



ASK FRONTIER

Your key to questions and answers from Frontier Bank Management

We know you have questions, and we've started "**Ask Frontier**" to provide you with answers. We will post responses to frequently asked questions, and will update periodically, including major announcements.

To submit your question, please access the **Contact Us** feature on our website www.frontierbank.com. If you want someone to contact you, please include a phone number. We look forward to hearing from you.

Questions Posted 11/04/09

Q. Why has the Frontier stock price dropped below \$.40?

A. The stock price of any company is a function of the amount of buyers and sellers of the stock. In addition, we have made several announcements over the last six weeks. On September 28th, we filed a form 8K pre-announcing that we expected to provision \$140 million to our loan loss reserve in the third quarter and charge-off \$100 million in loans. This coincided with the issuance of our form S-4 proxy statement related to our pending merger with SP Acquisition Holdings. On October 5th we announced the mutual termination of that merger, and on October 29th, we announced our third quarter 2009 results. Any of the above announcements could have had a negative impact on our stock price. Management remains diligent in our effort to raise capital.

Q. What has management done to raise capital since the merger termination?

A. Management has worked with our advisors, Sandler, O'Neill & Partners to re-contact many of the investors we had discussions with prior to the announcement of the merger with SPAH. In addition, we have contacted a number of additional potential investors since the termination of the merger (including face-to-face meetings in New York), and we remain optimistic that we can raise additional capital. The capital markets have positively changed over the last several months with an acceleration of other banks announcing capital raises.

Q. What impact would the proposed extension of the Net Operating Loss carry-back being considered by Congress have on Frontier?

A. The tax rules currently in effect have allowed Frontier to carry back the recent losses only two tax years to offset prior taxes paid. Frontier is in the process of applying for tax refunds for the tax years 2006 and 2007. Frontier paid federal income taxes of \$27.9 million in 2005 and \$21.9 million in 2004. The current proposal in the House would extend the loss carry-back from 2 years to 5 years, which will allow Frontier to recover a portion of taxes paid in prior tax years. If approved, the additional amount of taxes recovered could result in a similar increase to capital for Frontier.

Q. I have been told I would not have immediate access to my FDIC-insured deposits if a bank fails. Is that true?

A. That is not true. Depositors whose funds are fully insured by the FDIC are afforded immediate access to their funds. In fact, a review of a number of the press releases regarding failed banks reveals the phrase “This evening and over the weekend, depositors of Bank X can access their funds by writing checks or using the ATM or debit cards.”, or words similar to that.

Q. With the high level of Non-Performing loans at the end of the third quarter, can Frontier Bank survive?

A. While the level of non-performing loans increased in the third quarter, that dollar amount of loans migrating to non-performing status has decreased for the last three consecutive quarters. In addition, we have been successful at reducing our exposure (outstanding balance and commitments) to Construction and Development loans by approximately \$1.0 billion over the last twelve months. We need additional capital to weather this downturn, but are encouraged by that trend and the trends in the market place regarding pending home sales, lot sales and inventory levels.

Questions Posted 10/09/09

Q. Why has the Ask Frontier portion of your website not been updated for several months?

A. Once we had an agreement with SP Acquisition Holdings, Inc and were required to file proxy information with the Securities and Exchange Commission, our legal counsel advised us to not update this section of our website.

Q. Why was the merger with SP Acquisitions Holdings, Inc. (SPAH) terminated? Was it something Frontier did?

A. The transaction between SPAH and Frontier was mutually terminated when it became apparent the required regulatory approvals would not be obtained prior to

the October 10th 2009 deadline for SPAH to close the transaction. If SPAH did not close the transaction by October 10th, their charter required the dissolution of SPAH and the investor's money returned. The lack of approval was not a result of something Frontier did, or our failure to respond on a timely basis.

Q. What will Frontier do now?

A. The board and management are committed to finding investors willing to invest additional capital into Frontier. Because of the pending transaction, we have not been seeking other capital investors for the last several months. During that time, a number of other banks have been successful at raising capital. Prior to the consummation of our transaction, very few banks had been able to raise capital. We are optimistic the capital markets have improved.

Q. With the merger with SPAH terminated, is my money still safe at Frontier Bank?

A. Yes. Your FDIC Insured deposits are just as safe at Frontier Bank as they were prior to the termination. In fact, in late August the expiration of the Transaction Account Guarantee (TAG) program which allows for unlimited FDIC Insurance on transaction accounts was extended from December 31, 2009 to June 30, 2010. Under the TAG, all checking, interest checking and IOLTA accounts at Frontier Bank will have unlimited insurance until June 30, 2010. This insurance is separate from the standard FDIC Insurance which insures depositors up to \$250,000.

Questions Posted 5/26/09

Q. I heard Congress had approved a change to the FDIC Insurance on May 20th. How does that affect my accounts at Frontier Bank?

A. You are correct. On May 20, 2009, Congress approved an extension of the standard FDIC Insurance coverage of \$250,000 to December 31, 2013. Previous to this action, the standard FDIC Insurance limit was raised from \$100,000 to \$250,000 through December 31, 2009. With this extension, the higher \$250,000 FDIC Insurance limit will be in place for an additional 4 years. This will allow our customers investing in Time Certificates of Deposit to enjoy the higher FDIC Insurance limits for longer terms through December 31, 2013.

This extension does not affect the non-interest bearing and qualifying interest bearing checking accounts that currently have unlimited FDIC Insurance through December 31, 2009. There has been no action to date taken to extend the unlimited insurance beyond December 31, 2009. For additional information, go to <http://www.fdic.gov/deposit/deposits/changes.html>

Questions Posted 5/18/09

Q. I have read recently about the results of the stress tests for banks and the need for additional capital. What were the results of the stress test for Frontier Bank?

A. The stress tests were administered only to the 19 largest financial institutions in the country. Therefore, Frontier Bank did not receive a stress test. We continue to pursue additional capital investment as requested by our regulators.

Q. Why did your stock price and trading volume increase so much on May 11th and May 12th?

A. We are not certain of the reason for the stock activity on those days. We have heard suggestions that it could have been short sellers covering their positions by submitting buy orders. In addition, another local financial institution reported their 1st quarter results before the market opened on May 11. In their press release, they had emphasized the number of home sales that had occurred through April 30, 2009 for their institution and indicated the improvement of the home sales activity accelerated dramatically in April. We noticed the activity in several Northwest banks with concentrations in residential construction and development had increases in stock price and trading volume on those days.

Questions Posted 4/23/09

Q. I have been contacted by bankers who say Frontier Bank will not make it, and I should switch to their bank. How should I respond?

A. We are disappointed that this tactic is being used in an attempt to gain your business. We are proud to have been a vital part of the communities we serve throughout the Northwest for over 30 years. FDIC Insurance remains in effect and, with the increases in coverage limits last Fall, our staff can help you structure your accounts to maximize your coverage. No one has lost a penny on balances that have FDIC insurance coverage.

We continue to proactively and aggressively address our problem loans. In fact, we reduced our total exposure to real estate construction and land development loans by \$222.4 million in the 1st quarter of 2009. Since the end of the quarter, we have seen a noticeable improvement in the sales activity in the residential real estate market. In addition, we continue to take action to reduce our expenses and preserve capital. Our capital ratios at March 31, 2009, continue to exceed the regulatory minimum levels to be well-capitalized. Our Tangible Common Equity capital ratio at March 31, 2009 was 7.7%, approximately double the level of many large national banks.

Q. When you announced that you had received a Cease and Desist Order from the FDIC and State regulator, you indicated there were

several areas where changes were needed. Is the compliance timeline available?

A. There are several different timelines in the agreement, which is available on the home page of our website under announcements. We have addressed all of the issues detailed in the agreement, some of which are completed and others are an ongoing process.

Q. In your 1st quarter earnings release, you disclosed you had non-performing loans of \$675 million and loan loss reserves of \$111.5 million. How can your Bank survive if non-performing loans exceed your loan loss reserve by that margin?

A. A common misunderstanding is that if a loan is non-performing, then it will be a 100% loss. A non-performing loan results when the ultimate collection of all of the interest and principal of the loan contract is in doubt. Each quarter we analyze our loans and “write-down” our loan balances if we believe the ultimate resolution or sale of the collateral will not cover the balance outstanding. The majority of our non-performing loans are secured by real estate and we believe we have written down the balances to a level that reflects the value of the collateral. In addition to the \$111.5 million of reserves for future loan losses, we also had tangible capital of \$319 million at March 31, 2009 that can be used to absorb any future losses.

Q. Frontier Bank has been supportive of this community for 30 years. Will that support change and what can I do to help?

A. Thank you for the recognition of our level of community service. We will continue to ask our employees to be involved in community service activities and continue to volunteer their time on non-profit boards, service clubs, community service projects and many others. With our focus on reducing expenses, we will likely reduce the amount of money contributed to these efforts.

The most important thing you can do to help Frontier Bank is to continue to support us with your deposit relationship. In addition, please refer your friends and associates to us. We believe we have our arms around our loan challenges and have been encouraged by the recent uplift in the housing market. With your support, we will work through these tough times and continue to be able to support the communities we serve for years to come.

Questions Posted 3/24/09

Q. Does the Regulatory Agreement affect your TARP application or your ability to get other capital?

A. Based on our discussions with our regulators, the agreement does not directly impact our TARP application. They have neither approved nor denied our application. In addition, there is a lot of uncertainty over the TARP program as it

continues to change from its original terms. Our discussions with Private Equity firms and our consultants have indicated that the agreement would not preclude us from receiving other capital investments.

Q. If the Agreement was a result of the regulatory examination as of June 30, 2008, why has it just been signed?

A. This agreement is the result of an examination conducted by the Federal Deposit Insurance Corporation and the Washington Department of Financial Institutions as of June 30, 2008, which is almost nine months ago. The process for issuing a regulatory agreement is time consuming. We received our exam report and a draft of the agreement in late December 2008. The agreement is a legal document and required review by our legal counsel and the regulators' legal counsel. In addition, we were provided the opportunity to object to certain items in the draft agreement. Again, this was time consuming. The reason many of the items listed in the agreement have already been addressed is that management began to take corrective action after the examination was completed in late August.

Q. What happens if the Bank cannot meet all of the terms of the agreement?

A. We fully intend to make our best efforts at complying with all of the terms of the agreement. Our regulators indicated they will consider our efforts in complying with the terms and external factors beyond our control that may impact compliance. In particular, there have been very few investments of capital into banks nationwide over the last several months.

Q. When was the effective date of the agreement?

A. The agreement was effective March 20, 2009.

Q. Has the safety of my deposits at Frontier Bank changed?

A. No. FDIC Insurance remains in effect at Frontier Bank. With recent increases in FDIC coverage limits, families can insure time deposit accounts up to many times the \$250,000 insurance limit, depending on the way the account ownership is set up. Frontier Bank checking accounts and interest checking (NOW accounts) are fully insured without limit through December 31, 2009. Employees at your local branch will be happy to help you make sure your funds are completely insured.

Questions Posted 2/13/09

Q. In their letter dated January 29, why are Frontier Bank executives pointing the finger at builders and developers for the Bank's problems?

A. The letter from the executives was by no means meant to point fingers at anyone. The Bank made the loans and we take ownership in our decisions. We wanted to clarify that the loan problems we are currently having are not widespread throughout our entire loan portfolio, but concentrated in a number of loans to customers in the residential construction and development industry.

Q. With your stock price hitting an all-time low of \$1.20 last week, does that reflect the health of Frontier Bank?

A. While the Board and management are very concerned about our low stock price, it does not always reflect the health of the company. In these challenging times, most bank stocks have hit all time lows and continue to be very volatile. In addition, those banks in the Pacific Northwest with higher levels of construction and land development loans seem to be at lower price levels based on concerns over the housing market. Frontier Bank had capital levels above the regulatory minimums to be well-capitalized and had a strong liquidity position at December 31, 2008. Capital and Liquidity are the two most important items in a bank remaining viable. Frontier Bank is focused on maintaining a high level of both Capital and Liquidity.

Q. Has Frontier Bank stopped making loans?

A. No. Frontier Bank continues to originate new loans, particularly to business and consumer clients. In addition, we have recently developed a new business banking team to focus on growing loans and deposits with small to medium sized businesses. We are currently not making new loans for residential construction and development projects.

Q. How can I be sure my accounts are insured?

A. The FDIC expanded the standard insurance coverage per account holder from \$100,000 to \$250,000. In addition, funds held in a checking account or our interest checking account (NOW account) have unlimited insurance coverage through December 31, 2009. You can speak to someone in any Frontier Bank Office to help structure your accounts to maximize your deposit insurance protection.

Questions Posted 2/3/09

Q. Frontier Bank announced an \$89.5 million loss in the 4th quarter of 2008. Can the Bank survive?

A. Absolutely. Of course we don't like losses, but \$77 million or 85 percent of the total was a write off of good will. This is a non-cash charge reflecting an intangible asset related to the acquisition of some of the banks we have purchased over the

years. As a non cash write-off, it does not impact our liquidity, operations or regulatory capital ratios.

Q. Did the loss negatively impact your regulatory capital ratios in the 4th quarter?

A. No. Goodwill is excluded from regulatory capital measures. The write-off of goodwill had no impact on our regulatory capital ratios as of December 31, 2008. In fact, Frontier Bank's regulatory capital ratios improved from September 30, 2008 to December 31, 2008 and continue to be above the regulatory minimums for being well capitalized.

Q. The housing market is terrible; how will you cover future losses?

A. Frontier has taken a proactive position regarding potential future losses. As part of our due diligence, the bank formed a special assets group to oversee any troubled loans. In addition, each month the bank has set aside a portion of our income into an account called loss reserves. In 2008, we placed \$120 million into the account. Our net loan write-offs in 2008 were \$63 million. As a result, we increased our reserve for future loan losses in 2008 by \$57 million, resulting in a total reserve as of December 31, 2008 of \$114 million. We will continue to be proactive at evaluating our reserve levels for adequacy and recognizing problem loans on a timely basis.

Q. How do these losses impact my accounts at Frontier?

A. They don't. FDIC Insurance protects most of our depositors. With recent increases in FDIC insurance coverage limits, individuals and families can be protected for up to \$250,000 per account and to much higher levels when properly structured per family. Non-interest bearing checking accounts and checking accounts earning .50% APY or less have unlimited insurance coverage through December 31, 2009.

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