CASE STUDY 2
WHIPLASH BANK CASE STUDY

OVERVIEW OF WHIPLASH BANK

Whiplash Bank was organized in 2002 in Washington and began its banking operations in Spokane, Washington in 2003. The Bank's main office continues to be in Spokane. The Bank also operates branch offices in Richland, Washington and Kennewick, Washington.

The Bank's loan portfolio consists primarily of real estate loans, consumer loans, business loans, residential and commercial construction loans, and other investments. The Bank attracts deposits from the general public and other sources. As of December 31, 2007, Whiplash Bank had approximately $100.0 million in assets, $85.0 million in deposits, and $10 million in shareholders' equity.

Management of Whiplash Bank

Since the middle of 2003, Whiplash Bank's senior executive management team has been led by Herman Slick, its president and chief executive officer. Mr. Slick has over 25 years of experience in the banking industry. Prior to joining Whiplash Bank, Mr. Slick served as the president of 123 Banking Company, a subsidiary of 123 Banking Corporation of Southeast, Washington, a bank holding company headquartered in Richland, Washington, until it was acquired by Brand Bank &Trust Corporation in 2001.

Whiplash Bank's senior executive management team also consists of Helen Geek and Henry Noway. Ms. Geek serves as the chief financial officer of Whiplash Bank, a position she has held since August 2002. Mr. Noway began serving as the Bank's senior lending officer in December 2002. He was formerly the city president for Big Bank and has lived in Spokane, Washington since 1972.

Mr. Slick, Ms. Geek, and Mr. Noway compose the senior executive management team who has a combined 49 years of experience in the financial services industry. The chart below illustrates the experience of the senior executive management team.

Name	Position	Years Experience in Financial Services Industry
Herman Slick	President and Chief Executive Officer	25
Helen Geek	Chief Financial Officer	11
Henry Noway	Senior Lending Officer	13

- ***Management team*** **-** Whiplash Bank focuses on recruiting and retaining highly experienced and qualified banking personnel, preferably with established client relationships. The Bank's relationship bankers have significant banking experience. The bank has hired experienced relationship bankers to run the full-service financial centers that are located in Richland, Washington and Kennewick, Washington.

  Hazel Lender is the primary loan officer in Richland, Washington and has 11 years of lending experience.

  Howard Silverspoon is the primary loan officer in Kennewick, Washington and has two years of lending experience. Mr. Silverspoon's father is a member of the Bank's board of directors.

- ***Individual customer focus*** **-** The Bank focuses on providing individual service and attention to its target customers. As the Bank's employees, officers and directors become familiar with its customers on an individual basis, we believe the Bank will be able to respond to credit requests more quickly and be more flexible in approving complex loans than the Bank's competitors.

Current Markets

The Washington Department of Labor has indicated that the population is expected to increase modestly in Spokane, Washington over the next few years, and the median income is below the state average. The population of Richland, Washington, on the other hand, is expected to increase rapidly over the same period with the median income being in line with the state average. The population of Kennewick, Washington is expected to increase modestly over the next few years and has a median income well above the state average. The labor force of Spokane and Richland is employed primarily in the service sector with a smaller percentage in the manufacturing sector with a pending plant closing and loss of over 1,000 jobs. The labor force of Kennewick consists of low pay employees working for the wealthy. The labor force primarily commutes to Kennewick daily.

Planned Expansion into Greener Pastures, Washington

The Bank plans to open a full-service financial center in **Greener Pastures**, Washington in July 2008 in order to serve the **Greener** market and the immediately surrounding area. The full-service financial center will open in July 2008 with the assistance of experienced bankers Albert Alltalk, Edward Lazy and Susan Changebank.

The Bank believes that **Greener Pastures** and the surrounding area represent an economically diverse and thriving community that is an ideal market for WHIPLASH Bank's expansion. The population in **Greener Pastures** has experienced moderate growth of approximately 4.4 percent over the last six years, with similar growth projected over the next five years. Over the last seven years, deposits in the zip code where the full-service financial center will be located increased 290.7 percent. The greater **Greener Pastures** area has a broad-based economy which includes manufacturing, transportation, tourism, military, health care and retail/service businesses. Management believes that the community will enthusiastically welcome and support a new locally-owned and operated community bank that is dedicated to serving the needs of its residents, small to medium-sized businesses, and professionals.

Lending Activities

The Bank emphasizes a range of lending services, including commercial, A&D, real estate, and consumer loans. In addition to individuals, current and prospective clients include small to medium-sized businesses, real estate developers, and professionals who are located in or conduct a substantial portion of their business in the Bank's primary market areas. The percentage composition of loans outstanding in the Bank's portfolio as of December 31, 2007 was:

Commercial Real Estate	21.0%
Commercial Other	21.0%
Real Estate A&D	33.7%
Office Buildings	5.9%
Hotels	9.3%
Convenience Stores	4.6%
Consumer	4.5%

Whiplash Bank has a substantial amount of loans secured by real estate in Spokane, Washington, Richland, Washington and Kennewick, Washington, and the surrounding area as well as a large amount of loan participations in Washington and the surrounding states. As of December 31, 2007, 74.5 percent of its loans were secured by real estate. An additional 18.0 percent were commercial, industrial, or consumer loans that are not secured by real estate; and the remaining 7.5 percent were loan participations. These concentrations expose Whiplash Bank to the risk that adverse developments in the real estate market, or in the general economic conditions in this area, could increase the levels of nonperforming loans and charge-offs and could reduce loan demand and deposit growth. Consequently, a decline in local economic conditions may have a greater effect on Whiplash Bank's earnings and capital than on the earnings and capital of a larger financial institution whose real estate portfolios are more geographically diverse.

Over the past six months, new housing starts in Spokane, Washington decreased by 10 percent, new housing starts in Richland, Washington decreased by 60 percent and Kennewick, Washington housing starts increased by 2 percent.

In each of the markets in which the Bank operates, appraised value and resale values have decreased by 25 percent due to economic factors relating to sub-prime and residential development problems.

In each market, the Bank has seen very little decline in the values of commercial real estate. However consumer credit is worrisome due to inability of borrowers to refinance or sell their existing homes. Credit card debt appears to be rising and the Bank has experienced a trend of increasing past dues on consumer debt.

Additionally, if economic conditions in this area deteriorate, or there is significant volatility or weakness in the economy or any significant sector of the area's economy, Whiplash Bank's ability to develop business relationships may be diminished, the quality and collectibility of its loans may be adversely affected, the value of collateral may decline, and loan demand may be reduced.

Due to expected economic downturns during September 2007, the Bank increased its underwriting standards and now requires all loans to strictly adhere to the loan-to-collateral ratios set forth in the Bank's policy which is summarized as follows:

Commercial Real Estate	85%
Acquisition and Development	75%
All Other Real Estate	80%

Also, during September 2007, the Bank tightened credit standards for consumer lending. Customers with Beacon scores below 640 require a concurring officer approval for loans in excess of $10,000.

On December 31, 2007, approximately 44.7 percent of Whiplash Bank's loans had variable rates. Given its high percentage of rate-sensitive loans, its primary focus to date has been to obtain short-term liabilities to fund its asset growth. This strategy allows it to manage the impact on its earnings resulting from changes in market interest rates. On December 31, 2007, 58.9 percent of WHIPLASH Bank's deposits could reprice or mature within one year.

Whiplash Bank anticipates that decreases in interest rates during 2007 will result in a decrease in loan yields. Whiplash Bank has tried to position itself to capitalize on any decrease in rates on the liability side by offering variable interest rates on its deposits and obtaining borrowings with floating rate features to help lower its cost of funds.

Employment Agreements and Bonuses
Whiplash Bank entered into new employment agreements with Mr. Slick and Mr. Noway. These agreements set forth the terms and conditions for bonuses based primarily on net income and loan growth. Mrs. Geek's bonus is based primarily on net income and efficiency ratios. Mr. Technical Exception's and Mr. Born Right's bonuses are based primarily on loan growth for the respective branches.

FDIC National Information

The FDIC for the third quarter of 2007 reported the following significant highlights:

- Almost half of all institutions reported lower profits
- Rising levels of troubled loans in all major categories, but most notable in residential mortgage portfolios
- ROA was the lowest since 1992
- Loss provisions surged to a 20 year high
- The third quarter loss provision was the quarterly loss provision for the industry since 1987
- Loan losses are higher in most categories. Net chargeoffs were the largest quarterly amount since 2002
- Residential real estate accounts for more than half of the increase in noncurrent loans.
- The industry's "coverage ratio" declined to its lowest level since 1993.

SELECTED FINANCIAL INFORMATION

Set forth below are highlights derived from Whiplash Bank's audited consolidated financial statements for the years ended December 31, 2006, December 31, 2005, and December 31, 2004 and Whiplash Bank's unaudited consolidated financial information as of and for the nine months ended September 30, 2007 and September 30, 2006. The financial information set forth below is historical and is not indicative of Whiplash Bank's expected results of operations.

	Nine Months Ended September 30,		Year Ended December 31,		
	2007	2006	2006	2005	2004
	(unaudited)				
	(dollars in thousands except per share information)				
Selected Financial Condition Data(1)					
Cash and cash equivalents	$2,879	$2,327	$2,943	$3,949	$3,208
Securities available for sale	16,958	15,760	15,533	14,271	14,173
Loans, net	77,755	66,500	67,259	60,826	50,596
Total assets	102,914	91,564	92,491	84,804	73,208
Total deposits	86,153	78,852	77,360	69,450	60,034
Total liabilities	93,194	82,724	83,407	76,689	65,574
Total shareholders' equity	9,720	8,840	9,084	8,115	7,634
Allowance for loan losses	900	825	850	750	600
Nonperforming loans	1,400	400	450	400	300
Selected Operating Data(1)					
Interest and dividend income	$5,753	$5,012	$6,874	$5,041	$3,999
Interest expense	2,362	1,671	2,369	1,271	821
Net interest income	3,391	3,341	4,505	3,770	3,378
Provision for loan losses	375	132	156	148	100
Other noninterest income	787	746	965	1,015	1,113
Other noninterest expense	2,887	2,381	3,295	3,322	3,299
Income before income taxes	916	1,574	2,019	1,315	892
Provision for income taxes(2)	350	533	672	598	300
Net income	$566	$1,041	$1,347	$714	$592
Basic earnings per share	$8.89	$11.40	$14.62	$10.68	$8.17
Diluted earnings per share	$8.89	$11.40	$14.62	$10.68	$7.49

	Nine Months Ended September 30,		Year Ended December 31,		
	2007	2006	2006	2005	2004
	(unaudited)				
Selected Financial Ratios and Other Data for the Bank(1)(3):					
Performance Ratios:					
Return on average assets	1.3%	1.4%	1.3%	1.5%	1.1%
Return on average equity	10.4%	15.9%	14.0%	14.3%	10.6%
Average equity to average assets	9.1%	9.1%	9.1%		
Equity to total assets at end of period	10.2%	9.3%	9.5%	9.3%	10.4%
Net interest margin	3.9%	4.4%	4.4%	4.3%	5.2%
Average interest earning assets to average interest bearing liabilities	120.5%	125.2%	125.3%	125.2%	124.8%
Total noninterest expense to average assets	2.4%	2.7%	3.6%	4.1%	4.5%
Efficiency ratio	66.2%	67.2%	69.2%	71.4%	72.5%
Regulatory Capital Ratios:					
Total risk-based capital to (risk-weighted assets)	12.6%	13.0%	13.2%	13.1%	14.3%
Tier I capital to (risk-weighted assets)	11.3%	11.8%	12.0%	11.9%	13.1%
Tier I capital to (average assets)	9.3%	9.5%	9.6%	9.6%	10.2%
Asset Quality Ratios:					
Nonperforming assets as a percent of total loans	1.79%	0.46%	0.33%	0.34%	0.23%
Nonperforming assets as a percent of total assets	0.84%	0.08%	0.08%	0.16%	0.11%
Allowance for loan losses as a percent of total loans	1.21%	1.21%	1.21%	1.21%	1.4%

Lending Activities

***Loan Approval and Review* -** The Bank's loan approval policies provide for various levels of officer lending authority. When the amount of aggregate loans to a single borrower exceeds that individual officer's lending authority, it is reviewed and approved through the loan committee process. The Bank does not make loans to any director, officer, or employee of the Bank, or any business of these persons, unless the loan is approved by its board of directors and is on terms not more favorable to the person or the business than would be available to a person or business not affiliated with the Bank.

***Loan Participations* -** Loan participations, whether sold or purchased, are regularly monitored by our senior lending officer. As of December 31, 2007, the Bank had approximately $3.9 million in loan participations sold and approximately $6.4 million in loan participations purchased.

Loan Portfolio Details

The following table summarizes the composition of Whiplash Bank's loan portfolio on December 31, 2007 and December 31, 2006.

	December 31, 2007		December 31, 2006	
	Amount	% of Total	Amount	% of Total
	(unaudited) (dollars in thousands)			
Mortgage Loans on Real Estate				
Construction	$26,368	33.7%	$27,123	38.7%
Convenience stores	3,600	4.6%	1,767	2.5%
Hotels	7,294	9.3%	5,781	8.2%
Office	4,603	5.9%	4,692	6.7%
Commercial	16,267	21.0%	17,924	25.6%
Total mortgage loans on real estate	58,132		57,287	
Commercial, Financial, and Agricultural Loans	16,457	21.0%	7,809	12.6%
Other Loans				
Consumer	3,413	4.4%	2,942	5.6%
Other	191	0.1%	71	0.1%
Total	$78,193		$68,109	

Provision and Allowance for Loan Losses

Whiplash Bank's allowance for loan losses was $900,000, $850,000, and $750,000 on September 30, 2007 and December 31, 2006 and 2005, respectively. Its allowance for loan losses as a percentage of gross loans was 1.21 percent on September 30, 2007, 1.21 percent on December 31, 2006, and 1.21 percent on December 31, 2005.

	At or for the Nine Months Ended September 30,		At or for the Year Ended December 31,	
	2007	2006	2006	2005
	(unaudited) (dollars in thousands)			
Beginning balance	$850	$750	$750	$600
Add - provision for possible loan losses	375	132	156	148
Subtotal	1225	882	906	748
Less:				
Loans charged off	(333)	(81)	(85)	(98)
Recoveries on loans previously charged off	8	24	29	100
Net loans recovered (charged off)	(325)	(57)	(56)	2
Balance, end of year(1)	$900	$825	$850	$750

(1) Small discrepancies may occur due to rounding.

Whiplash Bank retains an independent consultant who reviews its loan files on a test basis to confirm the grading of its loans.

Historical Information

Appendix A – Loan Portfolio Trend Analysis

Appendix A

ABC Bank

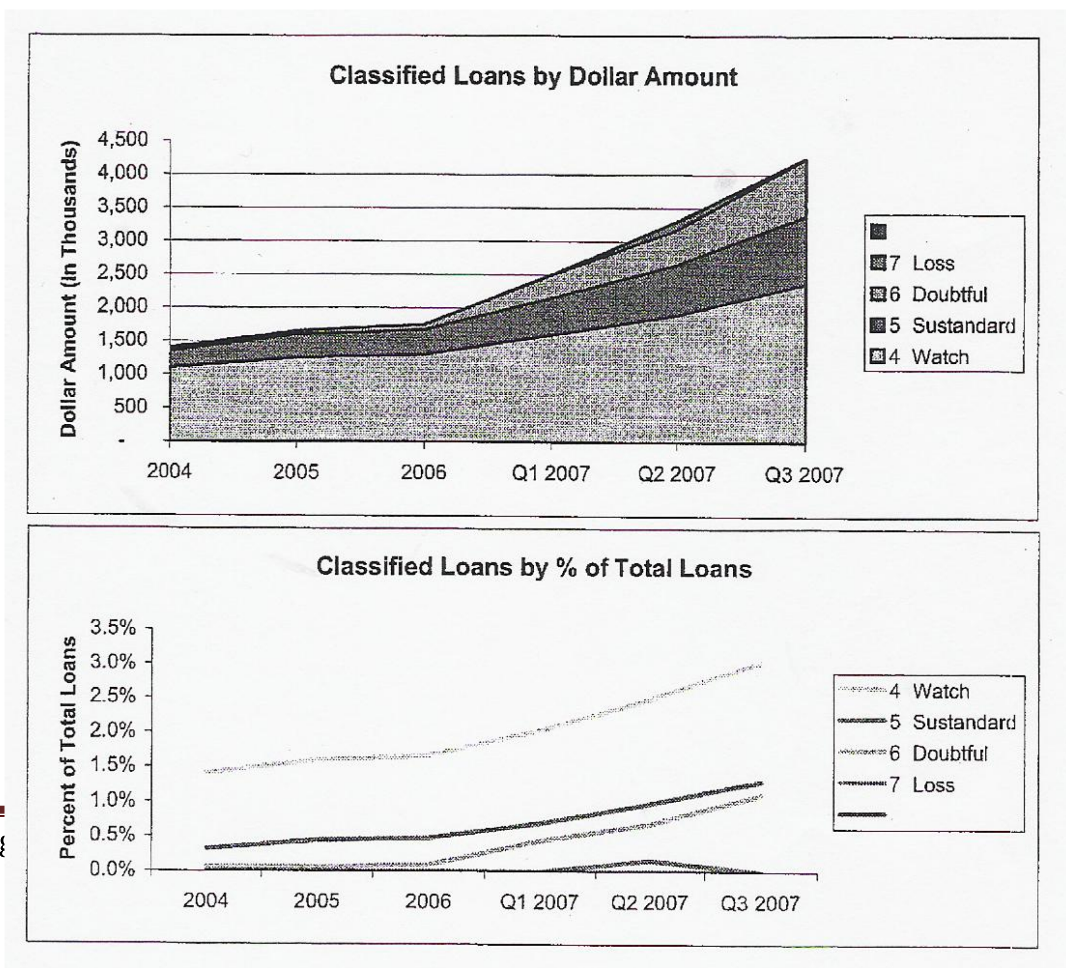
Loan Portfolio Trend Analysis

December 31, 2007

1. Internal Grade Analysis (in thousands)

		Year End						Quarter End					
		2004		**2005**		**2006**		**Q2 2007**		**Q3 2007**		**Q4 2007**	
4	Watch	$1,100	1.4%	$1,250	1.6%	$1,300	1.7%	$1,600	2.0%	$1,900	2.5%	$2,364	3.0%
5	Substandard	250	0.3%	350	0.4%	375	0.5%	550	0.7%	750.0	1.0%	1,015	1.3%
6	Doubtful	50	0.1%	50	0.1%	75	0.1%	350	0.4%	525.0	0.7%	864	1.1%
7	Loss		0.0%		0.0%		0.0%		0.0%	125.0	0.2%		0.0%
	Total	$1,400	1.8%	$1,650	2.1%	$1,750	2.2%	$2,500	3.2%	$3,300	4.3%	$4,243	5.4%
	ALLL	$790		$800		$800		$825		$925		$985	
	Total Loans	**$78,165**		**$78,372**		**$78,079**		**$78,920**		**$76,550**		**$78,000**	

Appendix B – Average Charge-offs for Loans Rated Substandard
Appendix C – Loss History for Real Estate, Commercial and Consumer Categories



Appendix B

Average Chargeoffs for Loans Rated Substandard

	2002	2003	2004	2005	2006	Average
Net chargeoffs	123,600	142,790	146,939	154,379	158,899	
Average non-accrual	1,100,000	1,900,000	1,050,000	975,000	2,300,000	
Percentage	11.24%	7.52%	13.99%	15.83%	6.91%	11.10%

LOSS HISTORY FOR REAL ESTATE, COMMERCIAL, AND CONSUMER CATEGORIES

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Loss History Average		
CONVENIENCE STORE									
Net chargeoffs	1,250	1,250	3,540	3,540	3,540	3,540			
Average balance	3,587,500	3,587,465	3,598,642	3,600,124	3,591,248	3,595,412			
Loss history %	0.0348%	0.0348%	0.0984%	0.0983%	0.0986%	0.0985%	0.08%		
HOTEL LOANS									
Net chargeoffs	4,750	4,750	7,845	7,845	7,845	8,105			
Average balance	7,154,876	7,254,863	7,300,456	7,245,868	7,254,868	7,268,451			
Loss history %	0.0664%	0.0655%	0.1075%	0.1083%	0.1081%	0.1115%	0.09%		
OFFICE BUILDING									
Net chargeoffs	2,540	2,540	2,540	3,890	3,890	4,150			
Average balance	4,605,784	4,598,765	4,584,562	4,615,487	4,602,134	4,610,024			
Loss history %	0.055%	0.055%	0.055%	0.084%	0.085%	0.090%	0.07%		
CONSUMER									
Net chargeoffs	29,785	29,785	29,785	32,584	32,584	36,584			
Average balance	3,657,842	3,654,218	3,588,796	3,612,354	3,701,245	3,645,872			
Loss history %	0.814%	0.815%	0.830%	0.902%	0.880%	1.003%	0.87%		1
REAL ESTATE									
Net chargeoffs	75,025	75,025	81,540	81,540	85,475	85,475			
Average balance	24,561,321	23,568,475	24,685,132	24,324,568	23,487,752	24,231,658			
Loss history %	0.3055%	0.3183%	0.3303%	0.3352%	0.3639%	0.3527%	0.33%		2
COMMERCIAL									
Net chargeoffs	10,250	10,250	17,540	17,540	21,045	21,045			
Average balance	35,612,345	33,986,524	34,512,312	34,725,678	35,984,621	34,587,692			
Loss history %	0.0288%	0.0302%	0.0508%	0.0505%	0.0585%	0.0608%	0.05%		
Total average loans	79,179,668	76,650,310	78,269,900	78,124,079	78,621,868	77,939,109			
Total net chargeoffs	123,600	123,600	142,790	146,939	154,379	158,899			
1 =	We do not have significant experience in consumer losses. UBPR peer numbers for our loss percentages approximate 1percent								
2 =	Due to the economic condition of the residential real estate market with a 10 percent decrease in Washington home sales during last half of 2007, the historic loss percentage is not representative of the Bank's loss.								

QUESTION 1

List ten qualitative factors impacting the loan portfolio.

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________
7. ______________________________
8. ______________________________
9. ______________________________
10. ______________________________

QUESTION 2

What is your opinion about the percentage composition of loans outstanding in the Bank's loan portfolio as of 12/31/07 in relations to the current economic climate?

QUESTION 3

Review the selected financial information on page 4 and provide your overall assessment of the financial condition and trend of Whiplash Bank.

QUESTION 4

Review the selected financial ratios on page 5 and provide a brief explanation of:

1. What each ratio measures
2. The overall trend of each ratio
3. What factor(s) affect the change in each ratio from one period to another period

QUESTION 5

Obtain the Uniform Bank Performance Report from the FDIC website and compare Whiplash Bank's performance to its peer group. Use Peer Group 6 for the banks in Washington state as a basis of comparison.

QUESTION 6

1. Are you comfortable with the loan portfolio distribution as shown on page 6? Why or Why not?

2. Explain the Loan Portfolio Trend Analysis on pages 7 through 9 and provide an overall assessment of the major trends.

QUESTION 7

Review the Provision and Allowance for Loan Losses on page 6 and explain what happened since 12/31/05.

Pick any period of time and explain the accounting entries required to:

1. Add to the Provision for Possible Loan Losses (PPLL) and the Allowance for Loan and Lease Losses (ALLL)
2. Charge off loans
3. Recoveries on loans previously charged off