Committee. As of January 1, 2006, the Company adopted SFAS No. 123(R), Share

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 14—Stock Based Compensation—(Continued)

Based Payment, which requires the recognition of compensation costs relating to share-based payment transactions in the financial statements. The Company has elected the modified prospective application method of reporting, which provides for no restatement of prior periods and no cumulative adjustment to equity accounts. Prior to the adoption of SFAS No. 123(R), the Company elected to account for stock-based compensation using the intrinsic value-based method of recognizing compensation costs outlined in APB Opinion No. 25, Accounting for Stock Issued to Employees, and adopted the disclosure-only provisions under SFAS No. 123, Accounting for Stock-Based Compensation.

The decision as to whether to award restricted stock grants or options may vary from time-to-time or from employee to employee, at the discretion of the Bank's Compensation and Insurance Committee; however, it is anticipated that restricted stock will be awarded, primarily, to promote the long-term interests of the Company by retaining key Bank employees and stock options will be awarded, primarily, to attract key Bank employees. The maximum number of stock options and restricted shares that may be awarded under the Plan, as adjusted for stock dividends, is 384,912. At December 31, 2007, 196,453 shares and/or options were available for award to employees.

Restricted stock awards cliff-vest after a three-year period and, therefore, the fair value of these awards will be recognized ratably over a three-year period as compensation expense. Stock options vest over a five-year period and expire at the end of ten-years. The fair value of these awards will be recognized ratably over the vesting period as compensation expense. At December 31, 2007, restricted stock awards of 14,973 shares of common stock and stock options representing 125,988 shares of common stock were outstanding. None of the restricted stock awards outstanding have vested as of December 31, 2007. Options representing 103,845 shares have vested as of December 31, 2007.

Restricted stock-award activity is summarized in the following table:

	<u>Number of shares</u>	<u>Weighted average fair value at date of grant</u>
Outstanding at December 31, 2005	—	\$ —
Granted	10,658	17.11
Forfeited	—	—
Exercised	—	—
Outstanding at December 31, 2006	<u>10,658</u>	<u>\$ 17.11</u>
Granted	5,050	13.34
Forfeited	(567)	17.11
Exercised	(168)	17.11
Outstanding at December 31, 2007	<u>14,973</u>	<u>\$ 15.84</u>

Stock options vest over a five-year period and expire ten years from the date of the grant. The exercise price of each option equals the fair market value of the Company's stock on the date of grant.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 14—Stock Based Compensation—(Continued)

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of options granted represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on historical volatility of the Company's stock. Historical forfeiture rate is nominal. Expected dividend yield reflects the Company's expected future dividend rate.

	Risk free interest rate	Expected life (years)	Expected volatility	Expected forfeiture rate	Expected dividend yield
Options granted in 2006	4.49%	7.0	25.56%	0.00%	0.88%
Options granted in 2007	4.79%	6.5	23.76%	0.00%	1.33%

Stock option activity is summarized in the following table:

	2007		2006	
	Shares actual	Weighted- average exercise price	Shares actual	Weighted- average exercise price
Outstanding options, beginning of year	126,143	\$ 9.48	146,033	\$ 9.23
Granted	11,300	\$ 17.23	3,859	\$ 16.52
Exercised	(9,488)	\$ 8.41	(19,637)	\$ 8.51
Forfeited	(1,967)	\$ 9.44	(4,112)	\$ 11.25
Outstanding options, end of year	<u>125,988</u>	<u>\$ 10.25</u>	<u>126,143</u>	<u>\$ 9.48</u>
Options exercisable at year end	<u>103,845</u>		<u>105,979</u>	
Weighted-average fair value of options granted during the year		<u>\$ 5.32</u>		<u>\$ 6.18</u>

Options outstanding at December 31, 2007 were as follows:

	Options outstanding				Exercisable options		
	Number outstanding at end of year	Weighted- average remaining contractual life	Weighted- average exercise price	Intrinsic value of stock options *	Number exercisable at end of year	Weighted- average exercise price	Intrinsic value of stock options *
Price ranges							
(\$7.11)	20,966	2.96	\$ 7.11	\$125,653	20,966	\$ 7.11	\$125,653
(\$7.12 through \$10.83)	64,477	2.88	\$ 9.21	\$250,613	64,477	\$ 9.21	\$250,613
(\$10.84 through \$17.41)	40,545	7.38	\$ 13.53	\$ 28,361	18,402	\$ 11.56	\$ 28,361
TOTAL	<u>125,988</u>	<u>4.34</u>	<u>\$ 10.25</u>	<u>\$404,627</u>	<u>103,845</u>	<u>\$ 9.20</u>	<u>\$404,627</u>

* Note: Options that are calculated to have a negative intrinsic value are excluded from the calculated total.

For the year ended December 31, 2007 and 2006, cash proceeds of \$79,787 and \$167,162, respectively, were received from the exercise of options. It is the Company's policy to issue new shares for the exercise of stock options.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 14—Stock Based Compensation—(Continued)

The pre-tax compensation expense yet to be recognized for stock-based awards that have been awarded but not vested is as follows:

	<u>Stock options</u>	<u>Restricted stock</u>	<u>Total awards</u>
2008	\$23,407	\$ 79,078	\$102,485
2009	12,903	66,104	79,007
2010	6,709	22,456	29,165
2011	2,879	—	2,879
2012	147	—	147
Total	<u>\$46,045</u>	<u>\$167,638</u>	<u>\$213,683</u>

Note 15—Common Stock

On April 18, 2006, the Board of Directors announced a 5% stock dividend on all common stock, effective to stockholders of record May 15, 2006, and issued June 15, 2006. All amounts per share and weighted-average shares outstanding for all periods presented have been retroactively adjusted to reflect the stock dividends. The Company recorded a transfer from retained earnings to common stock for the market value of the additional shares issued at May 15, 2006.

On April 17, 2007, the Board of Directors announced a 5% stock dividend on all common stock, effective to stockholders of record May 14, 2007, and issued June 15, 2007. All amounts per share and weighted-average shares outstanding for all periods presented have been retroactively adjusted to reflect the stock dividends. The Company recorded a transfer from retained earnings to common stock for the market value of the additional shares issued at May 14, 2007.

During 2007 and 2006, the Board of Directors voted to issue 4,000 shares and 3,700 shares, respectively, of Company stock to nonemployee Directors pursuant to the Company's Director Compensation Plan.

Note 16—Related Party Transactions

The Company, through its Bank subsidiary, has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families, and affiliated companies in which they are principal stockholders. Aggregate loan balances with related parties at December 31, 2007 and 2006, were \$1,710,495 and \$2,363,141, respectively. During the years ended December 31, 2007 and 2006, total principal additions were \$300,105 and \$673,262 and total principal payments were \$952,751 and \$363,608, respectively. Aggregate deposit balances with related parties at December 31, 2007 and 2006, were \$2,743,512 and \$2,200,330, respectively. All related party loans and deposits which have been made, in the opinion of management, are on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Note 17—Restrictions on Dividends and Retained Earnings

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Company. The total amount of dividends, which may be paid at any date, is generally limited to the retained earnings of the Bank, which was \$16,479,576 at December 31, 2007. Accordingly, \$14,183,060 of the Company's equity in the net assets of the Bank was restricted at December 31, 2007.

In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 18—Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines on the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined). Under the regulatory framework for prompt corrective action, the Bank must maintain minimum Tier 1 leverage, Tier 1 risk-based, and total risk-based ratios as set forth in the table.

As of December 31, 2007, the Bank's capital amounts and ratios fall under the category of "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum capital ratios as set forth in the following table. No conditions or events exist that management believes have changed the institution's category.

The Company's and Bank's actual December 31, 2007 and 2006, capital amounts and ratios are also presented in the table:

	Actual		Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2007						
Total capital (to risk-weighted assets):						
Northwest Bancorporation	\$35,195,000	11.96%	\$23,533,360	≥ 8%	NA	NA
Inland Northwest Bank	33,512,000	11.41%	23,494,320	≥ 8%	\$29,367,900	≥ 10%
Tier 1 capital (to risk-weighted assets):						
Northwest Bancorporation	32,217,000	10.95%	11,766,680	≥ 4%	NA	NA
Inland Northwest Bank	30,534,000	10.40%	11,747,160	≥ 4%	17,620,740	≥ 6%
Tier 1 capital (to average assets):						
Northwest Bancorporation	32,217,000	9.46%	13,626,280	≥ 4%	NA	NA
Inland Northwest Bank	30,534,000	8.98%	13,603,760	≥ 4%	17,004,700	≥ 5%
December 31, 2006						
Total capital (to risk-weighted assets):						
Northwest Bancorporation	\$32,496,000	13.95%	\$18,633,360	≥ 8%	NA	NA
Inland Northwest Bank	29,396,000	12.66%	18,576,240	≥ 8%	\$23,220,300	≥ 10%
Tier 1 capital (to risk-weighted assets):						
Northwest Bancorporation	29,710,000	12.76%	9,316,680	≥ 4%	NA	NA
Inland Northwest Bank	26,610,000	11.46%	9,288,120	≥ 4%	13,932,180	≥ 6%
Tier 1 capital (to average assets):						
Northwest Bancorporation	29,710,000	10.82%	10,980,200	≥ 4%	NA	NA
Inland Northwest Bank	26,610,000	9.69%	10,980,200	≥ 4%	13,725,250	≥ 5%

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 19—Earnings Per Share

Earnings per share and the calculated effect of dilutive securities on earnings per share is as follows:

	<u>Year Ended December 31, 2007</u>		
	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic EPS			
Income available to common stockholders	<u>\$2,637,760</u>	2,361,746	<u>\$ 1.12</u>
Effect of Dilutive Securities			
Stock options		<u>38,730</u>	
Diluted EPS			
Income available to common stockholders plus assumed conversions	<u>\$2,637,760</u>	<u>2,400,476</u>	<u>\$ 1.10</u>
	<u>Year Ended December 31, 2006</u>		
	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic EPS			
Income available to common stockholders	<u>\$2,779,900</u>	2,348,283	<u>\$ 1.18</u>
Effect of Dilutive Securities			
Stock options		<u>42,486</u>	
Diluted EPS			
Income available to common stockholders plus assumed conversions	<u>\$2,779,900</u>	<u>2,390,769</u>	<u>\$ 1.16</u>

The Company's stock (stock symbol: NBCT) is quoted on various Internet listing services, including the OTC Bulletin Board (www.otcbb.com) where a list of market makers is also detailed. The average market price per share used in the determination of the dilutive effect of stock options was the average price of daily closing market values throughout the year.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 20—Fair Value of Financial Instruments

The estimated fair values of the Bank's financial instruments were as follows at December 31:

	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 9,435,202	\$ 9,435,202	\$ 12,200,298	12,200,298
Federal funds sold	2,836,349	2,836,349	167,895	167,895
Securities available for sale	28,909,889	28,909,889	31,337,393	31,337,393
Securities held to maturity	7,650,440	7,693,355	3,971,864	3,971,944
Federal Home Loan Bank stock	645,900	645,900	645,900	645,900
Loans and loans held for sale, net	276,939,932	278,230,091	216,696,725	215,643,179
Bank owned life insurance	3,559,843	3,559,843	3,432,503	3,432,503
Financial Liabilities:				
Federal funds purchased	—	—	3,630,000	3,630,000
Borrowed funds	14,240,308	14,090,799	12,160,171	12,148,494
Deposits	272,539,440	270,987,245	210,932,995	210,810,717
Securities sold under agreements to repurchase	26,760,049	26,760,049	25,783,940	25,783,940

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, and funds sold:

The carrying amount approximates fair value because of the short maturity of these investments.

Securities available for sale, securities held to maturity, and other investments:

The fair values of marketable securities are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans receivable:

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, real estate, consumer, credit card, and other. Each loan category is further segmented into fixed and adjustable rate interest terms. The fair values for fixed-rate loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values.

Federal funds purchased:

The carrying amount approximates fair value.

Bank owned life insurance:

The carrying amount (the cash surrender value) approximates fair value.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 20—Fair Value of Financial Instruments—(Continued)

Deposits and securities sold under agreements to repurchase:

The fair value of demand deposits, savings accounts, NOW, securities sold under agreements to repurchase and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowed funds:

The fair values of the Bank's long-term debt are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

The junior subordinated debentures detailed in Note 8 carry a fixed rate of interest of 5.95% through June 30, 2010. Subsequent to that date, assuming the Company does not redeem the debentures, the rate of interest is reset quarterly to equal three-month LIBOR plus 1.70%.

Off-balance-sheet instruments:

Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. The fair value of the fees at December 31, 2007 and 2006, were insignificant. See Note 10 for the notional amount of the commitments to extend credit.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 21—Parent Company-Only Financial Information

The following Northwest Bancorporation, Inc. parent company-only financial information should be read in conjunction with the other notes to consolidated financial statements. The accounting policies for the parent company-only financial statements are the same as those used in the presentation of the consolidated financial statements other than the parent company-only financial statements account for the parent company's investments in its subsidiaries under the equity method.

Condensed Statements of Condition:

<u>(\$ in thousands)</u>	December 31,	
	2007	2006
ASSETS		
Cash	\$ 1,275	\$ 2,541
Investment in trust equities	155	155
Investment in subsidiaries	30,663	26,420
Deferred tax asset	31	36
Other equity securities	250	250
Other assets	127	273
TOTAL ASSETS	\$32,501	\$29,675
LIABILITIES AND STOCKHOLDERS' EQUITY		
Junior subordinated debentures	\$ 5,155	\$ 5,155
Stockholders' equity	27,346	24,520
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$32,501	\$29,675

Condensed Statements of Income:

<u>(\$ in thousands)</u>	Year ended December 31,	
	2007	2006
Interest Income:		
Interest bearing deposits	\$ 50	\$ 114
Other Income (Expense):		
Equity in undistributed income of subsidiaries	2,923	2,954
Interest on other borrowed funds	(311)	(313)
Other expenses	(171)	(69)
	2,491	2,686
Net income before income taxes	2,541	2,800
Income tax benefit	(147)	(94)
NET INCOME	\$ 2,638	\$ 2,780

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 21—Parent Company-Only Financial Information—(Continued)

Condensed Statements of Cash Flows:

<u>(\$ in thousands)</u>	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,638	\$ 2,780
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(2,923)	(2,954)
Amortization	1	2
Decrease in deferred taxes	5	5
Equity-based compensation expense	171	166
Excess tax benefits from equity awards	(28)	(56)
(Increase) decrease in other assets	172	(186)
Net cash used by operating activities	<u>36</u>	<u>(243)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in subsidiaries	<u>(1,000)</u>	<u>(2,100)</u>
Net cash used by investing activities	<u>(1,000)</u>	<u>(2,100)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	80	167
Repurchase of common stock	(3)	(3)
Excess tax benefit, equity-based compensation	28	56
Payment of cash dividends and fractional shares	<u>(407)</u>	<u>(342)</u>
Net cash used by financing activities	<u>(302)</u>	<u>(122)</u>
NET CHANGE IN CASH	(1,266)	(2,465)
Cash, beginning of year	<u>2,541</u>	<u>5,006</u>
Cash, end of year	<u>\$ 1,275</u>	<u>\$ 2,541</u>
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Interest paid	<u>\$ 311</u>	<u>\$ 313</u>
Taxes paid	<u>\$ 1,208</u>	<u>\$ 1,479</u>

Note 22—Subsequent Event

On February 13, 2008, the Company paid \$1.3 million in cash to purchase land in Airway Heights, Washington. The Company's intent is to build a free-standing branch facility to replace its in-store branch in Airway Heights. The Company plans to sell or lease excess land not needed for the facility.

PART II

**NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
AND
FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Northwest Bancorporation, Inc. and Subsidiary
Spokane, Washington

We have audited the accompanying consolidated statements of financial condition of Northwest Bancorporation, Inc. and subsidiary, Inland Northwest Bank, as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing and opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated financial position of Northwest Bancorporation, Inc. and subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Spokane, Washington
March 19, 2007, except for
the addition of the parent only financial information included in
Note 21 as to which the date is January 31, 2008

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2006	2005
ASSETS		
Cash and due from banks	\$ 12,131,668	\$ 8,336,707
Interest bearing deposits in other institutions	68,630	205,222
Federal funds sold	167,895	2,028,408
Securities available for sale	31,337,393	32,200,153
Securities held to maturity, fair value 2006 \$3,971,944 and 2005 \$4,075,613	3,971,864	4,088,517
Federal Home Loan Bank stock, at cost	645,900	645,900
Loans receivable, net of allowance for loan losses 2006 \$2,586,094; 2005 \$2,252,329	215,122,007	186,317,944
Loans held for sale	1,574,718	148,000
Premises and equipment, net	7,252,448	5,650,373
Accrued interest receivable	1,372,731	1,040,207
Foreclosed real estate and other repossessed assets	—	16,521
Bank owned life insurance	3,432,503	3,313,771
Other assets	1,868,862	1,473,254
TOTAL ASSETS	<u>\$278,946,619</u>	<u>\$245,464,977</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$210,932,995	\$192,042,730
Securities sold under agreements to repurchase	25,783,940	17,754,671
Accrued interest payable	765,415	491,977
Federal funds purchased	3,630,000	—
Borrowed funds	12,160,171	12,569,338
Other liabilities	1,153,494	919,893
Total liabilities	<u>254,426,015</u>	<u>223,778,609</u>
COMMITMENTS AND CONTINGENCIES (Notes 5 and 10)		
STOCKHOLDERS' EQUITY		
Common stock, no par value, authorized 5,000,000 shares; issued and outstanding 2,236,460 and 2,108,864 shares	20,820,819	18,636,573
Retained earnings	3,889,105	3,306,113
Accumulated other comprehensive loss	(189,320)	(256,318)
Total stockholders' equity	<u>24,520,604</u>	<u>21,686,368</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$278,946,619</u>	<u>\$245,464,977</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Interest Income:		
Loans receivable, including fees	\$16,107,894	\$12,064,554
Investment securities:		
U.S. government agency securities	1,103,551	1,159,119
U.S. treasury securities	259,283	140,506
Other securities	172,310	150,697
Federal funds sold and interest bearing deposits	241,008	171,868
Total interest income	<u>17,884,046</u>	<u>13,686,744</u>
Interest Expense:		
Deposits	4,998,335	3,393,232
Borrowed funds and securities sold under agreements to repurchase	1,641,690	953,741
Total interest expense	<u>6,640,025</u>	<u>4,346,973</u>
Net interest income	11,244,021	9,339,771
Provision for loan losses	360,000	324,000
Net interest income after provision for loan losses	<u>10,884,021</u>	<u>9,015,771</u>
Noninterest Income:		
Service charges on deposits	885,948	953,605
Net gains from sale of loans	612,206	626,372
Other income	709,242	616,279
	<u>2,207,396</u>	<u>2,196,256</u>
Noninterest Expense:		
Salaries and employee benefits	5,232,840	4,565,934
Occupancy expense	914,148	769,269
Equipment expense	555,277	476,068
Loss on foreclosed real estate and other repossessed assets	5,120	158,991
Other operating expenses	2,253,740	2,061,008
	<u>8,961,125</u>	<u>8,031,270</u>
Net income before income taxes	4,130,292	3,180,757
Income tax expense	1,350,392	1,020,544
NET INCOME	<u>\$ 2,779,900</u>	<u>\$ 2,160,213</u>
Basic earnings per share	<u>\$ 1.24</u>	<u>\$ 0.98</u>
Diluted earnings per share assuming full dilution	<u>\$ 1.22</u>	<u>\$ 0.96</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
	Shares	Amount		Total		
Balance, December 31, 2004	2,004,901	\$16,943,428	\$ 3,063,164	\$ (45,110)	\$19,961,482	
Net income	—	—	2,160,213	—	2,160,213	\$ 2,160,213
Stock sold	60	494	—	—	494	
Stock issued to directors	3,700	60,347	—	—	60,347	
5% stock dividend	100,203	1,632,304	(1,632,304)	—	—	
Fractional shares paid in cash	—	—	(3,417)	—	(3,417)	
Cash dividend (\$0.14 per share)	—	—	(281,543)	—	(281,543)	
Net change in unrealized loss on available for sale securities, net of taxes	—	—	—	(211,208)	(211,208)	(211,208)
Comprehensive income						<u>\$ 1,949,005</u>
Balance, December 31, 2005	2,108,864	18,636,573	3,306,113	(256,318)	21,686,368	
Net income	—	—	2,779,900	—	2,779,900	\$ 2,779,900
Stock repurchased	(200)	(3,522)	—	—	(3,522)	
Stock sold	18,652	167,162	—	—	167,162	
Stock issued to directors	3,700	68,339	—	—	68,339	
Equity-based compensation	—	97,507	—	—	97,507	
5% stock dividend	105,444	1,854,760	(1,854,760)	—	—	
Fractional shares paid in cash	—	—	(4,000)	—	(4,000)	
Cash dividend (\$0.16 per share)	—	—	(338,148)	—	(338,148)	
Net change in unrealized loss on available for sale securities, net of taxes	—	—	—	66,998	66,998	66,998
Comprehensive income						<u>\$ 2,846,898</u>
Balance, December 31, 2006	<u>2,236,460</u>	<u>\$20,820,819</u>	<u>\$ 3,889,105</u>	<u>\$ (189,320)</u>	<u>\$24,520,604</u>	

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,779,900	\$ 2,160,213
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	562,193	458,610
Provision for loan losses	360,000	324,000
Provision for losses on foreclosed real estate and other repossessed assets	5,120	125,406
Accretion of securities discounts	(195,706)	(74,232)
Amortization of securities premiums	24,044	2,475
Increase in cash surrender value of bank owned life insurance	(118,732)	(121,049)
Loss on disposal of assets	3,812	1,074
Net loss (gain) on sale of foreclosed real estate and other repossessed assets	—	33,585
Stock dividends received	—	(2,600)
Deferred income taxes	(53,192)	(139,200)
Equity-based compensation expense	41,183	—
Change in assets and liabilities:		
Accrued interest receivable	(332,524)	(209,059)
Other assets	(376,929)	(769,033)
Loans held for sale	(1,426,718)	475,263
Accrued interest payable	273,438	132,113
Other liabilities	233,601	(3,893)
Net cash provided by operating activities	<u>1,779,490</u>	<u>2,393,673</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in federal funds sold	1,860,513	(974,563)
Securities available for sale:		
Proceeds from maturities and principal payments	20,749,104	15,531,545
Purchases	(19,591,567)	(9,698,592)
Securities held to maturity:		
Proceeds from maturities and principal payments	535,000	335,000
Purchases	(439,951)	(1,737,185)
Purchases of premises and equipment	(2,168,080)	(1,153,923)
Proceeds from sale of premises and equipment	—	2,250
Proceeds from sale of foreclosed real estate and other repossessed assets	11,401	584,023
Net increase in loans	<u>(29,164,063)</u>	<u>(29,240,703)</u>
Net cash used by investing activities	<u>(28,207,643)</u>	<u>(26,352,148)</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS—(Continued)

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	\$18,890,265	\$15,006,075
Net increase (decrease) in securities sold under agreements to repurchase	8,029,269	4,758,858
Proceeds from issuance of common stock	235,501	60,841
Excess tax benefit, equity-based compensation	56,324	—
Payment of fractional shares	(4,000)	(3,417)
Repurchase of common stock	(3,522)	—
Payment of cash dividends	(338,148)	(281,543)
Proceeds from issuance of borrowed funds	3,000,000	7,000,000
Proceeds from issuance of junior subordinated debentures	—	5,155,000
Repayment of borrowed funds	(3,409,167)	(5,400,336)
Net decrease in structured notes	—	(3,980,391)
Net increase in fed funds purchased	3,630,000	—
Net cash provided by financing activities	<u>30,086,522</u>	<u>22,315,087</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,658,369	(1,643,388)
Cash and cash equivalents, beginning of year	8,541,929	10,185,317
Cash and cash equivalents, end of year	<u>\$12,200,298</u>	<u>\$ 8,541,929</u>
SUPPLEMENTAL CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 6,366,587</u>	<u>\$ 4,214,860</u>
Income taxes	<u>\$ 1,528,653</u>	<u>\$ 1,126,308</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Net change in unrealized loss on securities available for sale	<u>\$ 101,512</u>	<u>\$ (320,012)</u>
Acquisition of real estate and other repossessed assets in settlement of loans	<u>\$ —</u>	<u>\$ 37,000</u>
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES		
Premises acquired through capital lease obligation	<u>\$ —</u>	<u>\$ 600,404</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies

Basis of presentation and consolidation:

The consolidated financial statements include the accounts of Northwest Bancorporation, Inc. (the Company) and its wholly-owned subsidiary, Inland Northwest Bank (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of business:

The Bank is a state chartered commercial bank under the laws of the state of Washington, and provides banking services primarily in eastern Washington and northern Idaho. The Bank is subject to competition from other financial institutions, as well as nonfinancial intermediaries. The Company and the Bank are also subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

Use of estimates:

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities as of the date of the consolidated statements of financial condition and certain revenues and expenses for the period. Actual results could differ, either positively or negatively, from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of deferred taxes, the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures, or in satisfaction of loans, and stock options.

Management believes that the allowance for loan losses and other real estate owned is adequate. While management uses currently available information to recognize losses on loans and other real estate (when owned), future additions to the allowances may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and other real estate owned. Such agencies may require the Bank to recognize additions to the allowances based on their judgments of information available to them at the time of their examination.

Cash and cash equivalents:

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in the statement of financial condition caption "cash and due from banks" and "interest-bearing deposits in other institutions," which mature within 90 days. Cash and cash equivalents on deposit with other financial institutions periodically exceed the federal insurance limit.

Securities held to maturity:

Bonds for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity or call date if it is probable that the security will be called.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

Securities available for sale:

Securities available for sale consist of bonds, notes and mortgage-backed securities not classified as securities held to maturity or trading securities. Unrealized holding gains and losses, net of tax, on securities available for sale are reported as a net amount in accumulated comprehensive income. Gains and losses on the sale of securities available for sale are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity or call date if it is probable that the security will be called.

Declines in the fair value of individual held to maturity and available for sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. No such write-downs have occurred.

Loans held for sale:

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income. Gains or losses on the sale of such loans are based on the specific identification method.

Loans:

The Bank grants mortgage, commercial, installment and consumer loans to its customers. A substantial portion of the loan portfolio is represented by loans throughout eastern Washington and northern Idaho. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Management may also discontinue accrual of interest if management feels the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income, with interest income subsequently recognized only to the extent cash payments are received. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Allowance for loan losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments, principal, or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and equipment:

Buildings, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization over estimated useful lives or the related lease terms of the assets, which range from 3 to 39 years. Land is carried at cost. Depreciation and amortization expense is calculated using the straight-line method for financial statement purposes. Normal costs of maintenance and repairs are charged to expense as incurred.

Foreclosed real estate and other repossessed assets:

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new carrying value. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less selling cost. An allowance for impairment losses is used for declines in estimated fair value.

Income taxes:

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Stock compensation plan:

At December 31, 2005, the Bank had a nonqualified stock option plan for key employees, which has subsequently been amended and which is described more fully in Note 14. Prior to January 1, 2006, the Company

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

and the Bank accounted for this plan under the recognition and measurement principles of Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations. For the year ended December 31, 2005, no stock-based compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income and earnings per share if the Company and the Bank had applied the fair value recognition provisions of Financial Accounting Standards Board (“FASB”) Statement No. 123R *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

The fair value assumptions for options granted in 2005 are based on a risk-free interest rate of 3.94%, 7 year expected life, 21.68% expected volatility and a 1.00% expected dividend rate.

	<u>December 31,</u> <u>2005</u>
Net income, as reported	\$2,160,213
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(26,816)</u>
Pro forma net income	<u>\$2,133,397</u>
Earnings per share:	
Basic, as reported	\$ 0.98
Basic, pro forma	<u>\$ 0.96</u>
Diluted, as reported	\$ 0.96
Diluted, pro forma	<u>\$ 0.94</u>

Earnings per share:

Earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Earnings per share assuming full dilution reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company related solely to outstanding stock options, and are determined using the treasury stock method (see Note 19).

Comprehensive income:

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as separate components of the equity section of the balance sheet, such items, along with net income are components of comprehensive income.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

The components of other comprehensive income and related tax effects are as follows:

	Years Ended December 31	
	2006	2005
Unrealized holding gains/(losses) on available for sale securities	\$101,512	\$(320,012)
Reclassification adjustment for gains realized in income	—	—
Net unrealized losses	101,512	(320,012)
Tax effect	(34,514)	108,804
NET OF TAX AMOUNT	\$ 66,998	\$(211,208)

Reclassifications:

Certain reclassifications have been made in the December 31, 2005 consolidated financial statements in order to conform to the December 31, 2006 presentation, with no effect on previously reported net income or stockholders' equity.

New accounting pronouncements:

SFAS 157, Fair Value Measurements—In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 is not expected to have a material impact on the Company.

In September 2006, the SEC's Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management released SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB No. 108"), that provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. This pronouncement is effective for fiscal years ending after November 15, 2006. The Company has adopted SAB No. 108 and has found there to be no material impact on its financial position or results of operations.

FIN No. 48, Accounting for Uncertainty in Income Taxes—On July 13, 2006, FASB issued Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 also prescribes a consistent recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. FIN 48 is not expected to have a material impact on the Company.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

Advertising costs:

Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2006 and 2005 was \$120,700 and \$139,218, respectively.

Note 2—Investments in Securities

Securities held by the Bank have been classified in the consolidated statement of financial condition according to management's intent. The amortized cost of securities and their approximate fair values at December 31, 2006 and 2005, were as follows:

	December 31, 2006			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities available for sale:				
U.S. government agency securities	\$23,195,000	\$ 4,370	\$(275,583)	\$22,923,787
U.S. treasury securities	6,959,627	10,476	(7,283)	6,962,820
Corporate debt obligations	500,000	—	(44,740)	455,260
Mortgage backed securities	969,616	25,910	—	995,526
	<u>\$31,624,243</u>	<u>\$ 40,756</u>	<u>\$(327,606)</u>	<u>\$31,337,393</u>

	December 31, 2005			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities available for sale:				
U.S. government agency securities	\$25,695,000	\$ 1,312	\$(390,073)	\$25,306,239
U.S. treasury securities	5,129,924	—	(10,304)	5,119,620
Corporate debt obligations	494,357	—	(39,167)	455,190
Mortgage backed securities	1,269,232	49,872	—	1,319,104
	<u>\$32,588,513</u>	<u>\$ 51,184</u>	<u>\$(439,544)</u>	<u>\$32,200,153</u>

	December 31, 2006			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities held to maturity:				
State and municipal securities	<u>\$ 3,971,864</u>	<u>\$ 25,655</u>	<u>\$ (25,575)</u>	<u>\$ 3,971,944</u>

	December 31, 2005			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities held to maturity:				
State and municipal securities	<u>\$ 4,088,517</u>	<u>\$ 22,999</u>	<u>\$ (35,903)</u>	<u>\$ 4,075,613</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 2—Investments in Securities—(Continued)

The following table shows the investments' gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2006.

	December 31, 2006					
	Impaired Less Than 12 Months		Impaired 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agency securities	\$ 399,236	\$ (764)	\$21,520,182	\$(274,819)	\$21,919,418	\$(275,583)
U.S. treasury securities	3,165,480	(7,283)	—	—	3,165,480	(7,283)
Corporate debt obligations	455,260	(44,740)	—	—	455,260	(44,740)
State and municipal securities	2,595,264	(24,486)	198,911	(1,089)	2,794,175	(25,575)
	<u>\$6,615,240</u>	<u>\$(77,273)</u>	<u>\$21,719,093</u>	<u>\$(275,908)</u>	<u>\$28,334,333</u>	<u>\$(353,181)</u>

Management has evaluated the above securities and does not believe that any individual unrealized loss as of December 31, 2006, represents an other-than-temporary impairment. The decline in fair market value of these securities is generally due to changes in interest rates since purchase and is not related to any known decline in the creditworthiness of the issuer. At December 31, 2006, forty-four securities have unrealized losses.

At December 31, 2006 and 2005, securities available for sale with an amortized cost of \$23,847,055 and \$21,697,664, respectively, were pledged to secure the Bank's performance of its obligations under repurchase agreements. The market value of these securities was \$23,585,965 and \$21,387,660 at December 31, 2006 and 2005, respectively. Securities held to maturity with an amortized cost of \$3,971,864 and \$521,660 at December 31, 2006 and 2005, respectively, were pledged to secure the Bank's performance of its obligations under repurchase agreements. The market value of these securities was \$3,971,944 and \$514,861 at December 31, 2006 and 2005, respectively. Securities available for sale with an amortized cost of \$2,064,557 and \$2,110,925 at December 31, 2006 and 2005, respectively, were pledged to secure public deposits for purposes required or permitted by law. The market value of these securities was \$2,038,438 and \$2,094,230 at December 31, 2006 and 2005, respectively. Securities available for sale with an amortized cost of \$5,712,630 and \$5,879,924 at December 31, 2006 and 2005, respectively, were pledged to the Federal Reserve Bank. The market value of these securities was \$5,712,990 and \$5,857,433 at December 31, 2006 and 2005, respectively.

For the years ended December 31, 2006 and 2005, there were no sales of securities available for sale.

The scheduled maturities of securities held to maturity and securities available for sale at December 31, 2006, are as follows:

	Held to maturity		Available for sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 275,243	\$ 274,971	\$ 7,959,627	\$ 7,956,570
Due from one year to five years	904,409	896,065	6,000,000	5,959,210
Due from five to ten years	2,061,482	2,060,860	11,890,000	11,737,665
Due after ten years	730,730	740,048	4,805,000	4,688,423
Mortgage backed securities	—	—	969,616	995,525
	<u>\$3,971,864</u>	<u>\$3,971,944</u>	<u>\$31,624,243</u>	<u>\$31,337,393</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 3—Federal Home Loan Bank Stock (FHLB)

The Bank's investment in the Federal Home Loan Bank of Seattle (class B stock) is carried at par value (\$100 per share), which reasonably approximates its fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specified percentages of its outstanding FHLB advances. The Bank may request redemption at par value of any stock in excess of the amount the Bank is required to hold. Stock redemptions are at the discretion of the FHLB and generally require five years prior written notice to FHLB.

The Seattle FHLB is regulated by the Federal Housing Finance Board (the "Finance Board"). In connection with a 2004 examination, the Seattle FHLB presented a three-year business and capital management plan to the Finance Board's Office of Supervision. In a Written Agreement with the Seattle FHLB, the Finance Board accepted the plan subject to certain restrictions on stock repurchases and dividend payments. The Seattle FHLB did not pay dividends on its stock in 2005. On January 12, 2007, the Finance Board terminated the Written Agreement. According to the Seattle FHLB, the termination of the agreement was because it is now in full compliance with the terms of the agreement and that it has made significant progress in implementing its business and capital management plan. The Seattle FHLB did pay a small dividend in late 2006, based on third-quarter 2006 earnings. Future dividend payments are subject to a formula outlined in the Seattle FHLB's Form 8-K filing with the Securities and Exchange Commission, dated October 11, 2006.

Note 4—Loans Receivable and Allowance for Loan Losses

The components of loans in the consolidated statement of financial condition were as follows:

	December 31,	
	2006	2005
Commercial	\$127,420,075	\$124,611,102
Real estate	74,496,452	50,162,043
Installment	8,089,752	5,079,144
Consumer and other	8,101,648	8,990,996
	<u>218,107,927</u>	<u>188,843,285</u>
Allowance for loan losses	(2,586,094)	(2,252,329)
Net deferred loan fees	(399,826)	(273,012)
	<u>\$215,122,007</u>	<u>\$186,317,944</u>

An analysis of the change in the allowance for loan losses follows:

	December 31,	
	2006	2005
Balance, beginning of year	\$2,252,329	\$1,943,760
Reverse prior year reclassification of reserve for probable losses on unused loan commitments and off-balance sheet items	178,190	206,080
Balance, beginning of year, including OBS reserve	2,430,519	2,149,840
Provision charged to operations	360,000	324,000
Loans charged off, net of recoveries	(4,899)	(43,321)
Balance, end of year, prior to adjustment for off-balance sheet items	2,785,620	2,430,519
Reclassification of reserve for probable losses on unused loan commitments and off-balance sheet items to "Accrued interest payable and other liabilities"	(199,526)	(178,190)
Balance, end of year	<u>\$2,586,094</u>	<u>\$2,252,329</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4—Loans Receivable and Allowance for Loan Losses—(Continued)

The loans fall into the following fixed and variable components:

	December 31,	
	2006	2005
Fixed rate loans	\$ 61,246,767	\$ 53,476,753
Variable rate loans	156,861,160	135,366,532
	<u>\$218,107,927</u>	<u>\$188,843,285</u>

Impairment of loans having recorded investments of \$467,278 and \$634,876 at December 31, 2006 and 2005, respectively, has been recognized in conformity with FASB Statement No. 114 as amended by FASB Statement No. 118. The total allowance for loan losses related to these loans was \$265,760 and \$309,290 at December 31, 2006 and 2005, respectively. The Bank is not committed to lend additional funds to debtors whose loans have been modified. The average recorded investment in impaired loans during the years ended December 31, 2006 and 2005, was \$533,743 and \$678,399, respectively. Interest income on impaired loans of \$2,725 and \$7,923 was recognized for cash payments received in 2006 and 2005, respectively. The Company had \$319,922 and \$405,168 of loans placed on nonaccrual at December 31, 2006 and 2005, respectively. Loans over 90 days past due and still on accrual status were \$-0- and \$19,333 at December 31, 2006 and 2005, respectively.

Note 5—Premises and Equipment

Components of premises and equipment included in the consolidated statement of financial condition at December 31, 2006 and 2005, were as follows:

	December 31,	
	2006	2005
Premises	\$ 2,314,849	\$ 1,588,103
Furniture, fixtures and equipment	4,255,825	3,921,946
Leasehold improvements	<u>2,252,280</u>	<u>1,880,341</u>
	8,822,954	7,390,390
Less accumulated depreciation and amortization	<u>(4,395,170)</u>	<u>(4,000,743)</u>
	4,427,784	3,389,647
Land	2,809,542	1,816,334
Construction in progress	<u>15,122</u>	<u>444,392</u>
Premises and equipment, net	<u>\$ 7,252,448</u>	<u>\$ 5,650,373</u>

Depreciation and amortization expense was \$562,193 and \$458,610 for the years ended December 31, 2006 and 2005, respectively.

The Bank has operating leases on a number of its branches that expire on various dates through 2026. The lease agreements have various renewal options.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 5—Premises and Equipment—(Continued)

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2006:

<u>Year ending</u> <u>December 31,</u>	
2007	\$ 424,695
2008	294,678
2009	193,338
2010	89,340
2011	96,171
Thereafter	<u>1,454,578</u>
TOTAL MINIMUM PAYMENTS REQUIRED	<u>\$2,552,800</u>

Total lease payments under the above mentioned operating leases and other month-to-month rentals for the years ended December 31, 2006 and 2005, were \$437,910 and \$389,781, respectively.

The Bank acquired \$600,404 in land under a capital lease agreement that expires in 2031. The minimum annual lease commitments under this capital lease agreement are summarized as follows:

<u>Year ending</u> <u>December 31,</u>	
2007	\$ 48,000
2008	48,000
2009	48,000
2010	49,500
2011	54,000
Thereafter	<u>1,051,417</u>
	1,298,917
Less amount representing interest	<u>699,513</u>
PRESENT VALUE OF LEASE PAYMENTS	<u>\$ 599,404</u>

In 2006, the Bank entered into an agreement with the Spokane Public Facilities District (PFD) for the purchase of naming rights to the Spokane Opera House; now known as the INB Performing Arts Center. Under the agreement, the Bank will pay the PFD \$150,000 per year for a period of ten years, with the final payment due in 2015.

Note 6—Foreclosed Real Estate and Other Repossessed Assets

An allowance for losses on foreclosed real estate and other repossessed assets has been established. Activity in the account is as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ —	\$ 125,000
Charge offs	(5,120)	(250,406)
Provision charged to income	<u>5,120</u>	<u>125,406</u>
Balance, end of year	<u>\$ —</u>	<u>\$ —</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6—Foreclosed Real Estate and Other Repossessed Assets—(Continued)

Included in the losses on foreclosed real estate and other repossessed assets in the consolidated statement of income for the years ending December 31, 2006 and 2005, are impairment losses of \$5,120 and \$125,406, respectively, on real estate and other repossessed assets held for sale. Realized gains (losses) of \$0 and \$(33,585) are included in (gain) loss on foreclosed real estate and other repossessed assets for the years ended December 31, 2006 and 2005, respectively.

Note 7—Deposits

Major classifications of deposits at December 31, 2006 and 2005, were as follows:

	2006	2005
Non-interest bearing demand deposits	\$ 49,436,083	\$ 49,107,178
Money market	36,322,976	44,899,228
NOW accounts	13,222,069	13,037,717
Savings deposits	8,825,525	8,245,679
Time deposits, \$100,000 and over	38,658,512	29,310,784
Other time deposits	64,467,830	47,442,144
	<u>\$210,932,995</u>	<u>\$192,042,730</u>

Maturities for time deposits at December 31, 2006, are summarized as follows:

Maturing one year or less	\$ 48,417,071
Maturing one to five years	54,709,271
Maturing five to ten years	—
	<u>\$103,126,342</u>

Overdraft deposit accounts with balances of \$73,506 and \$49,611 at December 31, 2006 and 2005, respectively, were reclassified as loans receivable.

Note 8—Borrowed Funds

In June 2005, the Company issued junior subordinated debentures aggregating \$5,155,000 to Northwest Bancorporation Capital Trust I, with interest fixed at 5.95% through June 30, 2010, thereafter re-pricing quarterly at three-month LIBOR plus 1.70%. The Trust issued \$155,000 of common securities to the Company and capital securities with an aggregate liquidation amount of \$5,000,000 (\$1,000 per capital security) to third-party investors. The common securities are included in "Other assets" on the statement of financial condition; the subordinated debentures are included in "Borrowed funds." The subordinated debentures are includable as Tier I capital for regulatory purposes. The subordinated debentures and the capital securities pay interest and dividends, respectively, on a quarterly basis, which are included in interest expense. The subordinated debentures will mature on June 30, 2035, at which time the capital securities must be redeemed. The subordinated debentures and capital securities can be redeemed, in whole or in part, beginning June 30, 2010, at a redemption price of \$1,000 per capital security. The Company has provided a full and unconditional guarantee of the obligations of the Trust under the capital securities in the event of default. Northwest Bancorporation Capital Trust I is not consolidated in these financial statements. Pursuant to FIN 46R, the Company reports the junior subordinated debentures within the liabilities section of the statement of financial condition.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 8—Borrowed Funds—(Continued)

Other borrowed funds reported by the Bank consist primarily of Federal Home Loan Bank advances and overnight Federal Funds Purchased from a correspondent bank. Federal Home Loan Bank advances are secured by a blanket pledge on Bank assets and specifically by loans with a carrying value of \$65,928,304 at December 31, 2006. Federal Funds Purchased are borrowed on an unsecured basis.

Total borrowed funds consist of the following at December 31:

Advance Date	Maturity Date	Interest Rate	2006	2005
07/29/97	07/29/27	6.60%	\$ 43,664	\$ 45,778
04/20/98	04/19/13	6.15%	1,033,554	1,151,415
05/11/98	05/11/28	6.28%	98,698	100,372
08/19/98	08/18/28	6.09%	101,450	103,253
02/11/02	02/09/07	5.05%	2,500,000	2,500,000
02/11/02	02/11/09	4.94%	628,401	914,116
04/11/05	04/09/10	4.64%	2,000,000	2,000,000
Total Federal Home Loan Bank advances			6,405,767	6,814,934
Junior subordinated debentures			5,155,000	5,155,000
Capital lease obligation (see Note 5)			599,404	599,404
TOTAL BORROWED FUNDS			\$12,160,171	\$12,569,338

The scheduled maturities of the Federal Home Loan Bank advances at December 31, 2006, are as follows:

Years Ending December 31,	Weighted- Average Interest Rate	Amount
2007	5.09%	\$2,919,863
2008	5.35%	431,503
2009	5.84%	215,429
2010	4.76%	2,172,239
2011	6.16%	187,238
Thereafter	6.19%	479,495
		<u>\$6,405,767</u>

Note 9—Securities Sold Under Repurchase Agreements

Securities sold under agreements to repurchase generally mature within one to four days from the transaction date. For the year, securities sold under agreements to repurchase averaged \$21,124,599; the high balance during the year was \$27,474,692. The average rate paid during the year was 4.29%. Securities underlying the agreements are presented in Note 2. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

Note 10—Commitments and Contingencies

The Bank is a party to various legal collection actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition of Northwest Bancorporation.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 10—Commitments and Contingencies—(Continued)

The Bank has three unsecured operating lines of credit with KeyBank of Washington for \$10,200,000, with two lines totaling \$10,100,000, maturing July 1, 2007, and the remaining \$100,000 line maturing on July 1, 2008. In addition, the Bank maintains lines of credit with Pacific Coast Bankers Bank for \$5,000,000, maturing June 30, 2007; U.S. Bank for \$1,500,000, maturing July 31, 2007; and, Zions Bank for \$1,500,000, with no stated maturity. There was \$3,630,000 outstanding on the KeyBank line at December 31, 2006 (detailed in the Consolidated Statements of Financial Condition as “Federal funds purchased”) and zero outstanding on any of the lines at December 31, 2005. The Bank also has a line of credit with Federal Home Loan Bank for \$41,740,000 at December 31, 2006, with \$35,335,000 available in overnight funds and long-term funds. This line is collateralized by a general pledge of all assets of the Bank. There were \$6,405,768 and \$6,814,934 of outstanding long-term advances on the Federal Home Loan Bank line at December 31, 2006 and 2005, respectively (see Note 8). There was zero outstanding on overnight funds on the FHLB line at December 31, 2006 and 2005.

In the ordinary course of business the Bank makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The Bank uses the same credit policies in making such commitments as they do for instruments that are included in the consolidated statement of financial condition. These commitments and contingent liabilities include various commitments to extend credit and standby letters of credit. At December 31, 2006 and 2005, commitments under standby letters of credit were \$1,276,927 and \$844,625, respectively, and firm loan commitments were \$99,724,243 and \$86,568,925, respectively. Substantially all of the commitments provide for repayment at a variable rate of interest. The Bank does not anticipate any material losses as a result of these commitments.

Note 11—Concentrations of Credit Risk

The majority of the Bank’s loans, commitments, and standby letters of credit have been granted to customers in the Bank’s market area, which is the eastern Washington and northern Idaho area. Substantially all such customers are depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Outstanding commitments and standby letters of credit were granted primarily to commercial borrowers.

The Bank places its cash with high credit quality institutions. The amount on deposit fluctuates, and at times exceeds the insured limit by the U.S. Federal Deposit Insurance Corporation, which potentially subjects the Bank to credit risk.

Note 12—Income Taxes

The components of income tax expense are as follows:

	2006	2005
Current tax expense	\$1,403,584	\$1,159,744
Deferred tax benefit	(53,192)	(139,200)
INCOME TAX EXPENSE	\$1,350,392	\$1,020,544

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12—Income Taxes—(Continued)

The components of the deferred tax assets and deferred tax liabilities are as follows:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Allowance for loan losses	\$ 763,455	\$637,455
Net unrealized loss on securities available for sale	97,529	132,042
Deferred compensation	153,361	125,754
Stock options	13,978	—
Goodwill amortization	35,642	40,273
Nonaccrual loan interest	3,740	3,397
Other	4,910	5,835
	<u>1,072,615</u>	<u>944,756</u>
Deferred tax liabilities:		
Fixed asset basis differentials	434,720	438,452
Federal Home Loan Bank stock	95,092	95,092
Deferred loan fees and costs	148,227	81,696
Prepaid expenses	101,827	55,446
	<u>779,866</u>	<u>670,686</u>
NET DEFERRED TAX ASSET	<u>\$ 292,749</u>	<u>\$274,070</u>

The effective tax rate differs from the statutory federal tax rate for the years presented as follows:

	<u>2006</u>	<u>2005</u>
Federal income tax at statutory rate	\$1,404,299	\$1,081,458
Effect of tax-exempt interest income	(50,248)	(49,356)
Effect of nondeductible interest expense	8,354	5,033
Effect of state income taxes	35,231	22,559
Other	(47,244)	(39,150)
INCOME TAX EXPENSE	<u>\$1,350,392</u>	<u>\$1,020,544</u>

At December 31, 2006, an income tax receivable of \$271,971 and a net deferred tax asset of \$292,749 were included in other assets on the consolidated statement of financial condition; a state income tax payable of \$18,511 was included in other liabilities. At December 31, 2005, an income tax receivable of \$87,286 and a net deferred tax asset of \$274,070 were included in other assets on the consolidated statement of financial condition; a state income tax payable of \$15,219 is included in other liabilities.

Note 13—Employee Benefits

The Bank maintains a 401(k) profit sharing plan covering all employees who meet certain eligibility requirements. The plan provides for employees to elect up to 50% of their compensation to be paid into the plan. The Bank's policy is to match contributions equal to 50% of the participant's contribution, not to exceed 2.5% of the participant's compensation. Vesting occurs over a six-year graded vesting schedule. Expenses associated with the plan were \$99,492 and \$94,960 for the years ended December 31, 2006 and 2005, respectively.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 13—Employee Benefits—(Continued)

The Bank maintains a nonqualified deferred compensation plan under which eligible participants may elect to defer a portion of their compensation, with prior annual approval of the Board of Directors. The Bank does not match contributions to this plan, but does credit interest on amounts deferred based on the tax-equivalent rate earned on its bank owned life insurance products. Expenses associated with the plan were \$10,489 and \$7,331 for the years ended December 31, 2006 and 2005, respectively. Accrued liabilities associated with the plan were \$220,283 and \$154,593 for December 31, 2006 and 2005, respectively. To fund benefits under this plan, the Bank is the owner and beneficiary of single premium life insurance policies on certain current and past employees. At December 31, 2006 and 2005, the cash value of these policies was \$3,432,503 and \$3,313,771, respectively.

The Bank maintains unfunded, nonqualified executive income and retirement plans for certain of its current and retired senior executives under which participants designated by the Board of Directors are entitled to supplemental income or retirement benefits. Expenses associated with these plans were \$37,826 and \$37,207 for the years ended December 31, 2006 and 2005, respectively. Accrued liabilities associated with these plans were \$217,892 and \$204,704 for December 31, 2006 and 2005, respectively.

Note 14—Stock Based Compensation

On May 15, 2006, stockholders approved the Inland Northwest Bank 2006 Share Incentive Plan and the issuance of shares of common stock of the Company pursuant to the Plan. This Plan is an amendment and restatement of the Inland Northwest Bank Non-Qualified Stock Option Plan originally effective July 21, 1992, as revised December 21, 1993, December 21, 1999 and April 16, 2002. The Plan allows the Board of Directors of Inland Northwest Bank to grant stock options and restricted stock awards to key employees of the Bank. At a meeting of the Board of Directors in July 2006, the Directors delegated the administration of the Plan to the Compensation and Insurance Committee. As of January 1, 2006, the Company adopted SFAS No. 123(R), Share Based Payment, which requires the recognition of compensation costs relating to share-based payment transactions in the financial statements. The Company has elected the modified prospective application method of reporting, which provides for no restatement of prior periods and no cumulative adjustment to equity accounts. Prior to the adoption of SFAS No. 123(R), the Company elected to account for stock-based compensation using the intrinsic value-based method of recognizing compensation costs outlined in APB Opinion No. 25, Accounting for Stock Issued to Employees, and adopted the disclosure-only provisions under SFAS No. 123, Accounting for Stock-Based Compensation.

The decision as to whether to award restricted stock grants or options may vary from time-to-time or from employee to employee, at the discretion of the Bank's Compensation and Insurance Committee; however, it is anticipated that restricted stock will be awarded, primarily, to promote the long-term interests of the Company by retaining key Bank employees and stock options will be awarded, primarily, to attract key Bank employees. The maximum number of stock options and restricted shares that may be awarded under the Plan, as adjusted for stock dividends, is 366,583. At December 31, 2006, 200,080 shares and/or options were available for award to employees.

Restricted stock awards cliff-vest after a three-year period and, therefore, the fair value of these awards will be recognized ratably over a three-year period as compensation expense. Stock options vest over a five-year period and expire at the end of ten-years. The fair value of these awards will be recognized ratably over the vesting period as compensation expense. At December 31, 2006, restricted stock awards of 10,150 shares of common stock and stock options representing 120,136 shares of common stock were outstanding. None of the restricted stock awards outstanding have vested as of December 31, 2006. Options representing 100,932 shares have vested as of December 31, 2006.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 14—Stock Based Compensation—(Continued)

Restricted stock-award activity is summarized in the following table:

	Number of shares	Weighted average fair value at date of grant
Outstanding at December 31, 2005	—	\$ —
Granted	10,150	17.97
Forfeited	—	—
Exercised	—	—
Outstanding at December 31, 2006	<u>10,150</u>	<u>\$ 17.97</u>

Stock options vest over a five-year period and expire ten years from the date of the grant. The exercise price of each option equals the fair market value of the Company's stock on the date of grant.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of options granted represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on historical volatility of the Company's stock. Historical forfeiture rate is nominal. Expected dividend yield reflects the Company's expected future dividend rates.

	Risk free interest rate	Expected life (years)	Expected volatility	Expected forfeiture rate	Expected dividend yield
Options granted in 2005	3.94%	7	21.86%	0.00%	1.00%
Options granted in 2006	4.49%	7	25.56%	0.00%	0.88%

Stock option activity is summarized in the following table:

	2006		2005	
	Shares actual	Weighted-average exercise price	Shares actual	Weighted-average exercise price
Outstanding options, beginning of year	139,079	\$ 9.69	137,072	\$ 9.62
Granted	3,675	\$ 17.35	2,205	\$ 12.74
Exercised	(18,702)	\$ 8.94	(63)	\$ 7.47
Forfeited	(3,916)	\$ 11.81	(134)	\$ 7.47
Outstanding options, end of year	<u>120,136</u>	\$ 9.95	<u>139,079</u>	\$ 9.69
Options exercisable at year end	<u>100,932</u>		<u>108,338</u>	
Weighted-average fair value of options granted during the year	<u>\$ 6.18</u>		<u>\$ 4.25</u>	

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 14—Stock Based Compensation—(Continued)

Options outstanding at December 31, 2006 were as follows:

	Options outstanding			Exercisable options			
	Number outstanding at end of year	Weighted-average remaining contractual life	Weighted-average exercise price	Intrinsic value of stock options	Number exercisable at end of year	Weighted-average exercise price	Intrinsic value of stock options
Price ranges							
(\$7.46)	20,637	3.96	\$ 7.46	\$ 223,294	20,637	\$ 7.46	\$223,289
(\$7.47 through \$11.36)	39,027	4.35	\$ 8.09	\$ 397,641	36,475	\$ 8.08	\$372,191
(\$11.37 through \$17.57)	60,472	5.00	\$ 12.00	\$ 380,032	43,820	\$ 11.51	\$296,776
TOTAL	<u>120,136</u>	<u>4.61</u>	<u>\$ 9.95</u>	<u>\$1,000,967</u>	<u>100,932</u>	<u>\$ 9.44</u>	<u>\$892,256</u>

For the year ended December 31, 2006 cash proceeds of \$167,162 were received from the exercise of options. It is the Company's policy to issue new shares for the exercise of stock options.

The pre-tax compensation expense yet to be recognized for stock-based awards that have been awarded but not vested is as follows:

	Stock options	Restricted stock	Total awards
2007	\$15,569	\$ 59,441	\$ 75,010
2008	8,099	58,443	66,542
2009	3,329	45,469	48,798
2010	993	—	993
2011	88	—	88
Total	<u>\$28,078</u>	<u>\$163,353</u>	<u>\$191,431</u>

The following table illustrates the effect of the change, from applying the original provisions of SFAS No. 123, to the adoption of SFAS No. 123(R), on the Company's results of operations for the year ended December 31, 2006.

	Using previous accounting	Equity-based compensation adjustments	As reported
Income before income taxes	\$4,171,475	\$ (41,183)	\$4,130,292
Income taxes	\$1,363,857	\$ (13,465)	\$1,350,392
Net income	<u>\$2,807,618</u>	<u>\$ (27,718)</u>	<u>\$2,779,900</u>
Basic earnings per share	\$ 1.26	\$ (0.02)	\$ 1.24
Diluted earnings per share	\$ 1.23	\$ (0.01)	\$ 1.22

Note 15—Common Stock

On April 19, 2005, the Board of Directors announced a 5% stock dividend on all common stock, effective to stockholders of record May 16, 2005, and issued June 15, 2005. All amounts per share and weighted-average shares outstanding for all periods presented have been retroactively adjusted to reflect the stock dividends. The Company recorded a transfer from retained earnings to common stock for the market value of the additional shares issued at May 16, 2005.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 15—Common Stock—(Continued)

On April 18, 2006, the Board of Directors announced a 5% stock dividend on all common stock, effective to stockholders of record May 15, 2006, and issued June 15, 2006. All amounts per share and weighted-average shares outstanding for all periods presented have been retroactively adjusted to reflect the stock dividends. The Company recorded a transfer from retained earnings to common stock for the market value of the additional shares issued at May 15, 2006.

During 2006 and 2005, the Board of Directors voted to issue 3,700 shares of Company stock to nonemployee Directors pursuant to the Company's Director Compensation Plan.

Note 16—Related Party Transactions

The Company, through its Bank subsidiary, has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families, and affiliated companies in which they are principal stockholders. Aggregate loan balances with related parties at December 31, 2006 and 2005, were \$2,363,141 and \$2,053,487, respectively. During the years ended December 31, 2006 and 2005, total principal additions were \$673,262 and \$1,994,109 and total principal payments were \$363,608 and \$2,250,859, respectively. Aggregate deposit balances with related parties at December 31, 2006 and 2005, were \$2,200,330 and \$1,552,675, respectively. All related party loans and deposits which have been made, in the opinion of management, are on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Note 17—Restrictions on Dividends and Retained Earnings

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Company. The total amount of dividends, which may be paid at any date, is generally limited to the retained earnings of the Bank, which was \$13,556,684 at December 31, 2006. Accordingly, \$12,864,293 of the Company's equity in the net assets of the Bank was restricted at December 31, 2006.

In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

Note 18—Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines on the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined). Under the regulatory framework for prompt corrective action, the Bank must maintain minimum Tier 1 leverage, Tier 1 risk-based, and total risk-based ratios as set forth in the table.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 18—Regulatory Capital Requirements—(Continued)

As of December 31, 2006, the most recent notification from the Bank's regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's and Bank's actual December 31, 2006 and 2005, capital amounts and ratios are also presented in the table:

	Actual		Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2006						
Total capital (to risk-weighted assets):						
Northwest Bancorporation	\$32,496,000	13.95%	\$18,633,360	≥ 8%	NA	NA
Inland Northwest Bank	29,396,000	12.66%	18,576,240	≥ 8%	\$23,220,300	≥ 10%
Tier 1 capital (to risk-weighted assets):						
Northwest Bancorporation	29,710,000	12.76%	9,316,680	≥ 4%	NA	NA
Inland Northwest Bank	26,610,000	11.46%	9,288,120	≥ 4%	13,932,180	≥ 6%
Tier 1 capital (to average assets):						
Northwest Bancorporation	29,710,000	10.82%	10,980,200	≥ 4%	NA	NA
Inland Northwest Bank	26,610,000	9.69%	10,980,200	≥ 4%	13,725,250	≥ 5%
December 31, 2005						
Total capital (to risk-weighted assets):						
Northwest Bancorporation	\$29,373,000	14.70%	\$15,988,480	≥ 8%	NA	NA
Inland Northwest Bank	23,987,000	12.03%	15,945,760	≥ 8%	\$19,932,200	≥ 10%
Tier 1 capital (to risk-weighted assets):						
Northwest Bancorporation	26,943,000	13.48%	7,994,240	≥ 4%	NA	NA
Inland Northwest Bank	21,557,000	10.82%	7,972,880	≥ 4%	11,959,320	≥ 6%
Tier 1 capital (to average assets):						
Northwest Bancorporation	26,943,000	10.97%	9,828,480	≥ 4%	NA	NA
Inland Northwest Bank	21,557,000	8.77%	9,828,480	≥ 4%	12,285,600	≥ 5%

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 19—Earnings Per Share

Earnings per share and the calculated effect of dilutive securities on earnings per share is as follows:

	<u>Year Ended December 31, 2006</u>		
	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic EPS			
Income available to common stockholders	<u>\$2,779,900</u>	2,236,460	<u>\$ 1.24</u>
Effect of Dilutive Securities			
Stock options		<u>40,463</u>	
Diluted EPS			
Income available to common stockholders plus assumed conversions	<u>\$2,779,900</u>	<u>2,276,923</u>	<u>\$ 1.22</u>
	<u>Year Ended December 31, 2005</u>		
	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic EPS			
Income available to common stockholders	<u>\$2,160,213</u>	2,213,051	<u>\$ 0.98</u>
Effect of Dilutive Securities			
Stock options		<u>48,531</u>	
Diluted EPS			
Income available to common stockholders plus assumed conversions	<u>\$2,160,213</u>	<u>2,261,582</u>	<u>\$ 0.96</u>

The Company’s stock (stock symbol: NBCT) is quoted on various Internet listing services, including the OTC Bulletin Board (www.otcbb.com) where a list of market makers is also detailed. The average market price per share used in the determination of the dilutive effect of stock options was the average price of daily closing market values throughout the year.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 20—Fair Value of Financial Instruments

The estimated fair values of the Bank's financial instruments were as follows at December 31:

	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 12,200,298	\$ 12,200,298	\$ 8,541,929	8,541,929
Federal funds sold	167,895	167,895	2,028,408	2,028,408
Securities available for sale	31,337,393	31,337,393	32,200,153	32,200,153
Securities held to maturity	3,971,864	3,971,944	4,088,517	4,075,613
Federal Home Loan Bank stock	645,900	645,900	645,900	645,900
Loans and loans held for sale, net	216,696,725	215,643,179	186,465,944	185,610,905
Bank owned life insurance	3,432,503	3,432,503	3,313,771	3,313,771
Financial Liabilities:				
Federal funds purchased	3,630,000	3,630,000	—	—
Borrowed funds	12,160,171	12,148,494	12,569,338	12,576,963
Deposits	210,932,995	210,810,717	192,042,730	192,294,552
Securities sold under agreements to repurchase	25,783,940	25,783,940	17,754,671	17,754,671

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, and funds sold:

The carrying amount approximates fair value because of the short maturity of these investments.

Securities available for sale, securities held to maturity, and other investments:

The fair values of marketable securities are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans receivable:

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, real estate, consumer, credit card, and other. Each loan category is further segmented into fixed and adjustable rate interest terms. The fair values for fixed-rate loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values.

Federal funds purchased:

The carrying amount approximates fair value.

Bank owned life insurance:

The carrying amount "(the cash surrender value)" approximates fair value.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 20—Fair Value of Financial Instruments—(Continued)

Deposits and securities sold under agreements to repurchase:

The fair value of demand deposits, savings accounts, NOW, securities sold under agreements to repurchase and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowed funds:

The fair values of the Bank's long-term debt are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

The junior subordinated debentures detailed in Note 8 carry a fixed rate of interest of 5.95% through June 30, 2010. Subsequent to that date, assuming the Company does not redeem the debentures, the rate of interest is reset quarterly to equal three-month LIBOR plus 1.70%.

Off-balance-sheet instruments:

Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. The fair value of the fees at December 31, 2006 and 2005, were insignificant. See Note 10 for the notional amount of the commitments to extend credit.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 21: Northwest Bancorporation, Inc. (NBCT)

(PARENT COMPANY ONLY)

Summary financial information is as follows (in thousands):

NBCT Statements of Financial Condition	December 31,		
	2006	2005	2004
ASSETS			
Cash	\$ 2,541	\$ 5,006	\$ 106
Investment in trust equities	155	155	—
Investment in subsidiaries	26,420	21,302	19,754
Deferred tax asset	36	40	45
Other equity securities	250	250	—
Other assets	273	88	102
TOTAL ASSETS	29,675	26,841	20,007
LIABILITIES AND STOCKHOLDERS' EQUITY			
Other liabilities	—	—	46
Junior subordinated debentures	5,155	5,155	—
Stockholders' equity	24,520	21,686	19,961
TOTAL LIABILITIES AND EQUITY CAPITAL	\$29,675	\$26,841	\$20,007
NBCT Statements of Income	For the year ended December 31,		
	2006	2005	2004
INTEREST INCOME:			
Interest bearing deposits	\$ 114	\$ 60	\$ 2
OTHER INCOME (EXPENSE):			
Dividend income from subsidiaries	—	530	230
Equity in undistributed income of subsidiaries	2,954	1,757	1,790
Interest on other borrowings	(313)	(163)	—
Other income	—	—	1
Other expense	(69)	(90)	(88)
	2,686	2,094	1,935
PROVISION FOR (BENEFIT FROM) INCOME TAXES	(94)	(66)	(29)
NET INCOME	\$ 2,780	\$ 2,160	\$ 1,964

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NBCT Statements of Cash Flows	For the year ended December 31,		
	2006	2005	2004
OPERATING ACTIVITIES:			
Net income	\$ 2,780	\$ 2,160	\$ 1,964
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(2,954)	(1,757)	(1,790)
Amortization, shareholder accounting software	2	2	—
(Increase) decrease in deferred taxes	4	5	5
Equity-based compensation expense	41	—	—
(Increase) decrease in other assets	(187)	12	20
Increase (decrease) in other liabilities	—	(46)	(149)
Net cash provided (used) by operating activities	(314)	376	50
INVESTING ACTIVITIES:			
Funds invested in equity securities	—	(250)	—
Funds invested in trust equities	—	(155)	—
Additional funds invested in subsidiaries	(2,100)	—	—
Net cash provided (used) by investing activities	(2,100)	(405)	—
FINANCING ACTIVITIES:			
Proceeds from issuance of junior subordinated debentures	—	5,155	—
Issuance of stock	69	61	54
Stock repurchase	(3)	—	—
Net proceeds from exercise of stock options	167	—	55
Excess tax benefits, equity-based compensation	56	—	—
Other	2	(2)	1
Cash dividends paid, including fractional shares paid in cash	(342)	(285)	(232)
Net cash provided (used) by financing activities	(51)	4,929	(122)
NET INCREASE (DECREASE) IN CASH	(2,465)	4,900	(72)
CASH, BEGINNING OF PERIOD	5,006	106	178
CASH, END OF PERIOD	\$ 2,541	\$ 5,006	\$ 106
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	\$ 313	\$ 163	\$ —
Taxes paid	\$ 1,479	\$ 1,116	\$ 688

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
INDEPENDENT AUDITOR'S REPORT and FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Northwest Bancorporation, Inc.
and Subsidiary
Spokane, Washington

We have audited the accompanying consolidated statements of financial condition of Northwest Bancorporation, Inc. and subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated financial position of Northwest Bancorporation, Inc. and subsidiary as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ MOSS ADAMS LLP

Spokane, Washington
March 21, 2006

**NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	December 31,	
	2005	2004
ASSETS		
Cash and due from banks	\$ 8,336,707	\$ 7,736,465
Interest bearing deposits in other institutions	205,222	2,448,852
Federal funds sold	2,028,408	1,053,845
Securities available for sale	32,200,153	38,261,258
Securities held to maturity, fair value 2005 \$4,075,613 and 2004 \$2,738,277	4,088,517	2,706,435
Federal Home Loan Bank stock, at cost	645,900	643,300
Loans receivable, net of allowance for loan losses 2005 \$2,252,329; 2004 \$1,943,760	186,317,944	157,438,241
Loans held for sale	148,000	623,263
Premises and equipment, net	5,650,373	4,357,980
Accrued interest receivable	1,040,207	831,148
Foreclosed real estate and other repossessed assets	16,521	722,535
Bank owned life insurance	3,313,771	3,192,722
Other assets	1,473,254	456,217
TOTAL ASSETS	<u>\$245,464,977</u>	<u>\$220,472,261</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$192,042,730	\$177,036,655
Securities sold under agreements to repurchase	17,754,671	12,995,813
Accrued interest and other liabilities	1,411,870	1,283,650
Borrowed funds	12,569,338	9,194,661
Total liabilities	<u>223,778,609</u>	<u>200,510,779</u>
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY		
Common stock, no par value, authorized 5,000,000 shares; issued and outstanding 2,108,864 and 2,004,901 shares	18,636,573	16,943,428
Retained earnings	3,306,113	3,063,164
Accumulated comprehensive loss	(256,318)	(45,110)
Total stockholders' equity	<u>21,686,368</u>	<u>19,961,482</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$245,464,977</u>	<u>\$220,472,261</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Interest Income:		
Loans receivable, including fees	\$12,288,752	\$ 9,764,294
Investment securities:		
U.S. government agency securities	1,159,119	1,342,252
U.S. treasury securities	140,506	113,728
Other securities	150,697	174,685
Federal funds sold and interest bearing deposits	171,868	130,926
Total interest income	<u>13,910,942</u>	<u>11,525,885</u>
Interest Expense:		
Deposits	3,393,232	2,435,016
Borrowed funds and securities sold under agreements to repurchase	953,741	463,718
Total interest expense	<u>4,346,973</u>	<u>2,898,734</u>
Net interest income	9,563,969	8,627,151
Provision for loan losses	324,000	170,000
Net interest income after provision for loan losses	<u>9,239,969</u>	<u>8,457,151</u>
Noninterest Income:		
Service charges on deposits	953,605	1,020,469
Net gains from sale of loans	402,174	498,563
Gain on sale of securities	—	36,745
Other income	616,279	499,395
	<u>1,972,058</u>	<u>2,055,172</u>
Noninterest Expense:		
Salaries and employee benefits	4,565,934	4,468,202
Occupancy expense	769,269	713,580
Equipment expense	476,068	513,304
Loss on foreclosed real estate and other repossessed assets	158,991	37,856
Other operating expenses	2,061,008	1,889,624
	<u>8,031,270</u>	<u>7,622,566</u>
Net income before income taxes	3,180,757	2,889,757
Income tax expense	1,020,544	925,440
NET INCOME	<u>\$ 2,160,213</u>	<u>\$ 1,964,317</u>
Basic earnings per share	<u>\$ 1.02</u>	<u>\$ 0.94</u>
Diluted earnings per share assuming full dilution	<u>\$ 1.00</u>	<u>\$ 0.92</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Retained Earnings	Accumulated Comprehensive Income (Loss)	Total	Comprehensive Income
	Shares	Amount				
Balance, December 31, 2003	1,898,772	\$15,332,345	\$ 2,832,316	\$ 339,103	\$18,503,764	
Net income	—	—	1,964,317	—	1,964,317	\$ 1,964,317
Stock sold	7,504	54,979	—	—	54,979	
Stock issued to directors	3,700	54,390	—	—	54,390	
5% stock dividend	94,925	1,501,714	(1,501,714)	—	—	
Fractional shares paid in cash	—	—	(3,417)	—	(3,417)	
Cash dividend (\$0.12 per share)	—	—	(228,338)	—	(228,338)	
Net change in unrealized loss on available for sale securities, net of taxes	—	—	—	(384,213)	(384,213)	(384,213)
Comprehensive income						\$ 1,580,104
Balance, December 31, 2004	2,004,901	16,943,428	3,063,164	(45,110)	19,961,482	
Net income	—	—	2,160,213	—	2,160,213	\$ 2,160,213
Stock sold	60	494	—	—	494	
Stock issued to directors	3,700	60,347	—	—	60,347	
5% stock dividend	100,203	1,632,304	(1,632,304)	—	—	
Fractional shares paid in cash	—	—	(3,417)	—	(3,417)	
Cash dividend (\$0.14 per share)	—	—	(281,543)	—	(281,543)	
Net change in unrealized loss on available for sale securities, net of taxes	—	—	—	(211,208)	(211,208)	(211,208)
Comprehensive income						\$ 1,949,005
Balance, December 31, 2005	<u>2,108,864</u>	<u>\$18,636,573</u>	<u>\$ 3,306,113</u>	<u>\$ (256,318)</u>	<u>\$21,686,368</u>	

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,160,213	\$ 1,964,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	458,610	449,047
Provision for loan losses	324,000	170,000
Provision for losses on foreclosed real estate and other repossessed assets	125,406	70,000
Accretion of securities discounts	(74,232)	(98,268)
Amortization of securities premiums	2,475	106,492
Increase in cash surrender value of bank owned life insurance	(121,049)	(100,637)
Loss on disposal of assets	1,074	14,201
Net loss (gain) on sale of foreclosed real estate and other repossessed assets	33,585	(32,144)
Stock dividends received	(2,600)	(18,000)
Deferred income taxes	(139,200)	191,234
Net gain on sale of securities	—	(36,745)
Change in assets and liabilities:		
Accrued interest receivable	(209,059)	(6,690)
Other assets	(769,033)	90,657
Loans held for sale	475,263	(177,018)
Accrued interest and other liabilities	128,220	343,183
Net cash provided by operating activities	<u>2,393,673</u>	<u>2,929,629</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in federal funds sold	(974,563)	3,946,155
Securities available for sale:		
Proceeds from maturities and principal payments	15,531,545	36,539,886
Proceeds from sales	—	1,062,187
Purchases	(9,698,592)	(43,919,913)
Securities held to maturity:		
Proceeds from maturities and principal payments	335,000	825,000
Purchases	(1,737,185)	(1,819,586)
Purchases of premises and equipment	(1,153,923)	(1,121,537)
Proceeds from sale of premises and equipment	2,250	—
Proceeds from sale of foreclosed real estate and other repossessed assets	584,023	1,178,573
Purchases of bank owned life insurance	—	(750,000)
Net increase in loans	<u>(29,240,703)</u>	<u>(9,273,977)</u>
Net cash used by investing activities	<u>(26,352,148)</u>	<u>(13,333,212)</u>

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS—(Continued)

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	\$15,006,075	\$11,005,755
Net increase (decrease) in securities sold under agreements to repurchase	4,758,858	(4,210,643)
Proceeds from issuance of common stock	60,841	109,369
Payment of fractional shares	(3,417)	(3,417)
Payment of cash dividends	(281,543)	(228,338)
Proceeds from issuance of borrowed funds	7,000,000	—
Proceeds from issuance of junior subordinated debentures	5,155,000	—
Repayment of borrowed funds	(5,400,336)	(2,648,011)
Net increase (decrease) in structured notes	(3,980,391)	3,980,391
Net cash provided by financing activities	<u>22,315,087</u>	<u>8,005,106</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,643,388)	(2,398,477)
Cash and cash equivalents, beginning of year	<u>10,185,317</u>	<u>12,583,794</u>
Cash and cash equivalents, end of year	<u>\$ 8,541,929</u>	<u>\$10,185,317</u>
SUPPLEMENTAL CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	\$ 4,214,860	\$ 2,820,706
Income taxes	\$ 1,126,308	\$ 713,631
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Net change in unrealized loss on securities available for sale	\$ (320,012)	\$ (582,141)
Acquisition of real estate and other repossessed assets in settlement of loans	\$ 37,000	\$ 106,879
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES		
Premises acquired through capital lease obligation	\$ 600,404	\$ —

See accompanying notes.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies

Basis of presentation and consolidation:

The consolidated financial statements include the accounts of Northwest Bancorporation, Inc. (the Corporation) and its wholly-owned subsidiary, Inland Northwest Bank (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of business:

The Bank is a state chartered commercial bank under the laws of the state of Washington, and provides banking services primarily in eastern Washington and northern Idaho. The Corporation and its subsidiary are subject to competition from other financial institutions, as well as nonfinancial intermediaries. The Corporation and its subsidiary are also subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

Use of estimates:

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities as of the date of the consolidated statements of financial condition and certain revenues and expenses for the period. Actual results could differ, either positively or negatively, from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of deferred taxes, the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures, or in satisfaction of loans, and stock options.

Management believes that the allowance for loan losses and other real estate owned is adequate. While management uses currently available information to recognize losses on loans and other real estate (when owned), future additions to the allowances may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and other real estate owned. Such agencies may require the Bank to recognize additions to the allowances based on their judgments of information available to them at the time of their examination.

Cash and cash equivalents:

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in the statement of financial condition caption "cash and due from banks" and "interest-bearing deposits in other institutions," which mature within 90 days. Cash and cash equivalents on deposit with other financial institutions periodically exceed the federal insurance limit.

Securities held to maturity:

Bonds for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity or call date if it is probable that the security will be called.

Securities available for sale:

Securities available for sale consist of bonds, notes and mortgage-backed securities not classified as securities held to maturity. Unrealized holding gains and losses, net of tax, on securities available for sale are

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

reported as a net amount in accumulated comprehensive income. Gains and losses on the sale of securities available for sale are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity or call date if it is probable that the security will be called.

Declines in the fair value of individual held to maturity and available for sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. No such write-downs have occurred.

Loans held for sale:

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income. Gains or losses on the sale of such loans are based on the specific identification method.

Loans:

The Corporation grants mortgage, commercial, and consumer loans to its customers. A substantial portion of the loan portfolio is represented by loans throughout eastern Washington and northern Idaho. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Management may also discontinue accrual of interest if management feels the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income, with interest income subsequently recognized only to the extent cash payments are received. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

In the ordinary course of business, the Corporation has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Allowance for loan losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments, principal, or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and equipment:

Buildings, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization over estimated useful lives or the related lease terms of the assets, which range from 3 to 39 years. Land is carried at cost. Depreciation and amortization expense is calculated using the straight-line method for financial statement purposes. Normal costs of maintenance and repairs are charged to expense as incurred.

Foreclosed real estate and other repossessed assets:

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less selling cost. An allowance for impairment losses is used for fluctuations in estimated fair value.

Income taxes:

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Stock compensation plan:

At December 31, 2005, the Corporation has a nonqualified stock option plan for key employees, which is described more fully in Note 14. The Corporation accounts for this plan under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations. No stock-based compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of the

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

grant. The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of Financial Accounting Standards Board (“FASB”) Statement No. 123 *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

The fair value assumptions for options granted in 2005 are based on a risk-free interest rate of 3.94%, 7 year expected life, 21.68% expected volatility and a 1.00% expected dividend rate. The fair value assumptions for options granted in 2004 are based on a risk-free interest rate of 3.92%, 7 year expected life, 12.60% expected volatility and a 1.02% expected dividend rate.

	December 31,	
	2005	2004
Net income, as reported	\$2,160,213	\$1,964,317
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(26,816)	(27,355)
Pro forma net income	\$2,133,397	\$1,936,962
Earnings per share:		
Basic, as reported	\$ 1.02	\$ 0.94
Basic, pro forma	\$ 1.01	\$ 0.92
Diluted, as reported	\$ 1.00	\$ 0.92
Diluted, pro forma	\$ 0.99	\$ 0.91

Earnings per share:

Earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Earnings per share assuming full dilution reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation related solely to outstanding stock options, and are determined using the treasury stock method (see Note 20).

Comprehensive income:

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as separate components of the equity section of the balance sheet, such items, along with net income are components of comprehensive income.

The components of other comprehensive income and related tax effects are as follows:

	Years Ended December 31	
	2005	2004
Unrealized holding losses on available for sale securities	\$(320,012)	\$(545,396)
Reclassification adjustment for gains realized in income	—	(36,745)
Net unrealized losses	(320,012)	(582,141)
Tax effect	108,804	197,928
NET OF TAX AMOUNT	\$(211,208)	\$(384,213)

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 1—Summary of Significant Accounting Policies—(Continued)

New accounting pronouncements:

SFAS No. 123—R (Revised 2004) is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions.

Advertising costs:

Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2005 and 2004, was \$139,218 and \$130,070, respectively.

Note 2—Investments in Securities

Securities held by the Corporation have been classified in the consolidated statement of financial condition according to management's intent. The amortized cost of securities and their approximate fair values at December 31, 2005 and 2004, were as follows:

	December 31, 2005			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities available for sale:				
U.S. government agency securities	\$25,695,000	\$ 1,312	\$(390,073)	\$25,306,239
U.S. treasury securities	5,129,924	—	(10,304)	5,119,620
Corporate debt obligations	494,357	—	(39,167)	455,190
Mortgage backed securities	1,269,232	49,872	—	1,319,104
	<u>\$32,588,513</u>	<u>\$ 51,184</u>	<u>\$(439,544)</u>	<u>\$32,200,153</u>
	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. government agency securities	\$29,691,578	\$ 28,819	\$(176,033)	\$29,544,364
U.S. treasury securities	5,202,991	7,568	(11,072)	5,199,487
Corporate debt obligations	1,483,750	—	(23,635)	1,460,115
Mortgage backed securities	1,951,287	106,005	—	2,057,292
	<u>\$38,329,606</u>	<u>\$142,392</u>	<u>\$(210,740)</u>	<u>\$38,261,258</u>
	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity:				
State and municipal securities	<u>\$ 4,088,517</u>	<u>\$ 22,999</u>	<u>\$(35,903)</u>	<u>\$ 4,075,613</u>
	December 31, 2004			
State and municipal securities	<u>\$ 2,706,435</u>	<u>\$ 42,659</u>	<u>\$(10,817)</u>	<u>\$ 2,738,277</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 2—Investments in Securities—(Continued)

The following table shows the investments' gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2005.

	December 31, 2005					
	Impaired Less Than 12 Months		Impaired 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agency securities	\$ 9,620,403	\$(129,598)	\$15,284,525	\$(260,475)	\$24,904,928	\$(390,073)
U.S. treasury securities	4,122,120	(7,605)	997,500	(2,699)	5,119,620	(10,304)
Corporate debt obligations	—	—	455,190	(39,167)	455,190	(39,167)
State and municipal securities	2,322,092	(28,795)	513,892	(7,108)	2,835,984	(35,903)
	<u>\$16,064,615</u>	<u>\$(165,998)</u>	<u>\$17,251,107</u>	<u>\$(309,449)</u>	<u>\$33,315,722</u>	<u>\$(475,447)</u>

Management has evaluated the above securities and does not believe that any individual unrealized loss as of December 31, 2005, represents an other-than-temporary impairment. The decline in fair market value of these securities is generally due to changes in interest rates since purchase and is not related to any known decline in the creditworthiness of the issuer. At December 31, 2005, forty-nine securities have unrealized losses.

At December 31, 2005 and 2004, securities available for sale with an amortized cost of \$21,697,664 and \$21,747,662, respectively, were pledged to secure the Bank's performance of its obligations under repurchase agreements. The market value of these securities was \$21,387,660 and \$21,690,706 at December 31, 2005 and 2004, respectively. Securities held to maturity with an amortized cost of \$521,660 and \$0 at December 31, 2005 and 2004, respectively, were pledged to secure the Bank's performance of its obligations under repurchase agreements. The market value of these securities was \$514,861 and \$0 at December 31, 2005 and 2004, respectively. Securities available for sale with an amortized cost of \$2,110,925 and \$2,255,847 at December 31, 2005 and 2004, respectively, were pledged to secure public deposits for purposes required or permitted by law. The market value of these securities was \$2,094,230 and \$2,258,578 at December 31, 2005 and 2004, respectively. Securities available for sale with an amortized cost of \$5,879,924 and \$5,952,991 at December 31, 2005 and 2004, respectively, were pledged to the Federal Reserve Bank. The market value of these securities was \$5,857,433 and \$5,955,112 at December 31, 2005 and 2004, respectively.

For the years ended December 31, 2005 and 2004, proceeds from sales of securities available for sale amounted to \$0 and \$1,062,187, respectively. Gross realized gains during the years ended December 31, 2005 and 2004, were \$0 and \$36,745, respectively. Gross realized losses were \$0 for both the years ended December 31, 2005 and 2004.

The scheduled maturities of securities held to maturity and securities available for sale at December 31, 2005, are as follows:

	Held to maturity		Available for sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 535,512	\$ 534,483	\$ 7,629,924	\$ 7,604,370
Due from one year to five years	833,182	822,077	7,000,000	6,908,890
Due from five to ten years	1,967,087	1,959,533	9,150,000	8,993,775
Due after ten years	752,736	759,520	7,539,357	7,374,014
Mortgage backed securities	—	—	1,269,232	1,319,104
	<u>\$4,088,517</u>	<u>\$4,075,613</u>	<u>\$32,588,513</u>	<u>\$32,200,153</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 3—Federal Home Loan Bank Stock (FHLB)

The Corporation's investment in the Federal Home Loan Bank of Seattle (class B1 stock) is carried at par value (\$100 per share), which reasonably approximates its fair value. As a member of the FHLB system, the Corporation is required to maintain a minimum level of investment in FHLB stock based on specified percentages of its outstanding FHLB advances. The Corporation may request redemption at par value of any stock in excess of the amount the Corporation is required to hold. Stock redemptions are at the discretion of the FHLB and generally require five years prior written notice to FHLB.

The Seattle FHLB is regulated by the Federal Housing Finance Board (the "Finance Board"). In connection with a 2004 examination, the Seattle FHLB presented a three-year business and capital management plan to the Finance Board's Office of Supervision. The Finance Board accepted the plan subject to certain restrictions on stock repurchases and dividend payments. The Seattle FHLB did not pay dividends on its stock in 2005 but may, according to Management's Discussion and Analysis contained in its Third Quarter 2005 Report, seek a waiver allowing the payment of dividends in 2006, provided that they are profitable.

Note 4—Loans Receivable and Allowance for Loan Losses

The components of loans in the consolidated statement of financial condition were as follows:

	December 31,	
	2005	2004
Commercial	\$124,611,102	\$121,819,636
Real estate	50,162,043	25,644,322
Installment	5,079,144	4,367,881
Consumer and other	8,990,996	7,878,430
	<u>188,843,285</u>	<u>159,710,269</u>
Allowance for loan losses	(2,252,329)	(1,943,760)
Net deferred loan fees	(273,012)	(328,268)
	<u>\$186,317,944</u>	<u>\$157,438,241</u>

An analysis of the change in the allowance for loan losses follows:

	December 31,	
	2005	2004
Balance, beginning of year	\$1,943,760	\$2,042,129
Reverse prior year reclassification of reserve for probable losses on unused loan commitments and off-balance sheet items.	206,080	182,036
Balance, beginning of year, including OBS reserve	2,149,840	2,224,165
Provision charged to operations	324,000	170,000
Loans charged off, net of recoveries	(43,321)	(244,325)
Balance, end of year, prior to adjustment for off-balance sheet items	<u>2,430,519</u>	<u>2,149,840</u>
Reclassification of reserve for probable losses on unused loan commitments and off-balance sheet items to "Accrued interest payable and other liabilities"	(178,190)	(206,080)
Balance, end of year	<u>\$2,252,329</u>	<u>\$1,943,760</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4—Loans Receivable and Allowance for Loan Losses—(Continued)

The loans fall into the following fixed and variable components:

	December 31,	
	2005	2004
Fixed rate loans	\$ 53,476,753	\$ 41,169,490
Variable rate loans	<u>135,366,532</u>	<u>118,540,779</u>
	<u>\$188,843,285</u>	<u>\$159,710,269</u>

Impairment of loans having recorded investments of \$634,876 and \$666,646 at December 31, 2005 and 2004, respectively, has been recognized in conformity with FASB Statement No. 114 as amended by FASB Statement No. 118. The total allowance for loan losses related to these loans was \$309,290 and \$303,742 at December 31, 2005 and 2004, respectively. The Bank is not committed to lend additional funds to debtors whose loans have been modified. The average recorded investment in impaired loans during the years ended December 31, 2005 and 2004, was \$678,399 and \$705,903, respectively. Interest income on impaired loans of \$7,923 and \$21,169 was recognized for cash payments received in 2005 and 2004, respectively. The Corporation had \$405,168 and \$531,204 of loans placed on nonaccrual at December 31, 2005 and 2004, respectively. Loans over 90 days past due and still on accrual status were \$19,333 and \$15,993 at December 31, 2005 and 2004, respectively.

Note 5—Premises and Equipment

Components of premises and equipment included in the consolidated statement of financial condition at December 31, 2005 and 2004, were as follows:

	December 31,	
	2005	2004
Premises	\$ 1,588,103	\$ 1,577,834
Furniture, fixtures and equipment	3,921,946	3,640,626
Leasehold improvements	<u>1,880,341</u>	<u>1,796,503</u>
	7,390,390	7,014,963
Less accumulated depreciation and amortization	<u>(4,000,743)</u>	<u>(3,590,029)</u>
	3,389,647	3,424,934
Land	1,816,334	900,868
Construction in progress	<u>444,392</u>	<u>32,178</u>
Premises and equipment, net	<u>\$ 5,650,373</u>	<u>\$ 4,357,980</u>

Depreciation and amortization expense was \$458,610 and \$449,047 for the years ended December 31, 2005 and 2004, respectively.

The Corporation has operating leases on a number of its branches that expire on various dates through 2009. The lease agreements have various renewal options.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 5—Premises and Equipment—(Continued)

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2005:

Year ending December 31,	
2006	\$346,284
2007	227,294
2008	205,338
2009	103,998
TOTAL MINIMUM PAYMENTS REQUIRED	<u>\$882,914</u>

Total lease payments under the above mentioned operating leases and other month-to-month rentals for the years ended December 31, 2005 and 2004, were \$389,781 and \$370,915, respectively.

The Corporation acquired \$600,404 in land under a capital lease agreement that expires in 2031. The minimum annual lease commitments under this capital lease agreement are summarized as follows:

Year ending December 31,	
2006	\$ 43,000
2007	48,000
2008	48,000
2009	48,000
2010	49,500
Thereafter	<u>1,105,417</u>
	1,341,917
Less amount representing interest	<u>742,513</u>
PRESENT VALUE OF LEASE PAYMENTS	<u>\$ 599,404</u>

Note 6—Foreclosed Real Estate and Other Repossessed Assets

An allowance for losses on foreclosed real estate and other repossessed assets has been established. Activity in the account is as follows:

	2005	2004
Balance, beginning of year	\$ 125,000	\$105,000
Charge offs	(250,406)	(50,000)
Provision charged to income	<u>125,406</u>	<u>70,000</u>
Balance, end of year	<u>\$ —</u>	<u>\$125,000</u>

Included in the losses on foreclosed real estate and other repossessed assets in the consolidated statement of income for the years ending December 31, 2005 and 2004, are impairment losses of \$125,406 and \$70,000, respectively, on real estate and other repossessed assets held for sale. Realized gains (losses) of \$(33,585) and \$32,144 are included in (gain) loss on foreclosed real estate and other repossessed assets for the years ended December 31, 2005 and 2004, respectively.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 7—Deposits

Major classifications of deposits at December 31, 2005 and 2004, were as follows:

	<u>2005</u>	<u>2004</u>
Demand deposits	\$ 49,107,178	\$ 38,872,020
Money market	44,899,228	53,604,746
NOW accounts	13,037,717	14,233,027
Savings deposits	8,245,679	7,261,848
Time deposits, \$100,000 and over	29,310,784	23,747,541
Other time deposits	47,442,144	39,317,473
	<u>\$192,042,730</u>	<u>\$177,036,655</u>

Maturities for time deposits at December 31, 2005, are summarized as follows:

Maturing one year or less	\$31,729,840
Maturing one to five years	44,912,745
Maturing five to ten years	110,343
	<u>\$76,752,928</u>

Overdraft deposit accounts with balances of \$49,611 and \$28,606 at December 31, 2005 and 2004, respectively, were reclassified as loans receivable.

Note 8—Borrowed Funds

In June 2005, the Corporation issued junior subordinated debentures aggregating \$5,155,000 to Northwest Bancorporation Capital Trust I, with interest fixed at 5.95% through June 30, 2010, thereafter re-pricing quarterly at three-month LIBOR plus 1.70%. The Trust issued \$155,000 of common securities to the Corporation and capital securities with an aggregate liquidation amount of \$5,000,000 (\$1,000 per capital security) to third-party investors. The common securities are included in "Other assets" on the statement of financial condition; the subordinated debentures are included in "Borrowed funds." The subordinated debentures are includable as Tier I capital for regulatory purposes. The subordinated debentures and the capital securities pay interest and dividends, respectively, on a quarterly basis, which are included in interest expense. The subordinated debentures will mature on June 30, 2035, at which time the capital securities must be redeemed. The subordinated debentures and capital securities can be redeemed, in whole or in part, beginning June 30, 2010, at a redemption price of \$1,000 per capital security. The Corporation has provided a full and unconditional guarantee of the obligations of the Trust under the capital securities in the event of default. Northwest Bancorporation Capital Trust I is not consolidated in these financial statements. Pursuant to FIN 46R, the Corporation reports the junior subordinated debentures within the liabilities section of the statement of financial condition.

Other borrowed funds consist primarily of Federal Home Loan Bank advances and structured notes. Federal Home Loan Bank advances are secured by a blanket pledge on Bank assets and specifically by loans with a carrying value of \$46,428,544 at December 31, 2005.

In 2004, the Bank entered into certain non-recourse loan participation sold agreements with other financial institutions. Those participation agreements contained call options which provided the Corporation contractual rights to repurchase the participated interest in the loans at any time. In accordance with SFAS 140, the participated interest was included as structured notes in borrowed funds on the consolidated statement of financial condition as of December 31, 2004.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 8—Borrowed Funds—(Continued)

Total borrowed funds consist of the following at December 31:

<u>Advance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>2005</u>	<u>2004</u>
07/29/97	07/29/27	6.60%	\$ 45,778	\$ 47,891
04/20/98	04/19/13	6.15%	1,151,415	1,259,706
05/11/98	05/11/28	6.28%	100,372	101,918
08/19/98	08/18/28	6.09%	103,253	104,925
02/11/02	02/09/07	5.05%	2,500,000	2,500,000
02/11/02	02/11/09	4.94%	914,116	1,199,830
04/11/05	04/09/10	4.64%	2,000,000	—
Total Federal Home Loan Bank advances			6,814,934	5,214,270
Structured notes			—	3,980,391
Junior subordinated debentures			5,155,000	—
Capital lease obligation (see Note 5)			599,404	—
TOTAL BORROWED FUNDS			12,569,338	9,194,661

The scheduled maturities of the Federal Home Loan Bank advances at December 31, 2005, are as follows:

<u>Years Ending December 31,</u>	<u>Weighted- Average Interest Rate</u>	<u>Amount</u>
2006	5.31%	\$ 409,166
2007	5.33%	419,863
2008	5.09%	2,931,503
2009	5.84%	215,429
2010	4.76%	2,172,239
Thereafter	6.18%	666,734
		<u>\$6,814,934</u>

Note 9—Securities Sold Under Repurchase Agreements

Securities sold under agreements to repurchase generally mature within one to four days from the transaction date. For the year, securities sold under agreements to repurchase averaged \$14,873,831; the high balance during the year was \$20,538,659. The average rate paid during the year was 2.67%. Securities underlying the agreements are presented in Note 2. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Corporation may be required to provide additional collateral based on the fair value of the underlying securities.

Note 10—Commitments and Contingencies

The Bank is a party to various legal collection actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition of Northwest Bancorporation.

The Bank has three unsecured operating lines of credit with KeyBank of Washington for \$10,200,000, with two lines totaling \$10,100,000, maturing July 1, 2006, and the remaining \$100,000 line maturing on July 1, 2007.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 10—Commitments and Contingencies—(Continued)

In addition, the Bank maintains lines of credit with Pacific Coast Bankers Bank for \$5,000,000, maturing June 30, 2006; U.S. Bank for \$1,500,000, maturing July 31, 2006; and, Zions Bank for \$1,500,000, with no stated maturity. There was zero outstanding on these lines at December 31, 2005 and 2004. The Bank also has a line of credit with Federal Home Loan Bank for \$36,739,000 at December 31, 2005, with \$21,659,000 available in overnight funds and long-term funds. This line is collateralized by all assets of the Bank. There were \$6,814,934 and \$5,214,270 of outstanding long-term advances on the Federal Home Loan Bank line at December 31, 2005 and 2004, respectively (see Note 8). There was zero outstanding on overnight funds on the FHLB line at December 31, 2005 and 2004.

In the ordinary course of business, the Corporation, through its Bank subsidiary makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The Bank uses the same credit policies in making such commitments as they do for instruments that are included in the consolidated statement of financial condition. These commitments and contingent liabilities include various commitments to extend credit and standby letters of credit. At December 31, 2005 and 2004, commitments under standby letters of credit were \$844,625 and \$134,530, respectively, and firm loan commitments were \$86,568,925 and \$47,314,939, respectively. Substantially all of the commitments provide for repayment at a variable rate of interest. The Corporation does not anticipate any material losses as a result of these commitments.

Note 11—Concentrations of Credit Risk

The majority of the Bank’s loans, commitments, and standby letters of credit have been granted to customers in the Bank’s market area, which is the eastern Washington and northern Idaho area. Substantially all such customers are depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Outstanding commitments and standby letters of credit were granted primarily to commercial borrowers.

The Bank places its cash with high credit quality institutions. The amount on deposit fluctuates, and at times exceeds the insured limit by the U.S. Federal Deposit Insurance Corporation, which potentially subjects the Bank to credit risk.

Note 12—Income Taxes

The components of income tax expense are as follows:

	2005	2004
Current tax expense	\$1,159,744	\$734,206
Deferred tax (benefit) expense	(139,200)	191,234
INCOME TAX EXPENSE	\$1,020,544	\$925,440

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12—Income Taxes—(Continued)

The components of the deferred tax assets and deferred tax liabilities are as follows:

	<u>2005</u>	<u>2004</u>
Deferred tax assets:		
Allowance for loan losses	\$637,455	\$548,108
Net unrealized loss on securities available for sale	132,042	23,238
Deferred compensation	125,754	101,750
Goodwill amortization	40,273	44,905
Nonaccrual loan interest	3,397	9,465
Allowance for writedown of other real estate owned	—	43,750
Other	5,835	—
	<u>944,756</u>	<u>771,216</u>
Deferred tax liabilities:		
Fixed asset basis differentials	438,452	507,958
Federal Home Loan Bank stock	95,092	94,182
Deferred loan fees	81,696	88,507
Prepaid expenses	55,446	54,503
	<u>670,686</u>	<u>745,150</u>
Net Deferred Tax Asset	<u>\$274,070</u>	<u>\$ 26,066</u>

The effective tax rate differs from the statutory federal tax rate for the years presented as follows:

	<u>2005</u>	<u>2004</u>
Federal income tax at statutory rate	\$1,081,458	\$982,517
Effect of tax-exempt interest income	(49,356)	(33,093)
Effect of nondeductible interest expense	5,033	2,477
Effect of other nondeductible expenses	(24,685)	(24,004)
Effect of state income taxes	22,559	7,232
Other	(14,465)	(9,689)
INCOME TAX EXPENSE	<u>\$1,020,544</u>	<u>\$925,440</u>

At December 31, 2005, an income tax receivable of \$87,286 and a net deferred tax asset of \$274,070 were included in other assets on the consolidated statement of financial condition; a state income tax payable of \$15,219 is included in other liabilities. At December 31, 2004, an income tax receivable of \$105,504 and a net deferred tax asset of \$26,066 were included in other assets on the consolidated statement of financial condition.

Note 13—Employee Benefits

The Bank maintains a 401(k) profit sharing plan covering all employees who meet certain eligibility requirements. The plan provides for employees to elect up to 50% of their compensation to be paid into the plan. The Bank's policy is to match contributions equal to 50% of the participant's contribution, not to exceed 2.5% of the participant's compensation. Vesting occurs over a six-year graded vesting schedule. Expenses associated with the plan were \$94,960 and \$89,595 for the years ended December 31, 2005 and 2004, respectively.

The Bank maintains a nonqualified deferred compensation plan under which eligible participants may elect to defer a portion of their compensation, with prior annual approval of the Board of Directors. The Bank does not match contributions to this plan, but does credit interest on amounts deferred based on the tax-equivalent rate

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 13—Employee Benefits—(Continued)

earned on its bank owned life insurance products. Expenses associated with the plan were \$7,331 and \$4,422 for the years ended December 31, 2005 and 2004, respectively. Accrued liabilities associated with the plan were \$154,593 and \$98,579 for December 31, 2005 and 2004, respectively.

The Bank maintains unfunded, nonqualified executive income and retirement plans for certain of its current and retired senior executives under which participants designated by the Board of Directors are entitled to supplemental income or retirement benefits. Expenses associated with these plans were \$37,207 and \$20,728 for the years ended December 31, 2005 and 2004, respectively. Accrued liabilities associated with these plans were \$204,704 and \$192,135 for December 31, 2005 and 2004, respectively.

To fund benefits under these plans, the Bank is the owner and beneficiary of single premium life insurance policies on certain current and past employees. At December 31, 2005 and 2004, the cash value of these policies was \$3,313,771 and \$3,192,722, respectively.

Note 14—Stock Option Plan

During 1992, the Board of Directors of the Bank authorized key employees of the Bank to be eligible to participate in a nonqualified stock option plan. Under the plan, the Board of Directors may grant options to purchase shares of common stock of the Corporation, not to exceed 280,876 shares. At December 31, 2005, 131,570 shares were available for granting to employees. The per option price for options granted shall be the fair market value of said share on the date the option is granted. Stock options granted are eligible for stock dividends.

A summary of the status of the Bank's stock option plans and changes during the years ending on those dates is presented below:

	2005		2004	
	Shares Actual	Weighted- Average Exercise Price	Shares Actual	Weighted- Average Exercise Price
Outstanding options, beginning of year	130,545	\$ 10.10	130,375	\$ 9.61
Granted	2,100	\$ 13.38	13,125	\$ 13.05
Exercised	(60)	\$ 7.84	(7,879)	\$ 6.96
Forfeited	(128)	\$ 7.84	(5,076)	\$ 9.89
Outstanding options, end of year	<u>132,457</u>	<u>\$ 10.16</u>	<u>130,545</u>	<u>\$ 10.10</u>
Options exercisable at year end	<u>103,179</u>		<u>87,311</u>	
Weighted-average fair value of options granted during the year	<u>\$ 4.05</u>		<u>\$ 2.82</u>	

The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding			Exercisable Options	
	Number Outstanding at End of Year	Weighted-Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable at End of Year	Weighted- Average Exercise Price
Price ranges					
(\$7.71 through \$8.50)	47,500	4.64	\$ 7.97	43,854	\$ 7.95
(\$8.51 through \$11.94)	56,502	4.09	\$ 10.76	51,408	\$ 10.96
(\$11.95 through \$13.69)	28,455	8.49	\$ 12.61	7,917	\$ 12.39
TOTAL	<u>132,457</u>	<u>5.23</u>	<u>\$ 10.16</u>	<u>103,179</u>	<u>\$ 9.79</u>

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 15—Common Stock

On April 22, 2004, the Board of Directors announced a 5% stock dividend on all common stock, effective to stockholders of record May 14, 2004, and issued June 15, 2004. All amounts per share and weighted-average shares outstanding for all periods presented have been retroactively adjusted to reflect the stock dividends. The Corporation recorded a transfer from retained earnings to common stock for the market value of the additional shares issued at May 14, 2004.

On April 19, 2005, the Board of Directors announced a 5% stock dividend on all common stock, effective to stockholders of record May 16, 2005, and issued June 15, 2005. All amounts per share and weighted-average shares outstanding for all periods presented have been retroactively adjusted to reflect the stock dividends. The Corporation recorded a transfer from retained earnings to common stock for the market value of the additional shares issued at May 16, 2005.

During 2005 and 2004, the Board of Directors voted to issue 3,700 shares of Corporation stock to nonemployee Directors pursuant to the Corporation's Director Compensation Plan.

Note 16—Related Party Transactions

The Corporation, through its Bank subsidiary has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families, and affiliated companies in which they are principal stockholders. Aggregate loan balances with related parties at December 31, 2005 and 2004, were \$2,053,487 and \$2,369,859, respectively. During the years ended December 31, 2005 and 2004, total principal additions were \$1,994,109 and \$778,674 and total principal payments were \$2,250,859 and \$1,389,218, respectively. Aggregate deposit balances with related parties at December 31, 2005 and 2004, were \$1,552,675 and \$1,191,553, respectively. All related party loans and deposits which have been made, in the opinion of management, are on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Note 17—Restrictions on Dividends and Retained Earnings

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Corporation. The total amount of dividends, which may be paid at any date, is generally limited to the retained earnings of the Bank, which was \$10,602,633 at December 31, 2005. Accordingly, \$10,697,295 of the Corporation's equity in the net assets of the Bank was restricted at December 31, 2005.

In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

Note 18—Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines on the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 18—Regulatory Capital Requirements—(Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined). Under the regulatory framework for prompt corrective action, the Bank must maintain minimum Tier 1 leverage, Tier 1 risk-based, and total risk-based ratios as set forth in the table.

As of December 31, 2005, the most recent notification from the Bank's regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Corporation's and Bank's actual December 31, 2005 and 2004, capital amounts and ratios are also presented in the table:

	Actual		Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2005						
Total capital (to risk-weighted assets):						
Northwest Bancorporation	\$29,373,000	14.70%	\$15,988,480	≥ 8%	NA	NA
Inland Northwest Bank	23,987,000	12.03%	15,945,760	≥ 8%	\$ 19,932,200	≥ 10%
Tier 1 capital (to risk-weighted assets):						
Northwest Bancorporation	26,943,000	13.48%	7,994,240	≥ 4%	NA	NA
Inland Northwest Bank	21,557,000	10.82%	7,972,880	≥ 4%	11,959,320	≥ 6%
Tier 1 capital (to average assets):						
Northwest Bancorporation	26,943,000	10.97%	9,828,480	≥ 4%	NA	NA
Inland Northwest Bank	21,557,000	8.77%	9,828,480	≥ 4%	12,285,600	≥ 5%
December 31, 2004						
Total capital (to risk-weighted assets):						
Northwest Bancorporation	\$22,130,000	13.02%	\$13,593,280	≥ 8%	NA	NA
Inland Northwest Bank	21,922,000	12.91%	13,586,640	≥ 8%	\$ 16,983,300	≥ 10%
Tier 1 capital (to risk-weighted assets):						
Northwest Bancorporation	20,006,000	11.77%	6,796,640	≥ 4%	NA	NA
Inland Northwest Bank	19,799,000	11.66%	6,793,320	≥ 4%	10,189,980	≥ 6%
Tier 1 capital (to average assets):						
Northwest Bancorporation	20,006,000	8.89%	9,004,480	≥ 4%	NA	NA
Inland Northwest Bank	19,799,000	8.80%	9,000,440	≥ 4%	11,250,550	≥ 5%

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 19—Earnings Per Share

The calculation of earnings per share and earnings per share assuming full dilution is as follows:

	<u>Year Ended December 31, 2005</u>		
	<u>Income</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per</u> <u>Share</u> <u>Amount</u>
Basic EPS			
Income available to common stockholders	<u>\$2,160,213</u>	2,107,668	<u>\$ 1.02</u>
Effect of Dilutive Securities			
Stock options		<u>46,220</u>	
Diluted EPS			
Income available to common stockholders plus assumed conversions	<u>\$2,160,213</u>	<u>2,153,888</u>	<u>\$ 1.00</u>
	<u>Year Ended December 31, 2004</u>		
	<u>Income</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per</u> <u>Share</u> <u>Amount</u>
Basic EPS			
Income available to common stockholders	<u>\$1,964,317</u>	2,096,847	<u>\$ 0.94</u>
Effect of Dilutive Securities			
Stock options		<u>28,723</u>	
Diluted EPS			
Income available to common stockholders plus assumed conversions	<u>\$1,964,317</u>	<u>2,125,570</u>	<u>\$ 0.92</u>

The Corporation's stock (stock symbol: NBCT) is quoted locally over the counter and on various Internet listing services, including the OTC Bulletin Board (www.otcbb.com) where a list of market makers is also detailed. The average market price per share used in the determination of the dilutive effect of stock options was the average price of month-end closing market values.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 20—Fair Value of Financial Instruments

The estimated fair values of the Corporation's financial instruments were as follows at December 31:

	2005		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 8,541,929	\$ 8,541,929	\$ 10,185,317	10,185,317
Federal funds sold	2,028,408	2,028,408	1,053,845	1,053,845
Securities available for sale	32,200,153	32,200,153	38,261,258	38,261,258
Securities held to maturity	4,088,517	4,075,613	2,706,435	2,738,277
Federal Home Loan Bank stock	645,900	645,900	643,300	643,300
Loans and loans held for sale, net	186,465,944	185,610,905	158,061,504	157,922,565
Bank owned life insurance	3,313,771	3,313,771	3,192,722	3,192,722
Financial Liabilities:				
Borrowed funds	12,569,338	12,576,963	9,194,661	9,376,786
Deposits	192,042,730	192,294,552	177,036,655	177,440,256
Securities sold under agreements to repurchase	17,754,671	17,754,671	12,995,813	12,995,813

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, and funds sold:

The carrying amount approximates fair value because of the short maturity of these investments.

Securities available for sale, securities held to maturity, and other investments:

The fair values of marketable securities are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans receivable:

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, real estate, consumer, credit card, and other. Each loan category is further segmented into fixed and adjustable rate interest terms. The fair values for fixed-rate loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values.

Bank owned life insurance:

The carrying amount (the cash surrender value) approximates fair value.

Deposits and securities sold under agreements to repurchase:

The fair value of demand deposits, savings accounts, NOW, securities sold under agreements to repurchase and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 20—Fair Value of Financial Instruments—(Continued)

Borrowed funds:

The fair values of the Bank's long-term debt are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Off-balance-sheet instruments:

Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings. The fair value of the fees at December 31, 2005 and 2004, were insignificant. See Note 10 for the notional amount of the commitments to extend credit.