

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

Written Agreement by and among

BANK OF WHITMAN EMPLOYEE STOCK
OWNERSHIP PLAN
Colfax, Washington

WHITMAN BANCORPORATION, INC.
Colfax, Washington

BANK OF WHITMAN
Colfax, Washington

and

FEDERAL RESERVE BANK OF
SAN FRANCISCO
San Francisco, California

Docket Nos. 10-112-WA/RB-HC
10-112-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Bank of Whitman Employee Stock Ownership Plan (“ESOP”), Whitman Bancorporation, Inc. (“WBI”), both registered bank holding companies, and their subsidiary bank, Bank of Whitman, (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, all of Colfax, Washington, ESOP, WBI, the Bank, and the Federal Reserve Bank of San Francisco (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on July 8, 2010, ESOP’s Trustee, and WBI’s and the Bank’s boards of directors, at duly constituted meetings, adopted resolutions authorizing and directing James H. Tribbett and Dwayne L. Blankenship, to consent to this

Agreement on behalf of ESOP, WBI, and the Bank, respectively, and consenting to compliance with each and every applicable provision of this Agreement by ESOP, WBI, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, ESOP, WBI, the Bank, and the Reserve Bank, agree as follows:

Source of Strength

1. ESOP’s trustee and the board of directors of WBI shall take appropriate steps to fully utilize EOP’s and WBI’s financial and managerial resources, pursuant to section 225.4(a) of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with this Agreement and any other supervisory action taken by the Bank’s federal or state regulators.

Board Oversight

2. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s major operations and activities, including but not limited to, credit risk management, credit administration, allowance for loan and lease losses (“ALLL”), capital, earnings, and funds management;

(b) the responsibility of the board of directors to monitor management’s adherence to approved Bank policies and procedures, and to require management to document exceptions thereto; and

(c) the development and implementation of formal tracking and follow-up procedures to ensure corrective actions are taken to address audit and regulatory findings.

Credit Risk Management

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

(a) Procedures to identify, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1);

(b) the establishment by the board of directors of the Bank of appropriate written risk tolerance guidelines and risk limits, and controls to ensure adherence thereto;

(c) procedures to periodically review and revise risk exposure limits to address changes in market conditions;

(d) strategies to reduce concentrations of credit including a schedule for reducing the outstanding dollar amount of concentrations; and

(e) strategies to minimize credit losses and reduce the level of problem assets.

Lending and Credit Administration

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable enhanced written lending and credit administration program that shall, at a minimum, address, consider, and include:

(a) Underwriting standards that require documented analyses of: (i) the borrower's repayment sources, global cash flow, and overall debt service ability; and (ii) the value of any collateral;

(b) standards for renewing, extending, or modifying existing loans, including, but not limited to, the capitalization of interest and approval and documentation requirements;

(c) procedures for the periodic analyses, during the term of the loan, of: (i) the borrower's repayment sources, global cash flow, and overall debt service ability; and (ii) the value of any collateral;

(d) standards for loan to value ratios;

(e) standards for unsecured loans;

(f) standards for the timely movement of loans to non-accrual status;

(g) enhancements to the appraisal policy that include, but are not limited to:

(i) specific guidelines on appraisal and evaluation requirements that are consistent with regulatory requirements; and

(ii) written standards for when reappraisals and reevaluations must be conducted; and

(h) enhancements to the internal loan grading system to ensure timely and accurate risk ratings.

Asset Improvement

5. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of examination of the Bank conducted by the Reserve Bank that commenced on September 14, 2009 (the "Report of Examination") or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically

certifying that: (i) the Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

6. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$1,000,000, including other real estate owned ("OREO"), that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the

financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$1,000,000, including OREO, that (i) becomes past due as to principal or interest for more than 90 days; (ii) is on the Bank's problem loan list; or (iii) is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and shall document the review in the minutes of the board of directors' meetings.

Loan Review Program

7. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for strengthening internal review and grading of the Bank's loan portfolio by a qualified independent party or by staff that is independent of the Bank's lending function. The program shall, at a minimum, address, consider, and include:

- (a) The scope and frequency of loan review;
- (b) standards and criteria for assessing the credit quality of loans;

(c) application of loan grading standards and criteria to the loan portfolio, including procedures to re-evaluate loans in the event of material changes in the borrower's performance or value of the collateral; and

(d) controls to ensure the consistent adherence to the loan grading standards and criteria and the revised review program.

Allowance for Loan and Lease Losses

8. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank.

(b) Within 60 days of this Agreement, the Bank shall review and revise its allowance for loan and lease losses ("ALLL") methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectability.

(c) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Earnings Plan and Budget

9. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank a written business plan for 2010 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive budget for calendar year 2010, including income statement and balance sheet projections; and
- (ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A business plan and budget for each calendar year subsequent to 2010

shall be submitted to the Reserve Bank at least 30 days prior to the beginning of that calendar year.

Capital Plan

10. Within 60 days of this Agreement, WBI and the Bank shall submit to the Reserve Bank an acceptable joint written plan to maintain sufficient capital at WBI on a consolidated basis, and the Bank as a separate legal entity on a stand-alone basis. The plan shall, at a minimum, address, consider, and include:

(a) WBI's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D);

(b) the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(c) the adequacy of the Bank's capital, taking into account the volume of classified assets, concentrations of credit, the adequacy of the ALLL, current and projected asset growth, projected retained earnings, and anticipated and contingency funding needs;

(d) the source and timing of additional funds to fulfill WBI's and the Bank's future capital requirements; and

(e) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that WBI serve as a source of strength to the Bank.

11. WBI and the Bank shall notify the Reserve Bank, in writing, no more than 30 days after the end of any calendar quarter in which any of WBI's consolidated capital ratios or the Bank's capital ratios (total risk-based, Tier 1 risk-based, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, the WBI and the Bank shall submit an acceptable written plan that details the steps WBI or the Bank, as appropriate, will take to increase WBI's or the Bank's capital ratios to or above the approved capital plan's minimums.

Funds Management

12. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank a revised written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes enhanced adverse scenario planning.

Cash Flow Projections

13. Within 60 days of this Agreement, WBI shall submit to the Reserve Bank a written statement of WBI's planned sources and uses of cash for debt service, operating expenses, and other purposes ("Cash Flow Projection") for 2010. WBI shall submit to the Reserve Bank a Cash Flow Projection for each calendar year subsequent to 2010 at least one month prior to the beginning of that calendar year.

Brokered Deposits

14. (a) At all times during the term of this Agreement that the Bank is well capitalized, the Bank shall not increase the level of brokered deposits. For purposes of this subparagraph, the term "brokered deposits" is defined as set forth in section 337.6(a) of the regulations of the Federal Deposit Insurance Corporation (the "FDIC") (12 C.F.R. § 337.6(a)) and includes deposits funded by third party agents or nominees for depositors; and the term "new brokered deposits" is defined not to include renewals or rollovers of brokered deposits.

(b) Within 30 days of this Agreement, the Bank shall submit an acceptable plan to the Reserve Bank for reducing its reliance on brokered deposits. The plan shall detail the current composition of the Bank's brokered deposits by maturity and explain the means by which such deposits will be paid at maturity.

Dividends and Distributions

15. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, and the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the "Director").

(b) WBI and shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director.

(c) ESOP and WBI shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(d) WBI and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(e) The Bank shall not make, and ESOP shall not accept, any employer contribution from the Bank to ESOP without the prior approval of the Reserve Bank and the Director.

(f) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on the parent's capital, earnings, and cash flow; the Bank's capital, asset quality, earnings and ALLL needs; and identification of the

sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, WBI and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323). For requests for the Bank to make contributions to ESOP, ESOP and the Bank must demonstrate, at a minimum, that the proposed contributions are consistent with the Bank's historical contribution practices, that the contributions are necessary in order for the ESOP to meet current obligations (as defined in the Bank of Whitman Stock Ownership Plan), and that the contributions will not adversely affect the Bank's ability to comply with an acceptable capital plan.

Debt and Stock Redemption

16. (a) ESOP, WBI, and its nonbank subsidiaries, shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) WBI shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Compliance with Laws and Regulations

17. (a) The Bank shall immediately take all necessary steps to correct all violations of law and regulation cited in the Report of Examination. In addition, the board of directors of the Bank shall take the necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

(b) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, WBI and the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*). WBI and the Bank shall not appoint any individual to WBI's or the Bank's board of directors or employ or change the responsibilities of any individual as a senior executive officer if the Reserve Bank notifies WBI or the Bank of disapproval within the time limits prescribed by Subpart H of Regulation Y.

(c) WBI and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with Agreement

18. (a) Within 10 days of this Agreement, WBI's and the Bank's boards of directors shall appoint a joint compliance committee (the "Compliance Committee") to monitor and coordinate WBI's and the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include a majority of outside directors who are not executive officers or principal shareholders of WBI and the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the boards of directors of WBI and the Bank.

Progress Reports

19. Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Agreement and the results thereof.

Approval and Implementation of Plans, Procedures, and Programs

20. (a) WBI and the Bank shall submit written plans and a program that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 3, 4, 6(a), 6(b), 7, 8(c), 10, 11, and 14(b) of this Agreement.

(b) Within 10 days of approval by the Reserve Bank, WBI and the Bank shall adopt the approved plans and program. Upon adoption, WBI and the Bank shall promptly implement the approved plans and program, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and program shall not be amended or rescinded without the prior written approval of the Reserve Bank.

Communications

21. All communications regarding this Agreement shall be sent to:

- (a) Mr. William Andrews
Examining Manager
Community Institutions Group
Banking Supervision and Regulation
Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105
- (b) Mr. James Tribbett
Chief Executive Officer
Whitman Bancorporation, Inc.
Bank of Whitman
201 South Main Street
Colfax, Washington 99201

With a copy to:

John F. Breyer, Jr.
Breyer & Associates PC
8180 Greensboro Drive
Suite 785
McLean, Virginia 22102

- (c) Trustee
Bank of Whitman Employee Stock Ownership Plan
Bank of Whitman
201 South Main Street
Colfax, Washington 99201

Miscellaneous

22. Notwithstanding any provision of this Agreement, the Reserve Bank may, in its sole discretion, grant written extensions of time to WBI and the Bank to comply with any provision of this Agreement.

23. The provisions of this Agreement shall be binding upon ESOP, WBI, the Bank, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

24. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

25. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting ESOP, WBI, the Bank, or any of their current or former institution-affiliated parties and their successors and assigns.

26. Pursuant to Section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under Section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 8th of July, 2010.

BANK OF WHITMAN EMPLOYEE
STOCK OWNERSHIP PLAN

FEDERAL RESERVE BANK
OF SAN FRANCISCO

By: /s/ Dwayne L. Blankenship
Dwayne L. Blankenship
Trustee

By: /s/ Kevin Zerbe
Kevin Zerbe
Vice President

WHITMAN BANCORPORATION, INC.

BANK OF WHITMAN

By: /s/ James H. Tribbett
James H. Tribbett
Chief Executive Officer

By: /s/ James H. Tribbett
James H. Tribbett
Chief Executive Officer