NORTHWEST BANCORPORATION INC
Form 10KSB
March 24, 2005
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2004

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

Commission file number 000-24151

NORTHWEST BANCORPORATION, INC.

(Name of small business issuer in its charter)

Washington	**91-1574174**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
421 W. Riverside, Spokane, WA	**99201-0403**
(Address of principal executive offices)	**(Zip Code)**

(Issuer s telephone number) (509) 456-8888

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

Title of each class

None

Name of each exchange on which registered

None

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

Common Stock, No Par Value Per Share

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ¨

State issuer s revenues for its most recent fiscal year: $13,581,057.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within 60 days prior to the end of the Company s fiscal year: $20,901,244 based on a trade transacted on December 28, 2004.

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: 2,004,961.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form l0-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 (Securities Act). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

Transitional Small Business Disclosure Format (check one): Yes x No ¨

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PART I

(ALTERNATIVE 2)

ITEM 1. DESCRIPTION OF BUSINESS (Model B, Form 1-A, item 6.)

Business Development by Issuer and Subsidiaries

Northwest Bancorporation, Inc. (the Company) was incorporated as a Washington corporation on December 10, 1991. Effective June 10, 1993, the Company became the bank holding company parent of Inland Northwest Bank (the Bank) by acquiring all the outstanding shares of common stock of the Bank in exchange for an equal number of shares of common stock of the Company. The Bank commenced operations on October 2, 1989 as a Washington state-chartered commercial bank. The Bank operates seven branch offices and a loan production office in Washington and two branches in Idaho; both states allow for statewide branching

General

The Company. During the past five fiscal years, the Company s assets and revenues have increased because of the growth of the Bank. Although the Company s management continues to consider the possibility of other business opportunities, the Company currently has not established any independent business activity apart from acting as the parent company of the Bank. Expenses associated with any new business activity initially would need to be funded through dividends received by the Company from the Bank. Consequently, the Company would not be able to engage in any new business activity if the associated costs and expenses would require the payment of a dividend from the Bank that would adversely affect the ability of the Bank to conduct its business.

The primary asset of the Company is the common stock of the Bank. The Bank s operating results, financial position, and power and ability to provide dividends to the Company will directly and materially affect the operating results, financial position and liquidity of the Company. The operating results of the Bank depend primarily on its net interest and dividend income, which is the difference between (i) interest and dividend income on earning assets, primarily loans and investment securities, and (ii) interest expense on interest bearing liabilities, which primarily consist of deposits and borrowed funds. Also affecting the Bank s operating results are the level of the provision for loan losses, the level of other operating income, such as service charges on deposits and gains or losses on the sale of investment securities, the level of operating expenses, and income taxes. Specific information concerning the effect of these items upon the Bank s operating results for the fiscal years 2004 and 2003 is set forth in the sections entitled Summary Performance Information and Statistical Disclosure on pages 7-14. At such time as the Company decides to engage in any other business activities, the success or failure of any new business activities and the associated costs and expenses would be additional factors affecting the operating results, financial position and liquidity of the Company.

The Bank. The Bank s principal office and main branch is located in the downtown business core of Spokane, Washington, and it has eight other branches located in the Spokane, Washington, Coeur d Alene, Idaho and Post Falls, Idaho areas. In January 2005, the Bank established a Loan Production Office in Walla Walla, Washington. The Bank considers eastern Washington and northern Idaho to be its primary market area. The majority of the Bank s deposits and loans are generated in Spokane County, Washington, with a population of 417,939 and Kootenai County, Idaho, with a population of 108,685; the population figures are based upon information provided by the U.S. Census Bureau as of July 1, 2000. There is little concentration of industry in the two counties. A historical reliance on natural resources industries (timber, agriculture, and mining) has been replaced by a focus on trades and services, including high-tech products. The City of Spokane serves as the hub of an area known as the Inland Northwest that includes thirty-six counties in eastern Washington, northern Idaho, western Montana and northeastern Oregon, home to 1.7 million residents. As a regional trade center, the Spokane market area extends to southern British Columbia and Alberta with a population base exceeding 3 million. The economy of the market area is considered stable.

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Banking Services. The Bank has offered a variety of banking products and services as its principal products during the past five years. The Bank strives to occupy a niche market wherein it specializes in the personalized delivery of depository, cash management, and lending services to individuals, professionals and small to mid-size businesses.

The products and services include a full range of Federal Deposit Insurance Corporation (FDIC) insured deposit accounts, including: non-interest bearing checking accounts; interest bearing checking and savings accounts; money market accounts; and fixed and variable rate time certificates of deposit. Transaction accounts and certificates of deposit, including Individual Retirement Accounts (IRA), are offered at rates competitive in the primary market area. To a lesser extent, the Bank will, from time to time, solicit deposits through the national market. Typically, national deposits consist of time certificates with maturities ranging from one to five years, are purchased by credit unions or other financial institutions, will be more expensive than local deposits but priced comparably to funds borrowed from the Federal Home Loan Bank (FHLB) and will be for an amount that allows for full coverage by FDIC insurance. The FDIC currently insures deposit accounts up to a maximum of $100,000.

The Bank offers a full range of commercial and personal loans. The Bank s primary focus is on commercial lending and most of its loans are classified as commercial or commercial real estate. Typically, loans classified as commercial real estate are owner-occupied; the Bank does not specialize in financing investment properties. Credit services include:

Loans to businesses:

(1) Operating loans and lines;

(2) Equipment loans;

(3) Commercial real estate and construction loans; and,

(4) U.S. Small Business Administration (SBA) or other government guaranteed/subsidized loan programs for small businesses.

Loans to individuals:

(1) Loans for vehicle purchase or other personal, family or household purposes, including personal lines of credit;

(2) Home loans (conventional and insured);

(3) Home improvement and rehabilitation loans;

(4) Guaranteed or subsidized loan programs; and,

(5) National credit card (Visa/MasterCard).

Mortgage loans:

The Bank s mortgage department offers virtually all mortgage products available in the market, specializing in conventional, FHA & VA home loans for the purchase or refinance of 1-4 family residential living units; substantially all loans originated are sold to third-party investors. The mortgage department is housed in three Bank branches and maintains numerous correspondent relationships, as well as internal underwriting authority. Mortgage department income is derived from loan origination fees and payments received from mortgage servicing correspondents, who buy both the loan principal and the right to service the loan, and from fees and interest earned on new home construction loans made to individuals and builders.

Other services:

The Bank offers numerous other products and services, including: cash management services, wire transfers, direct deposit of payroll and social security checks, VISA debit cards for automated teller machine access and purchases, Internet banking, on-line bill payment, and automatic drafts and transfers to and from various accounts.

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For those customers whose balances exceed the FDIC insured limit, the Bank offers a repurchase program, whereby, each day, the Bank sells a portion of its investment portfolio to the customer, agreeing to repurchase the investment the next business day; securities in the Bank s investment portfolio are held by a third-party, the FHLB. Repurchase accounts fund, on average over the past two-years, about seven-percent of Bank assets.

Competition

The Bank. Competition in the banking and financial services industry is significant and has intensified in recent years. Competitors include financial institutions within the traditional banking system, such as commercial banks, savings banks and credit unions. Furthermore, financial institutions from outside the traditional banking system, such as investment banking and brokerage firms, insurance companies, credit card issuers, mortgage companies, and related industries offering bank-like products, have widened the competition. With liberalization of interstate banking limitations and other financial institution regulations, increased competition and consolidation in the overall financial services industry, and other recent developments, it is anticipated that competition will increase in the future. Competition in the Bank s market area is not greater than competition in other parts of the United States. Consequently, neither the Bank nor the Company believe that the Bank faces unusual competitive conditions.

At present, there are 16 other local, independent community-based banks operating in the Bank s primary market area (Spokane and Kootenai counties) which offer services similar to, and which are in direct competition with, the Bank. Several of these community-based competitors are of a significantly larger size than the Bank and may have some or all of the competitive advantage enjoyed by the branch offices of larger, out-of-area institutions.

Based on industry information there are 16 commercial banks and savings banks in Spokane County, Washington, having a total of 124 locations and an estimated total of $4,806 million in deposits as of June 30, 2004, the most recent date for which information is readily available. Based on the same information there are 14 commercial banks and savings banks in Kootenai County, Idaho having a total of 39 locations and an estimated total of $1,271 million in deposits.

The Bank also faces numerous non-bank competitors, which have some or all of the competitive advantages enjoyed by branch offices of larger, out-of-area institutions and may have further competitive advantages because they are not subject to the extensive bank regulatory structure and restrictive policies which apply to the Bank.

Regulation

General. Bank holding companies and banks are extensively regulated under both federal and state law. The following information describes certain aspects of regulations applicable to the Company and its subsidiary, but does not purport to be complete and is qualified in its entirety by reference to the particular provisions of these regulations. In addition, federal and state regulations are subject to future changes that may have significant impact on the way in which bank holding companies and their subsidiaries (including banks) may conduct business. The likelihood and potential effects of such changes cannot be predicted. Legislation enacted in recent years has substantially increased the level of competition among commercial banks, savings banks, thrift institutions and non-banking companies, including insurance companies, securities brokerage firms, mutual funds, investment banks and major retailers. Recent legislation also has broadened the regulatory powers of the federal banking agencies in a number of areas.

The Company. As a bank holding company, the Company is subject to various regulations, including the following, some of which may have a material impact upon the Company s future financial performance.

Bank Holding Company Regulation. The Company is subject to the Bank Holding Company Act of 1956, as amended (the BHC Act), and related federal statutes, and is subject to supervision, regulation and inspection by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of San Francisco (collectively, the Federal Reserve). The Company is required to file with the Federal Reserve an annual report

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and any additional information that the Federal Reserve may require pursuant to the BHC Act. The Federal Reserve possesses cease and desist powers over bank holding companies and their non-bank subsidiaries if their actions represent unsafe or unsound practices.

Bank Acquisitions. The BHC Act requires, among other things, the prior approval of the Federal Reserve if the Company proposes to (i) acquire all or substantially all the assets of any bank, (ii) acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank, or (iii) merge or consolidate with any other bank holding company. The BHC Act currently permits bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including certain nationwide and state-imposed concentration limits. The establishment of new interstate branches also will be possible in those states with laws that expressly permit it. Interstate branches will be subject to certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets.

Non-Bank Acquisitions. The BHC Act also prohibits a bank holding company, with certain exceptions, from acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company, and from engaging in any activities other than those of banking, managing or controlling banks, or activities which the Federal Reserve has determined to be so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto.

Restrictions on the Acquisition of the Company. The acquisition of 10% or more of the Company s outstanding shares by any person or group of persons may, in certain circumstances, be subject to the provisions of the Change in Bank Control Act of 1978, as amended, and the acquisition of control of the Company by another company would be subject to regulatory approval under the BHC Act.

Source of Strength Policy. Under Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources to support each such bank. Consistent with its source of strength policy for subsidiary banks, the Federal Reserve has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fund fully the dividends, and the prospective rate of earnings retention appears to be consistent with the corporation s capital needs, asset quality and overall financial condition.

Effect of Other Legislation. The Gramm-Leach-Bliley (GLB) Financial Modernization Act authorizes a bank holding company to affiliate with any financial company (for example, insurance or securities companies) and to cross-sell an affiliate s products, subject to added privacy restrictions, thus allowing the Company to offer its customers any financial product or service. Certain restrictions regarding capital and Community Reinvestment Act (CRA) performance are specified. The Company meets the standard to be considered well-capitalized and the Bank has a Satisfactory CRA rating, meeting the requirements contained in the Act. The Company will consider opportunities to expand its financial offerings as they become available. At this time, however, the Company has not identified additional financial products or services that it intends to offer in the near future, nor does it anticipate the establishment of additional subsidiaries this year.

GLB contains provisions related to Bank customer s rights to financial privacy and requires that financial institutions implement policies and procedures that control the use and reuse of customer and consumer non-public information. The Bank provides its customers with an initial notification of their rights under GLB when they first open an account and annually, thereafter.

The Bank. As a Washington state-chartered commercial bank, the deposits of which are insured by the Bank Insurance Fund (the BIF) of the Federal Deposit Insurance Corporation (the FDIC), the Bank is subject to various regulations, including the following:

Bank Regulation. The Bank is subject to supervision, regulation and examination by the Divisions of Banking of the States of Washington and Idaho and by the FDIC. The Bank is subject to various requirements

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and restrictions under federal and state law, including (i) requirements to maintain reserves against deposits, (ii) restrictions on the types, amount and terms and conditions of loans that may be granted, (iii) limitations on the types of investments that may be made, the activities that may be engaged in, and the types of services that may be offered, and (iv) standards relating to asset quality, earnings, and employee compensation.

As a qualified FHA Direct Endorsement lender, the Bank is governed by the regulations established by the Department of Housing and Urban Development (HUD) and is subject to their audit criteria and quality control requirements. Additionally, depending upon the type of mortgage loan originated and the investor to whom the loan is sold, the Bank is subject to rules and requirements established by various federal and state agencies and housing authorities, as well as investment and quality criteria established by individual investor institutions.

The approval of a Bank s primary regulator is required prior to any merger or consolidation or the establishment or relocation of any office. Various consumer laws and regulations also affect the operations of the Bank.

Affiliate Transactions. The Bank is subject to federal laws that limit the transactions by subsidiary banks to or on behalf of their parent company and to or on behalf of any non-bank subsidiaries. Such transactions by a subsidiary bank to its parent company or to any non-bank subsidiary are limited to 10% of a bank subsidiary s capital and surplus and, with respect to such parent company and all such non-bank subsidiaries, to an aggregate of 20% of such bank subsidiary s capital and surplus. Further, loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. Federal law also prohibits banks from purchasing low quality assets from affiliates.

FDIC Assessments. The deposits of the Bank are insured by the BIF up to a maximum of $100,000 per depositor and are subject to FDIC insurance assessments. The semi-annual amount of FDIC assessments paid by individual insured depository institutions ranges from 0% to 0.27% of insured deposits, based on the institution s relative risk as measured by regulatory capital ratios and certain other factors. In 2004 the Bank qualified to pay 0% to the BIF. Banks insured by the BIF are also assessed, along with financial institutions insured by the Savings Association Insurance Fund (SAIF) to provide repayment of the Financing Corporation (FICO) bonds. The FICO, established by the Competitive Equality Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the Federal Savings & Loan Insurance Corporation (FSLIC). Outstanding FICO bonds, which are 30-year non-callable bonds with a principal amount of approximately $8.1 billion, mature in 2017 through 2019. The FICO has assessment authority, separate from the FDIC s authority to assess risk-based premiums for deposit insurance, to collect funds from FDIC-insured institutions sufficient to pay interest on FICO bonds. The annual rate during 2004 was 1.54 basis points for the first quarter, 1.54 for the second quarter, 1.48 for the third quarter and 1.46 for the fourth quarter. The first-quarter 2005 rate is 1.44 basis points.

Prompt Corrective Action. Federal banking agencies possess broad powers to take corrective action as deemed appropriate for an insured depository institution and its holding company. The extent of these powers depends on whether the institution in question is considered well capitalized , adequately capitalized , undercapitalized , significantly undercapitalized or critically undercapitalized . The required Tier 1 capital t average assets ratio, Tier I capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio for classification as adequately capitalized are 4.0%, 4.0% and 8.0%, respectively. (See discussion of the components of these ratios in The Company and the Bank Risk-Based Capital Requirements below.) The required Tier 1 capital to average assets ratio, Tier l capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio for classification as well-capitalized are 5.0%, 6.0% and 10.0%, respectively. As of December 31, 2004, the Bank exceeded the required Tier 1 capital to average assets ratio, Tier 1 capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio for classification as well capitalized , with ratios of 8.80%, 11.66% and 12.91%, respectively.

Federal Home Loan Bank. The Bank is a member of the Federal Home Loan Bank of Seattle (the FHLB), which is one of twelve regional Federal Home Loan Banks. The FHLB serves as a reserve or central

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bank for its members and makes advances to its members in accordance with the FHLB s policies and procedures. As a member of the FHLB, the Bank is required to purchase and hold stock in the FHLB. As of December 31, 2004, the Bank held stock in the FHLB in the amount of $643,300.

The Company and the Bank. As a bank holding company and state-chartered bank, the Company and the Bank are also subject to the following further regulation:

Risk-Based Capital Requirements. Under the risk-based capital guidelines applicable to the Company and the Bank, the minimum guideline for the ratio of total capital to risk-weighted assets (including certain off-balance-sheet activities) is 8.0%. At least half of the total capital must be Tier 1 capital, which primarily includes common shareholders equity and qualifying preferred stock, less goodwill and other disallowed intangibles. Tier 2 capital includes, among other items, partial recognition of increases in the market value of qualifying equity securities, certain cumulative and limited-life preferred stock, qualifying subordinated debt and the allowance for credit losses, subject to certain limitations, less required deductions as prescribed by regulation.

In addition, the federal bank regulators established leverage ratio (Tier 1 capital to total adjusted average assets) guidelines providing for a minimum leverage ratio of 3.0% for bank holding companies and banks meeting certain specified criteria, including that such institutions have the highest regulatory examination rating and are not contemplating significant growth or expansion. Institutions not meeting these criteria are expected to maintain a ratio that exceeds the 3.0% minimum by at least 100 to 200 basis points. The federal bank regulatory agencies may, however, set higher capital requirements when particular circumstances warrant. Under the federal banking laws, failure to meet the minimum regulatory capital requirements could subject a bank to a variety of enforcement remedies available to federal bank regulatory agencies, including the termination of deposit insurance by the FDIC and seizure of the institution.

Community Reinvestment. Bank holding companies and their subsidiary banks are also subject to the provisions of the Community Reinvestment Act of 1977, as amended (CRA). Under the terms of the CRA, a bank s record in meeting the credit needs of the community served by the bank, including low-income and moderate-income neighborhoods, is assessed by the bank s primary federal regulator; such assessments may occur as frequently as annually, but are generally made every four years. When a bank holding company applies for approval to acquire a bank or other bank holding company, the Federal Reserve will review the assessment of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application. As of December 31, 2004 the Bank was rated Satisfactory with respect to CRA.

Other Regulations. The policies of regulatory authorities, including the Federal Reserve and the FDIC, have had a significant effect on the operating results of financial institutions in the past and are expected to do so in the future. An important function of the Federal Reserve is to regulate aggregate national credit and money supply through such means as open market dealings in securities, establishment of the discount rate on bank borrowings and changes in reserve requirements against bank deposits. Policies of these agencies may be influenced by many factors, including inflation, unemployment, short-term and long-term changes in the international trade balance and fiscal policies of the United States government. Supervision, regulation or examination of the Company by these regulatory agencies is not intended for the protection of the Company s shareholders.

Employees

The Bank employed 106 employees, representing 94 full time equivalent positions as of December 31, 2004; the Company, separate from the Bank, does not have any compensated employees.

Legal Proceedings

Other than routine litigation incidental to the business of the Bank, there are no pending legal proceedings in which the Company or the Bank is a party or any of their respective properties is subject. There are no pending

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legal proceedings to which any director, officer or affiliate of the Company, any owner of record or beneficiary of more than 5% of the common stock of the Company, or any security holder of the Company is a party adverse to the Company or the Bank or has a material interest adverse to the Company or the Bank.

Summary Performance Information

Certain summary recent performance information for the Bank is set forth below. All information in this section should be read in conjunction with the Company s consolidated financial statements and notes thereto contained in Part F/S of this Form 10-KSB. The Company s President and Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective in ensuring that material information required to be disclosed in this report has been made known to them in a timely fashion. There was no significant change in the Company s internal control over financial reporting during the fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

The Bank has experienced growth in total assets of 4.7% and 0.6% for the fiscal years ended December 31, 2004 and 2003, respectively. Net loan growth, not including loans held for sale, was 6.1% and 9.8% for these same periods. Also for these same periods, loan losses net of recoveries were $244,325 and $453,931, respectively. The Bank continues to provide for anticipated future losses through increases in the loan loss reserve, which was at $1,943,760, or 1.22% of outstanding loans, on December 31, 2004 and $2,042,129, or 1.35% of outstanding loans, on December 31, 2003. For information on the Bank s capital ratios as of December 31, 2004, see Regulation The Bank Prompt Corrective Action and Regulation The Company and the Bank Risk-Based Capital Requirements above.

Statistical Disclosure

Certain statistical and other information is set forth below. All information in this sub-section should be read in conjunction with the Company s consolidated financial statements and notes thereto contained in Part F/S of this Form 10-KSB.

All references in this sub-section to historical statistical and other information are to the historical consolidated information of the Company and the Bank for the two most recently ended fiscal years.

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I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL.

AVERAGE BALANCE/INTEREST INCOME AND EXPENSE RATES

(Dollars in Thousands)

	2004			2003		
	Average balance	Interest income/ expense	Average yield earned/ rate paid	Average balance	Interest income/ expense	Average yield earned/ rate paid
ASSETS:						
Investment securities:						
Taxable investments	$ 38,999	$ 1,559	4.00%	$ 37,974	$ 1,689	4.45%
Nontaxable investments	2,294	72	3.14%	2,337	81	3.47%
Total investment securities	41,293	1,631	3.95%	40,311	1,770	4.39%
Interest-bearing deposits with banks	5,580	71	1.27%	5,150	53	1.03%
Federal funds sold	4,702	60	1.28%	3,099	33	1.06%
Total Investments	51,575	1,762	3.42%	48,560	1,856	3.82%
Real estate loans	25,526	1,766	6.92%	20,569	1,893	9.20%
Consumer loans	10,017	681	6.80%	9,968	620	6.22%
VISA/MC	1,164	90	7.73%	1,222	102	8.35%
Commercial loans	113,304	7,227	6.38%	112,226	7,110	6.34%
Total loans	150,011	9,764	6.51%	143,985	9,725	6.75%
Total earning assets	201,586	11,526	5.72%	192,545	11,581	6.01%
Less reserve for possible loan losses	(2,191)			(2,224)		
Cash and due from banks	8,613			7,466		
Other non-earning assets	9,952			10,892		
Total assets	217,960			208,679		
LIABILITIES AND STOCKHOLDERS EQUITY						
NOW accounts	$ 13,488	$ 90	0.67%	$ 13,320	$ 112	0.84%
Money Market accounts	52,137	518	0.99%	48,594	582	1.20%
Savings accounts	6,972	30	0.43%	5,545	30	0.54%
Other time deposits	62,473	1,797	2.88%	63,916	1,920	3.00%
Total interest-bearing deposits	135,070	2,435	1.80%	131,375	2,644	2.01%
Securities sold under repurchase agreements/borrowed funds	22,841	464	2.03%	22,890	408	1.78%
Total Interest-bearing Liabilities	157,911	2,899	1.84%	154,265	3,052	1.98%
Demand deposits	39,911			35,425		
Other liabilities	1,177			1,446		
Stockholders equity	18,961			17,543		
Total liabilities and stockholders equity	$ 217,960			$ 208,679		

Net interest income	$ 8,627	$ 8,529
Net interest margin to average earning assets	4.28%	4.43%

COMMENTS

1. There were no out-of-period adjustments.

2. Yields have not been adjusted on tax-exempt investments to determine a tax-equivalent yield.

3. Bank was not involved in any foreign activities.

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The following table illustrates the changes in the Company s net interest income due to changes in volume, interest rate or a combination of both.

	2004	2003	Variance	2003 rate	Change in income due to change in volume	Change in rate	Difference in income 2003 volume due to rate change	Change in income due to change in rate and volume	Net change in income due to rate and volume changes
ASSETS									
Loans	$ 150,011	$ 143,985	$ 6,026	6.75%	$ 407.0	-0.25%	$ (353.2)	$ (14.8)	$ 39
Securities	41,293	40,311	982	4.39%	43.1	-0.44%	(177.8)	(4.3)	(139)
Fed funds sold/interest bearing bank balances	10,282	8,249	2,033	1.04%	21.2	0.23%	19.1	4.7	45
Net change in total earning assets			9,041						
Net change in income on total earning assets									(55)
LIABILITIES									
NOW accounts	13,488	13,320	168	0.84%	1.4	-0.17%	(23.1)	(0.3)	(22)
Money Market accounts	52,137	48,594	3,543	1.20%	42.4	-0.20%	(99.2)	(7.2)	(64)
Savings accounts	6,972	5,545	1,427	0.54%	7.7	-0.11%	(6.1)	(1.6)	0
Time deposits	62,473	63,916	(1,443)	3.00%	(43.3)	-0.13%	(81.5)	1.8	(123)
Securities sold under repurchase agreements	22,841	22,890	(49)	1.78%	(0.9)	0.25%	57.0	(0.1)	56
Net change, total interest bearing deposits			$ 3,646						
Net change in expense on total interest bearing deposits									(153)
Net increase in net interest income									$ 98

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II. INVESTMENT PORTFOLIO.

Securities

The book and market values of the major classifications of investment securities were as follows ($ in thousands):

	December 31, 2004		December 31, 2003	
	Amortized cost	Fair value	Amortized cost	Fair value
Securities available-for-sale:				
Obligations of federal government agencies	$ 29,692	$ 29,544	$ 19,518	$ 19,761
US Treasury securities	5,203	5,199	7,142	7,211
Mortgage backed securities	1,951	2,058	3,290	3,473
Corporate debt obligations	1,484	1,460	2,028	2,046
TOTAL	$ 38,330	$ 38,261	$ 31,978	$ 32,491
Securities held-to-maturity:				
Obligations of states, municipalities and political subdivisions	$ 2,706	$ 2,738	$ 1,717	$ 1,760

Analysis of Investment Securities

The following table sets forth the maturities of investment securities at December 31, 2004 ($ in thousands, at amortized cost.):

	Within 1 year maturity	Weighted average yield	After 1 year but within 5 years maturity	Weighted average yield	After 5 years but within 10 years maturity	Weighted average yield	After 10 year maturity	Weighted average yield	Total	Weighted total average yield
U.S. Treasury	$ 4,200	2.10%	$ 1,003	1.63%	$ 0		$ 0		$ 5,203	2.01%
U.S. government agencies	1,000	2.26%	7,499	2.16%	11,148	4.19%	10,045	4.75%	29,692	3.80%
Mortgage pass-throughs (GNMA/FNMA)							1,951	6.59%	1,951	6.59%
Corporate bonds	1,001	3.23%	0	0.00%			483	3.37%	1,484	3.27%
State and political subdivisions	100	3.03%	1,012	4.15%	820	5.97%	774	6.09%	2,706	5.22%
Total by maturity and yield	$ 6,301	2.32%	$ 9,514	2.32%	$ 11,968	4.31%	$ 13,253	5.05%	$ 41,036	3.78%

Comment 1. Weighted-average yields for securities-held-to-maturity (securities issued by State and political subdivisions) are presented on a federal tax-equivalent basis at a 34% effective tax rate.

With the exception of U.S. Government and U.S. Government agencies and corporations, no securities issued by any one issuer exceed ten percent of stockholders equity.

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III. LOAN PORTFOLIO.

The amounts of loans outstanding at the indicated dates are shown in the following table according to type of loan ($ in thousands):

	December 31	
	2004	2003
Commercial loans	$ 121,820	$ 117,055
Real estate loans	25,644	22,127
Installment loans	4,368	4,625
Consumer and other loans	7,878	6,983
TOTAL LOANS	159,710	150,790
Allowance for loan losses	(1,944)	(2,042)
Deferred loan fees, net of deferred costs	(328)	(307)
NET LOANS	$ 157,438	$ 148,441

The following table shows the amounts and earlier of maturity/re-pricing of commercial, real estate and other loans outstanding as of December 31, 2004 ($ in thousands):

	Within 1 year maturity	After 1 year but within 5 year maturity	After 5 year maturity	TOTAL
Commercial	$ 32,135	$ 31,743	$ 57,942	$ 121,820
Real Estate Loans	12,985	3,430	9,229	25,644
Installment	1,004	1,608	1,756	4,368
Consumer and Other	4,106	0	3,772	7,878
Totals	$ 50,230	$ 36,781	$ 72,699	$ 159,710
Loans maturing with:				
Fixed Rates	$ 6,449	$ 24,426	$ 10,294	$ 41,169
Variable Rates	43,781	12,355	62,405	118,541
Totals	$ 50,230	$ 36,781	$ 72,699	$ 159,710

Loans are placed in a non-accrual status when they are not adequately collateralized and when, in the opinion of management the collection of interest is questionable. Thereafter, no interest is taken into income unless received in cash or until such time as the borrower demonstrates the ability to resume payments of principal and interest. Interest previously accrued but not collected is reversed and charged against income at the time the loan is placed on non-accrual status.

	December 31	
	2004	2003
	(Dollars in Thousands)	
Loans accounted for on a non-accrual basis	$ 531	$ 216
Loans contractually past due ninety days or more as to interest or principal	$ 16	$ 8
Gross interest income which would have been recorded under original terms	$ 21	$ 19
Gross interest income recorded during the period.	$ 1	$ 1

C.2. As of the end of the most recent reported period, December 31, 2004, management has no knowledge of additional loans where the financial condition of its borrowers is likely to result in the inability of the borrower to comply with current loan repayment terms. All such credits known to management are identified in the table (above) and any identified potential loss has already been recognized by charge to the Loan Loss Reserve.

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IV. SUMMARY OF LOAN LOSS EXPERIENCE.

The following table provides an analysis of net losses by loan type for the past two years:

	December 31	
	2004	2003
	(Dollars in Thousands)	
Total loans net of deferred fees at end of period	$ 159,382	$ 150,483
YTD average net loans	$ 150,011	$ 143,985
Balance of allowance for possible loan losses at beginning of period	$ 2,224	$ 2,026
Loan charge-offs:		
Commercial	(74)	(13)
Real Estate	(128)	(378)
Installment & Credit Card	(65)	(95)
Total Charge-offs	(267)	(486)
Recoveries of loans previously charged-off:		
Commercial	4	28
Real Estate	12	1
Installment & Credit Card	7	3
Total Recoveries	23	32
Net Charge-offs	(244)	(454)
Provision charged to expense	170	652
Balance, end of year, prior to adjustment for off-balance sheet items	2,150	2,224
Reclassification of reserve for probable losses on unused loan commitments and off-blance sheet items to Accrued interest payable and other liabilities	(206)	(182)
Balance, end of year	$ 1,944	$ 2,042
Ratio of net charge-offs during period to average loans outstanding	0.16%	0.32%

Breakdown of Allowance for Loan Losses ($ in thousands):

	December 31, 2004		December 31, 2003	
	Amount	% of allowance to total allowance	Amount	% of allowance to total allowance
Construction and land development (pass)	$ 78	3.63%	$ 131	5.89%
Secured by farmland (pass)	0	0.00%	0	0.00%

Home equity loans (pass)	61	2.84%	55	2.47%
Revolving loans secured by 1-4 family residential (pass)	33	1.53%	22	0.99%
Secured by multi-family residential (pass)	8	0.37%	12	0.54%
Secured by non-farm, non-residential real estate (pass)	155	7.21%	303	13.62%
Commercial and industrial loans (pass)	441	20.51%	558	25.10%
Loans to individuals (pass)	195	9.07%	202	9.08%
Credit card loans	91	4.23%	124	5.58%
All other loans and leases (pass)	3	0.14%	3	0.13%
Mortgage loans held for sale	0	0.00%	0	0.00%
Specifically Identified Potential Loss *	719	33.45%	579	26.04%
Commitments to Lend under Lines/Letters of Credit	206	9.58%	182	8.18%
Supplementary Allowance/Non-specific Factors	160	7.44%	53	2.38%
	$ 2,150	100.00%	$ 2,224	100.00%

* Risk category 5, 6 & 7 loans are individually analyzed at least quarterly to determine loss potential. Allocated reserves related to loans classified 5, 6 & 7 are reported as Specifically Identified Potential Loss.

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V. DEPOSITS.

The average amount of deposits and average rates paid on such deposits is summarized for the periods indicated in the following table ($ in thousands):

	Years Ended December 31			
	2004		2003	
	Amount	Rate	Amount	Rate
Non-interest Bearing Demand Deposits	$ 39,911	n/a	$ 35,425	n/a
Interest Bearing Deposits:				
NOW Accounts	13,488	0.67%	13,320	0.84%
Money Market Accounts	52,137	0.99%	48,594	1.20%
Savings Accounts	6,972	0.43%	5,545	0.54%
Time Deposits	62,473	2.88%	63,916	3.00%
Total Interest Bearing Deposits	$ 135,070	1.80%	$ 131,375	2.01%

Maturities of Time Certificates of Deposit over $100,000 are shown below ($ in thousands):

	December 31	
	2004	2003
3 months or less (adjusted for matured CDs renewed subsequent to year-end)	$ 12,068	$ 11,235
Over 3 through 6 months	1,585	817
Over 6 through 12 months	2,439	1,108
Over 1 year through 5 years	7,552	7,773
Over 5 years	104	0
	$ 23,748	$ 20,933

VI. RETURN ON EQUITY AND ASSETS.

Ratios for the years ended December 31, 2004 and December 31, 2003 are as follows:

	2004	2003
Ratio:		
Return on Average Assets	0.90%	0.84%
Return on Average Equity	10.36%	9.95%
Average Equity to Average Assets	8.70%	8.41%
Dividend Payout Ratio	11.62%	10.35%

VII. SHORT-TERM BORROWINGS.

As of the most recent reporting period, December 31, 2004, the Company had no short-term borrowings.

Rate Shock

Each month, the Bank performs an analysis (the Rate Shock Analysis) of the effect that a sudden increase or decrease in interest rates would have on net interest income and the value of the Bank s equity. The Rate Shock Analysis presents estimates of the effect of an immediate change in rates of as much as +300 basis points and 300 basis points (+3% to -3%) as applied to all earning assets and interest bearing liabilities. Depending upon the re-pricing characteristics of the Bank s assets and liabilities, such a sudden change in rates can be expected to have either a positive or negative effect on Bank net interest income; the value of the Bank s equity will,

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likewise, be affected. Considering net interest income, for example, if substantially all of the Bank s deposits are fixed rate and substantially all of the Bank s loans are variable rate, an increase in interest rates would, initially, cause interest income to rise, while interest expense would not change. As a result, net interest income would increase until such time as deposits renewed or matured and were replaced with higher rate deposits. On the other hand, if rates were to decrease, the Bank would experience a decrease in net interest income. Sudden changes in interest rates will have a similar effect on the value of the Bank s equity. Non-interest income and non-interest expense are assumed to remain constant.

Presented below are the results of the analysis performed on financial information as of December 31, 2004. Generally, our analyses have been supportive of Bank management s desire to limit volatility of net interest income to no more than plus or minus ten-percent when applying an interest rate shock of plus or minus two-hundred basis points. With the year-end Federal Funds rate at 2.25%, management elected to shock downward rates at 0.50%, 1.00% and 1.50% rather than the higher rates that would be used in a more typical interest rate environment; upward rates were shocked at 1.00%, 2.00% and 3.00%. The results of the net interest income analysis performed December 31, 2004 are within established limits. The goal that has been established for change in economic value of equity seeks to limit the negative impact of a change in rates of plus or minus two-hundred basis points to no more that twenty-five percent; again, because of the current interest rate environment, downward rate shocks were adjusted to reflect the unlikelihood of rates falling more than 1.50%. The results of the economic value of equity analysis performed December 31, 2004, presented to indicate the estimated effect of changing rates on book value of equity, are within established limits.

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Net Interest Income and Market Value

Summary Performance

December 31, 2004

($ in thousands)

	($ in thousands)					
	Net Interest Income			Economic Value of Equity		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+300	$ 9,170	$ 78	0.86%	$ 15,296	$ (4,666)	-23.37%
+200	9,161	69	0.76%	16,333	(3,629)	-18.18%
+100	9,143	51	0.56%	18,157	(1,805)	-9.04%
Base	9,092	0	0.00%	19,961	0	0.00%
-50	9,080	(12)	-0.13%	20,836	874	4.38%
-100	9,066	(26)	-0.29%	21,744	1,783	8.93%
-150	$ 8,999	$ (93)	-1.02%	$ 22,708	$ 2,746	13.76%

Forward-looking Statements

This section, as well as certain other sections of this Annual Report, may contain forward-looking statements regarding, among other possible items, anticipated trends in the Company s business. These forward-looking statements are based on the Company s current expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Company s control. Actual results could differ materially from these forward-looking statements as a result of various factors, including, among other possible ones, competition, regulatory, economic and business influences, services and products, business and growth plans and strategies, and other relevant market conditions. In light of these risks and uncertainties, there can be no assurance that any forward-looking statements contained in this Annual Report will in fact take place or prove to be accurate.

ITEM 2. DESCRIPTION OF PROPERTY (Model B, Form 1-A, item 7.)

The Company did not own or lease any real or personal property during the 2004 fiscal year; for its business, the Company utilizes the premises and equipment of the Bank.

The Bank owns the real property for the Northpointe branch located in north Spokane, Washington, the Coeur d Alene branch, located in Coeur d Alene, Idaho and the Post Falls branch, located in Post Falls, Idaho. The Bank owns the building for the South Hill branch located in south

Spokane, Washington, which is constructed on leased land. Subsequent to year-end, the Bank purchased property located on East Sprague Avenue, in Spokane, and leased property, with an option to purchase, located on North Ruby Street, also in Spokane; these two transactions are not reflected in December 31, 2004 audited financial statements. The North Ruby Street site will be developed in 2005. The East Sprague site will be held for future development.

The Bank leases its principal office and main branch, which is located in the Paulsen Center in downtown Spokane, Washington. The Bank also leases additional, adjacent space, which is used for a drive-through banking station and parking facilities.

The Bank leases four other branches situated inside of retail grocery stores. The branches are located in or around Spokane, Washington, including the Spokane Valley, Airway Heights and north Spokane (the Spokane Valley branch, the Airway Heights branch, the North Foothills branch and the Indian Trail branch).

The Bank leases additional office space situated in the same retail grocery store as its Spokane Valley branch; this office is used by four employees of the Bank s mortgage department.

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Subsequent to year-end, the Bank entered into a lease agreement for office space in the Marcus Whitman Hotel, located in Walla Walla, Washington; the Bank opened a loan production office (LPO) in that facility in January 2005, employing two commercial loan officers and a loan assistant. The Bank plans to request approval from its regulators to convert the LPO into a Bank branch within the next few months. During the three year term of the lease, the Bank will determine whether to relocate the branch to a stand-alone location, develop an additional stand-alone location or negotiate a longer lease term in the present location.

In addition to the three owned locations, the Bank has made significant improvements in the one ground-lease location and in leasehold improvements at the seven leased locations. As of December 31, 2004, the total net book value of the Bank s consolidated premises and equipment was $4,357,980.

ITEM 3. DIRECTORS, EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES (Model B, Form 1-A, item 8.)

Directors

The Board of Directors of the Company currently consists of thirteen members and is divided into three classes. Directors within each class are elected to three-year terms, meaning that under ordinary circumstances, at any given time, approximately one-third of the Board would be in its second year of service and another one-third would be in its third year of service. The same persons currently serve as directors of the Bank and are elected in the same manner.

Dwight B. Aden, Jr. Mr. Aden is 62 and has been a director of the Bank and the Company since May 20, 1996. His term as a director will expire at the annual meeting of shareholders to be held in 2005. For the five years prior to his retirement, in 1997, Mr. Aden was a senior member and an owner of Jones & Mitchell Insurance Co., an insurance brokerage firm in Spokane, Washington.

Jimmie T.G. Coulson Mr. Coulson is 71 and has been a director of the Bank since its incorporation on May 26, 1989. He has been a director of the Company since March 30, 1992. Mr. Coulson s current term as director will expire at the annual meeting of shareholders to be held in 2005. During the past five years, Mr. Coulson has been the President and Chief Executive Officer of The Coeur d Alenes Company, a steel service center and fabrication facility located in Spokane, Washington.

Harlan D. Douglass Mr. Douglass is 67 and has been a director of the Bank since May 26, 1989. He has been a director of the Company since March 30, 1992. Mr. Douglass s current term as a director of the Bank will expire at the annual meeting of shareholders to be held in 2005. Mr. Douglass s primary business activities consist of the management of a diversified real estate business, including multifamily and commercial projects.

Freeman B. Duncan Mr. Duncan is 58 and has been a director of the Bank and the Company since May 20, 1996. His term as a director will expire at the annual meeting of shareholders to be held in 2005. Mr. Duncan is an attorney specializing in real estate matters.

Donald A. Ellingsen, M.D. Dr. Ellingsen is 68 and has been a director of the Bank and the Company since May 20, 1996. His term as a director will expire at the annual meeting of shareholders to be held in 2005. Prior to his retirement on June 30, 1998, Dr. Ellingsen was an ophthalmologist and a member of the Spokane Eye Clinic, Spokane, Washington.

Randall L. Fewel Mr. Fewel is 56; he is a director, President and Chief Executive Officer of the Bank. He has been a director of the Bank since May 16, 2000 and has served as President of the Company and President and Chief Executive Officer of the Bank since July 1, 2001. Mr. Fewel s current term as a director will expire at the annual meeting of shareholders to be held in 2006. Mr. Fewel has been employed by the Bank since 1994. He previously served as its Chief Operating Officer and, prior to that, as its Senior Loan Officer.

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Clark H. Gemmill Mr. Gemmill is 62. He has been a director of the Bank since its incorporation on May 26, 1989 and a director of the Company since March 30, 1992. Mr. Gemmill s current term as a director will expire at the annual meeting of shareholders to be held in 2007. During the past five years, he has been a Vice President with UBS Financial Services, Inc., a financial investment firm with a branch office in Spokane, Washington.

Bryan S. Norby Mr. Norby is 47. He has been a director of the Bank since August 15, 1989, and a director of the Company since March 30, 1992. Mr. Norby s current term as a director will expire at the annual meeting of the shareholders to be held in 2006. Mr. Norby is a certified public accountant and during the past five years has been Treasurer and Financial Analyst for a Boise, Idaho based business enterprise.

Richard H. Peterson Mr. Peterson is 70 and has been a director of the Bank since its incorporation on May 26, 1989. He has been a director of the Company since March 30, 1992. Mr. Peterson s current term as a director will expire at the annual meeting of the shareholders to be held in 2006. During the past five years, Mr. Peterson was a Senior Vice President of First Union Securities at its branch in Spokane and currently is a Senior Vice President with Ragen MacKenzie, a financial investment firm, also with a branch office in Spokane, Washington.

Phillip L. Sandberg Mr. Sandberg is 72 and has been a director of the Bank since its incorporation on May 26, 1989. He has been a director of the Company since March 30, 1992. Mr. Sandberg s current term as a director will expire at the annual meeting of shareholders to be held in 2007. For the five years prior to his retirement on October 20, 1998, Mr. Sandberg had been the President and Chief Executive Officer of Sandberg Securities, an independent investment services firm in Spokane, Washington.

Frederick M. Schunter Mr. Schunter is 68; he has been a director of the Bank since its incorporation on May 26, 1989 and, until his retirement on June 30, 2001, was President and Chief Executive Officer of the Bank. He has been a director of the Company since December 10, 1991 and was President of the Company prior to his retirement. Mr. Schunter s current term as a director will expire at the annual meeting of shareholders to be held in 2007. Since June 10, 2002, Mr. Schunter has been the President of Northwest Business Development Association, a non-profit Certified Development Company that assists small business borrowers in acquiring loans guaranteed by the U.S. Small Business Administration or other government or private entities.

William E. Shelby Mr. Shelby is 66 and has been a director of the Bank since its incorporation on May 26, 1989 and Chairman of the Bank Board since May 16, 1995. He has been a director of the Company since March 30, 1992 and Chairman of the Company s Board since May 21, 1996. Mr. Shelby s current term as a director will expire at the annual meeting of shareholders to be held in 2007. For the five years prior to his retirement on December 31, 2003, Mr. Shelby had been the Vice President of Store Development for U.R.M. Stores, Inc.

James R. Walker Mr. Walker is 71 and has been a director of the Bank since its incorporation on May 26, 1989. He has been a director of the Company since March 30, 1992. Mr. Walker s current term as a director will expire at the annual meeting of the shareholders to be held in 2007. Mr. Walker retired in 1995. For the five years prior to his retirement, he was the President and Chief Executive Officer of Hazen & Clark, Inc., a general contracting firm located in Spokane, Washington.

Officers

In addition to Mr. Fewel, the executive officers of the Company and its subsidiary are:

Holly A. Austin Ms. Austin is 34 and is an officer of the Bank and Secretary/Treasurer of the Company. She is a certified public accountant and has been employed by the Bank since June 1997. Prior to that time, between 1992 and 1997, Ms. Austin worked for a public accounting firm with offices in Spokane. She currently is Senior Vice President and Cashier of the Bank.

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Christopher C. Jurey Mr. Jurey is 55 and has been an officer of the Bank since 1991. He currently is Executive Vice President of the Bank and Chief Financial Officer of the Bank and the Company.

There are no family relationships among these directors and executive officers. There also are no arrangements or understandings between these persons and any one of the other named persons pursuant to which any of these persons have been selected for the office or position.

Significant Employees

James M. Abrahamson Mr. Abrahamson is 63 and has been an officer of the Bank since 1996. He currently is a Senior Vice President, Commercial Loan Officer and Team Leader.

Douglas J. Beaudoin Mr. Beaudoin is 53 and has been an officer of the Bank since 1998. He currently is a Senior Vice President and manager of the Bank s mortgage department.

Richard L. Brittain Mr. Brittain is 52 and has been an officer of the Bank since 1995. He currently is a Senior Vice President and Credit Administrator.

Elizabeth A. Herndon Ms. Herndon is 50 and has been an officer of the Bank since 1995. She currently is a Senior Vice President and Branch Administrator.

Ronald G. Jacobson Mr. Jacobson is 49 and has been an officer of the bank since 2001. Prior to that time, between 1989 and 2001, Mr. Jacobson worked as a Vice President in the private banking department of a community based financial institution headquartered in Spokane. He currently is a Senior Vice President and North Idaho Division Manager.

Code of Ethics

The Company has adopted a code of ethics within the meaning of Item 406(b) of Regulation S-B promulgated by the Securities and Exchange Commission. This code of ethics applies to all officers, directors and employees of the Company. The Company will provide to any person, without charge, upon request, a copy of such code of ethics. A person may request a copy by writing or telephoning the Company at the following address:

Northwest Bancorporation, Inc.

Attention: Christopher C. Jurey

421 W. Riverside Avenue

Spokane, WA 99201

(509) 456-8888

Audit Committee Matters

The Company s Board of Directors has a separately designated standing Audit Committee for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the Company s financial statements. The Audit Committee is comprised solely of directors Bryan S. Norby, Phillip L. Sandberg, Dwight B. Aden, Jr., Freeman B. Duncan, Donald A. Ellingsen, M.D. and James R. Walker, each of whom is an independent director. The Audit Committee has oversight responsibilities of the Company s financial statements and the financial reporting process, preparation of the financial reports and other financial information provided by the Company to any governmental or regulatory body, the systems of internal financial controls, the internal audit function and the annual independent audit of the Company s financial statements. Mr. Norby has been designated as the Audit Committee financial expert as defined by the Sarbanes-Oxley Act of 2002. The Board of Directors has determined that Mr. Norby has the attributes required by Item 401(e) of Regulation S-B to act in that capacity.

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ITEM 4. REMUNERATION OF DIRECTORS AND OFFICERS (Model B, Form 1-A, item 9.)

The following table sets forth all compensation paid during the last fiscal year to the Chief Executive Officer and executive officer(s) of the Company and its subsidiary. Directors are compensated as described below. Other than as detailed, below, no officer or director of the Company has received any other remuneration or indirect financial benefit to date.

Executive Compensation

Name and Capacities in which Remuneration was Received	Year	Salary	Bonus(a)	Deferred Compensation(b)	Other Annual Compensation(c)	401(k) Matching Contribution(d)
Randall L. Fewel	2004	154,606	29,824	5,400	11,690	4,112
President & Chief Executive Officer						
Christopher C. Jurey	2004	100,141	17,222	12,000	5,210	2,934
Executive Vice President & Chief Financial Officer						
Holly A. Austin	2004	82,000	12,227	0	4,872	2,356
Senior Vice President & Cashier						

(a) See Incentive Plan for Senior Management, below.

(b) Employees of the Bank with the title of Vice President or higher may elect to defer a portion of their compensation, with prior approval (annually) of the Board of Directors. The Bank does not match voluntarily deferred income; it does, however, credit interest on salary thus deferred. The Bank credits interest at the tax-equivalent rate that it earns on Bank Owned Life Insurance (BOLI) products that it owns.

(c) Includes the aggregate value of perquisites and personal benefits that were no more than the lesser of $50,000 or 10% of the executive s salary and bonus.

(d) The Bank matches 50% of employee contributions to the 401(k) Plan. The matching contribution is limited to a maximum of 2.5% of the employee s salary.

Director Compensation

In 2004, Directors of the Bank (excluding the Chairman and Mr. Fewel) received an attendance fee in the amount of $250 per meeting and $150 per committee meeting. The Chairman received a $450 attendance fee per board meeting. Director-employees are not compensated for meeting attendance. Each director other than the Board Chairman and Mr. Fewel also received 300 shares of Common Stock of the Company as additional compensation. The Board Chairman received 400 shares of Common Stock of the Company as additional compensation. No other compensation arrangement has been established for the directors of the Company as yet.

The aggregate annual remuneration of executive and corporate officers and directors of the Bank as a group was $562,200 for fiscal year 2004.

Employment and Change of Control Agreements

The Bank has entered into an employment agreement with Mr. Fewel that provides for a continuous employment term until such time as the Bank notifies him that the Bank will establish an employment term of one-year, commencing with the date of receipt of such notice by him. Upon receiving such notice Mr. Fewel could resign and continue to receive payment of his fixed-salary and certain benefits for a period of one-year. The agreement provides that, during the term of the agreement, he will remain employed in an executive position, with no reduction in his fixed-salary should his position change and that his fixed-salary will be adjusted annually at the discretion of the Board. The fixed-salary will not be decreased from year-to-year; however, incentive payments, if any, and other benefits may be more or less than received in prior years. The Bank may terminate Mr. Fewel s employment without cause; however, in that case, he would continue to receive payment of his fixed salary and certain benefits for a period of one-year.

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In the event of a change in control of the Company, the agreement provides for a severance payment to Mr. Fewel if his employment is terminated or if he resigns during a thirty-six month period following the date of the change in control; other benefits are discontinued, except as may be required by law. Any severance payment made to him will be reduced to the extent necessary to meet the requirements of Internal Revenue Service regulations then in effect, as well as the rules, regulations or lawful directives of other agencies with regulatory or supervisory authority over the Company or the Bank. The Bank s obligation for payment to Mr. Fewel under any of the above-described circumstances may be reduced, in part or in full, if he receives compensation from a successor employer or from self-employment while the Bank is making payment to him. If the successor employer is a financial institution located within the Bank s market area, and if he has not obtained prior approval from the Bank s Board of Directors, the Bank is under no obligation to continue any payment of salary or benefits.

The Bank has entered into a similar employment agreement with Mr. Jurey; however, in the event of a change in control, the period considered for severance payments is twenty-four months. Employment agreements with Ms. Austin and other non-executive officers are consistent as to all terms; with the exception that the period considered for severance payment is twelve months.

Incentive Plan for Senior Management

The purpose of the Executive Incentive Plan (the EIP) is to reward senior Bank management for its efforts in meeting or exceeding the annual goals presented to the Board of Directors during the annual budgeting process. The EIP defines a number of factors that are considered to be of importance by the Board in enhancing the long-term viability of the bank and return to shareholders. A portion of each officer s total compensation is dependent upon performance in relation to budget, adjusted to reflect the Bank s overall performance in comparison to that of similar financial institutions. Incentive payments made to named executives under the EIP are disclosed in the table detailing executive compensation.

Executive Retirement Plan

The Bank maintains an unfunded supplemental executive retirement plan for the benefit of the Bank s former chief executive officer, which is fully vested. The plan provides for monthly payments for a period of fifteen years beginning on June 30, 2001. In the event of his death, the plan provides for payment to his designated beneficiary.

At December 31, 2004 and 2003, $186,445 and $196,045, respectively, has been accrued under this plan. This liability is recognized in accrued interest and other liabilities in the financial statements.

The net post-retirement benefit cost recognized during the years ended December 31, 2004 and 2003, was $15,038 and $15,717, respectively.

The Bank is the owner and beneficiary of life insurance policies on this former officer with a total face value of $228,127 and cash surrender value of $214,840 and $206,679 at December 31, 2004 and 2003, respectively.

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ITEM 5. SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN SECURITY HOLDERS (Model B, Form 1-A, item 10.)

The Company does not have any compensated officers; the information in this item is provided for each director and executive officer of the Company and the Bank.

Officers and directors as a group own of record, to the knowledge of the Company, 512,015 shares of common stock of the Company, representing 28.31% of the outstanding shares of common stock. No shareholder of record presently owns more than ten-percent (10%) of the outstanding shares of common stock of the Company, nor would the exercise of stock options increase any shareholder ownership of record to more than ten-percent (10%).

SECURITY OWNERSHIP OF MANAGEMENT AND OTHERS

Name and Position	Number of Shares Beneficially Owned(1)	Notes	Percentage of Class
Harlan D. Douglass, Director	179,887	(2)(6)	8.97%
Frederick M. Schunter, Director	60,069	(2)	3.00%
Jimmie T.G. Coulson, Director	52,581	(2)(3)	2.62%
Clark H. Gemmill, Director	44,518		2.22%
Phillip L. Sandberg, Director	38,138		1.90%
James R. Walker, Director	33,935	(2)	1.69%
Richard H. Peterson, Director	31,793		1.59%
Christopher C. Jurey, EVP/Chief Financial Officer	18,305		*
Randall L. Fewel, President/Chief Executive Officer	13,403		*
William E. Shelby, Chairman	13,064		*
Donald A. Ellingsen, Director	10,395	(4)	*