

April 23, 2008

Dear Shareholders,

In our annual report letter we reported to you that the national economic downturn would negatively impact our bank in 2008. Our concern at the time was the Federal Reserve had rapidly lowered rates in an attempt to liquefy the New York money markets. This action is driving our net interest margin down to levels we have never experienced. Since the time of the annual report letter, the Federal Reserve has lower rates another 75 basis points. As such, our first quarter net interest margin was the lowest in our history and will be even lower in the second quarter.

Additionally, in the first quarter our board of directors asked for a complete review of our loan portfolio with an eye for how much stress our customers would feel if the national recession mirrored the 1991 recession. The 1991 recession had a significant negative impact on the Puget Sound Region.

That study was completed in March and as a result our board voted to add an additional \$300,000 to our loan loss provision. This move is prudent and gives us flexibility should the national and local economies go through an extended moderate recession.

This addition, over and above our normal loan loss provision, coupled with our lowest ever net interest margin reduced our reported earnings down to just over \$200,000 for the quarter. Assets continued to grow during the quarter albeit at a much lower rate. Slower growth and even negative growth in assets is to be expected in a recessionary period.

Looking forward, earnings will continue to have negative comparisons to 2007 for the remainder of 2008. We do not see any relief on the margin issue until 2009. We continue to concentrate on managing the areas of our business that we have a degree of control over. This includes expense control, credit quality and increased sales. We believe these actions will serve us well in preparing our company to prosper when the current economic downturn ends.

All this said, things could be significantly worse for our bank if it were not for the hard work of dedicated staff and the support of you, our shareholders.

Again, thanks to everyone.

Larry Houk
President,
The Bank of Washington

Gary Schmitt
CEO
Washington BanCorp Inc.