

7/30/09

Dear Shareholder,

While financially the second quarter of this year has been challenging for The Bank of Washington, there have also been some positives that give us hope for the future. We remain concerned about the state's high unemployment rate which ultimately affects all of our customers. Increasing unemployment rates have had a negative effect on home sales throughout our region. Many of our builders are struggling during this sales cycle. Since we have a large portion of our loan portfolio in new home construction, this slowing has impacted us as well. During this time we are very focused on helping our builders sell the finished homes they have financed with us.

The company recorded a net loss of \$2,456,000 in the second quarter. This was primarily due to the stresses in our builder loan portfolio necessitating the addition of \$3,575,000 to our loan loss reserve. Currently this reserve stands at \$7,400,000 or 4.27% of loans outstanding. As we had mentioned in our previous letters to you, we may have to continue to add to our reserves as we work through this current housing cycle. Our total loans continue to decline as we focus on decreasing our builder loan portfolio. Total loans at quarter end were \$176,000,000 compared to \$181,000,000 and \$189,000,000 for 1st quarter and year end, respectively. We have been reducing our discretionary expenses to help offset our current losses. We will continue to balance expenses to revenue as economic conditions warrant.

The positives include efforts by our Special Assets Group, which has been able to reduce our Construction and Development loan portfolio by approximately 18% since the beginning of the year. Also, we have recently been experiencing an increase in our builders' sales activity. This may be seasonal or the beginning of a trend, time will tell.

For 2009 our goals include strengthening relationships with our current customers and developing new relationships within the communities we serve. Focusing on these core local relationships is essential to our success. We have also encouraged our branch managers and their staffs to become involved in their communities by volunteering their time and bank resources to support local non-profit organizations. We are pleased to announce that at the recent open house for our Everett Branch, Rex Siapco (Branch Manager) presented donations to the American Red Cross, Housing Hope, The Assistance League of Everett and the Human Services Endowment Fund on behalf of the bank. We feel it's just good business to support the communities that we serve.

All of us at The Bank of Washington thank you for your support. We ask for your continued help in referring your family, friends and associates to us. If you have any questions or require help with any of your financial needs, please give us a call.

Larry Houk
President and CEO

Gary Schmitt,
Chairman of the Board