

July 23, 2008

Dear Shareholders,

You are reading a complete revision of our originally prepared second quarter letter to you. Following the FDIC's taking control of Indy Mac Bank and the resulting turmoil in the financial markets, we wanted to discuss our opinions on this event and say a little about the macro economic climate we find ourselves in.

First we will address the Indy Mac issue. Indy Mac was formed twenty plus years ago by Countrywide to make and hold mortgages that were either too big for or didn't meet the criteria for purchase by Fannie Mae or Freddie Mac. In retrospect, this model appears flawed from the beginning. As such, we don't agree with the pundits that Indy Mac is indicative of the state of our financial system. We believe that there is a high probability that Indy Mac and others like them were designed to fail in a market like we presently have.

Second, the market turmoil is real and nationally we debate whether we are or not in a recession. This much we do know, we are in an uncertain environment with retail sales (excluding gasoline) down and consumer confidence is at its lowest level since 1952. All of us need to be mindful that many of our neighbors are having difficulty whether or not this is an economist's definition of a recession. Now is a good time to reduce consumption and save some money, preferably here at The Bank of Washington. The savings will make you feel better and there might be some great buys in the future.

What are we doing here at the bank? Well, as we mentioned in our last letter, expense control and staying close to our customers is very important. This strategy resulted in a second quarter profit that was better than our first quarter when we set aside a large loan loss provision. Assets increased slightly to \$223 million from \$217 million at the end of the first quarter.

Going forward we see profits continuing to report lower than the year before comparisons, inasmuch as margins continue to be depressed and we believe we will have a decline in total assets, reflecting lower loan demand in our markets.

So yes, it is more difficult but we are blessed with a great staff, great customers and great shareholders. Thanks to everyone for helping us transverse to the better times ahead.

Larry Houk
President
The Bank of Washington

Gary Schmitt
CEO
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