

NORTHWEST BANCORPORATION INC
Form 10-Q
November 10, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2008.

- or -

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.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

421 West Riverside, Spokane, WA 99201-0403

(Address of principal executive offices)

(509) 456-8888

91-1574174
(I.R.S. Employer
identification No.)

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The Registrant has a single class of common stock, of which there were 2,367,246 shares issued and outstanding as of November 6, 2008.

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NORTHWEST BANCORPORATION, INC.

FORM 10-Q

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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

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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

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NORTHWEST 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

	Total	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Comprehensive Income
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					2,956
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					\$ 1,095
Balance, end-of-quarter, September 30, 2008	\$ 28,113	\$ 23,185	\$ 4,845	\$ 83	
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	(\$46)				

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NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOW

Unaudited

(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

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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:

	Number of shares	Weighted average fair value at date of grant
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	14,973	\$ 15.84
Granted		
Forfeited		
Exercised		
Outstanding at September 30, 2008	14,973	\$ 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:

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

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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	\$ 18,403	\$ 18,529	\$ 28,714	\$ 28,910
Available-for-sale marketable equity securities ¹	\$ 250	\$ 250	\$ 250	\$ 250
Securities held-to-maturity:				
Obligations of states, municipalities and political subdivisions	7,629	7,632	7,650	7,693
TOTAL	\$ 7,629	\$ 7,632	\$ 7,650	\$ 7,693
Equity securities with a limited market ²	\$ 395	\$ 395	\$ 395	\$ 395

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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):

	September 30 2008	December 31 2007
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	31,601	27,448
 TOTAL LOANS	 \$ 336,027	 \$ 278,068
Allowance for loan losses	(3,488)	(2,711)
Net deferred loan fees	(1,001)	(644)
 NET LOANS	 \$ 331,538	 \$ 274,713

Table of Contents**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	\$ 3,488	\$ 2,713	\$ 3,488	\$ 2,713

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
					(\$ in thousands)	
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	

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Zions Bank ⁽⁵⁾	\$	5,000	Annual	Unsecured	Short-term line of credit	2,510
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