



Northwest Bank
We Bring the Bank to You.

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Wednesday, September 15, 2010

Fellow Shareholders and Clients:

I am disappointed to report to you that your Northwest Bank Board of Directors ("Board") has agreed to a Stipulation to the Issuance of a Consent Order (Order) issued by the Federal Deposit Insurance Corporation ("FDIC") and the Oregon Division of Finance and Corporate Securities ("DFCS"), our principal banking regulators, on August 24. We would like to take an opportunity to explain the terms of the agreement, including, as nearly as possible, the reasons the regulators asked us to enter into it and to which we agreed, and to invite you to contact us at any time with any questions or concerns.

On behalf of our Northwest Bank team of dedicated employees and Board of Directors, please know that our agreement with the regulators does not materially impact our Bank's ability to conduct business and our continuing efforts to "clean up" our balance sheet and grow our enterprise. Our dedicated Bank team remains committed to the following priorities: 1) staying true to our community bank mission of local relationship banking, 2) continued focus on cost control, accountability and transparency, 3) continued reduction of our nonperforming assets (nonperforming loans and OREO assets), 4) progress towards achieving sustained profitability through the acquisition of new deposit and borrowing relationships; and 5) high performing employee retention.

The conditions of the agreement are attainable and consistent with management's objectives for the safe and sound operation of our bank. Although we are disappointed that the regulators asked us to agree to formal regulatory guidelines, the Order largely includes a number of goals and objectives which have been underway at your bank for some time. These items include;

- Enhancing the Bank's financial strength and performance by improving credit quality;
- Increasing capital through the adoption of a plan to increase and maintain "leverage" and "total risk-based capital" ratios at not less than 10% and 12%, respectively;
- Reducing the Bank's Commercial Real Estate concentration to FDIC recommended levels to capital, reducing the level of nonperforming assets, improving lending policies and revising our strategic plans and comprehensive budget.

As many of you are already aware, we have for some time been suffering from a significant decline in the quality of loans made between 2005 and 2007. We share your concern that these issues have continued to generate higher than expected loan losses and provision expense, and as a result have adversely impacted profitability. We are moving aggressively to meet or exceed the terms of the Order, and we believe that our actions over the last twenty-four months, and those that we are taking today, will assure that we comply quickly and fully with all aspects of this agreement.

Although additional capital is required under this Order, all Northwest Bank capital ratios continue to exceed the published regulatory guideline definition for a “well capitalized” financial institution.

<u>June 30, 2010</u>	<u>Actual</u>	<u>Regulatory Guideline</u>	<u>Our Agreement</u>
Leverage Capital Ratio	7.97%	5.0%	10.0%
Tier I Capital Ratio	9.51%	6.0%	N/A
Total Risk-Based Capital Ratio	10.78%	10.0%	12.0%

We are actively examining the best means to raise capital, and we are keenly focused on what that means for our existing shareholders in terms of dilution. We believe Northwest Bank is among the best of its class and that our franchise can attract the necessary capital at a valuation that will reflect our position and our long term prospects. Our liquidity, which stood at \$40.5 million, or 31% of total assets at June 30, 2010, is among the strongest of community banks in the Pacific Northwest. We have increased total deposits by nearly \$10 million while exiting more than \$4 million in high-cost brokered deposits over the first six months of this year. At June 30, 2010 our total deposits stood at \$120.7 million, with a cost of funds that we believe is extraordinarily advantageous for the bank.

Of course, the most significant challenge we face is to stem the tide of distressed assets. At September 15, 2010 our total nonperforming assets stand at \$8.7 million, which includes nonperforming loans of \$6.2 million and foreclosed real estate, or “OREO” properties, of \$2.5 million. Of these assets, only \$678,000 represents loans made after December 31, 2007. However, “legacy” problems or not, these troubled assets represent a significant danger to the Bank, and we are aggressively working to resolve them by collecting unpaid sums and, where necessary, foreclosing upon and selling the underlying collateral.

We diligently continue to reduce our exposure to “acquisition and development loans” as a percentage of our total loans, as agreed to within the Order. We’re making progress, albeit more slowly than we anticipated, as Oregon’s real estate sector remains highly stressed with minimal buyer interest. However, we are encouraged by our recent ability to reflect meaningful improvement in our property liquidation efforts.

While the Oregon economy remains challenged across all industry segments, coupled with high unemployment, we, as your Bank, remain optimistic of our unflagging perseverance to confront and overcome each and every test of our resolve to succeed and prosper.

We encourage you to contact us with any of your concerns. Our doors are always open and we are eager to discuss the issues “head on” to ensure you are well informed. Your entire Bank team has and will continue to persevere through the issues addressed within the Order to emerge a healthier and stronger Bank that we can all be proud of to entrust our banking services and refer our friends and associates.

Sincerely,



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