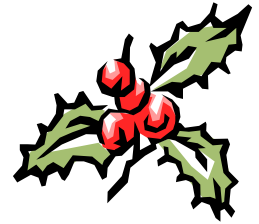




Happy Holidays to you and your families



During this difficult year, it's essential to remember the important things we value. While these are different for everyone, here are some of the things that we are thankful for at Washington Banking Company / Whidbey Island Bank,

- First, we are thankful to you, our shareholders and customers, for your continued support and belief in our Bank. Mutual confidence, trust and respect are difficult to earn and even harder to retain. We hope to maintain these things between us at all times.*
- We are thankful that we've been able to return your support to our local communities through our corporate participation with over 375 individual causes totaling over \$400,000 as well as the hundreds of volunteer hours donated by our staff.*
- We are thankful that we are able to shoulder the responsibility of being a good employer to our staff and a good neighbor to our communities. We upheld our pledge to our staff to maintain employment levels in 2009, and, in fact, increased job levels by some 30 people – or 12% – creating new jobs and new payrolls throughout our communities.*
- Despite high unemployment and severe economic stress, we are thankful for our customers who refuse to quit trying in the face of great adversity.*
- We are thankful that our staff's hard work and dedication are recognized by others such as Bauer Financial, Inc., the nation's leading independent bank-rating firm. For the 25th consecutive quarter, they've awarded Whidbey Island Bank a 5-Star rating for our financial strength and stability, recognizing us as one of the nation's strongest banks.*
- And equally important, we are thankful to be a solid investment for our shareholders – paying our shareholder dividend for 46 consecutive quarters or every quarter since the Initial Public Offering in 1998.*
- And most of all, we are thankful for each other and the ability to remain an independent bank with the opportunity to do something special for our investors, our communities, and each other.*

*Happy Holidays from all of us,
Management and Staff at Whidbey Island Bank/Washington Banking Company*



December 2009

Dear Shareholders,

In the fourth quarter of 2009 Washington Banking Company (WBCO) reached a significant milestone when we crossed the \$1 Billion threshold in Total Assets for the first time. We are pleased to be among the few banks in our State that remain profitable and a select group that possesses a record of never having posted a quarterly loss since going public.

This accomplishment is a direct result of the hard work and dedication of our staff, and also of our bank shareholders who have supported our bank since its beginning in 1961. Thank you all for your continuing commitment.

Opportunity: A realignment of the banking industry in the Pacific Northwest. As the region struggles to gain economic stability, Whidbey Island Bank is preparing itself to take advantage of these unique circumstances to further enhance the value of our franchise. The opportunities stem from potential bank failures and other acquisition opportunities that will create a new environment and realignment of the banking industry in the Pacific Northwest. Our opportunity in part is three-fold: to gain increased market share, to access additional key personnel, and to capture complementary branching networks.

Our Evolving Strategy: Blending Strength with Opportunity. In October 2009, at our Board's Strategic Planning session, a few things were apparent:

- our diversified loan portfolio funded by core deposits provided a better opportunity to weather the economic downturn than those portfolios heavily concentrated in real estate funded with wholesale deposits;
- although the challenges in the financial industry are large, the impending opportunities are significant; and
- we needed a workable strategy to grow the bank, expand market share, and increase overall shareholder value.

The major question at the planning session was: What steps should Washington Banking Company take to be able to seize opportunity without sacrificing our business model, culture, or our desire to remain independent? It was determined that our strategy would be based upon the highest and best use of our capital to attain growth and profitability objectives. The Board concluded that expansion of our franchise would best be accomplished by potentially acquiring failed or struggling financial institutions through utilization of FDIC "Loss Sharing Agreements;" i.e., to become a consolidator of banks. The strategy also incorporates the concept of recruiting new lending teams and adding desired branching franchises geographically compatible to our existing branch footprint.

Initiation of the Strategy: A Capital Raise. The Board approved a common stock offering, which was completed in late November. Management worked to solicit interest in WBCO stock, and the offering met with strong support resulting in a highly successful capital raise of just over \$51.7 million with issuance of 5.7 million shares of stock at \$9.00 per share. The Bank's total shareholders' equity now stands at approximately \$180 million.

Implementation of the plan's next steps will depend upon timing and opportunity within the market with a high degree of certainty that more local banks will fail, and we will have an opportunity to look at buying

some of these institutions. We think the timing and resolution of such events through a bid process is never a given. While Washington Banking Company will implement its strategy to take advantage of opportunities; we pledge to our shareholders that management will work diligently to ensure that our business model does not suffer from a lack of oversight.

Third Quarter Financial Review: WBCO had another good quarter and the year is shaping up to be positive. The third quarter net income available to common shareholders was \$1.3 million or \$0.13 per diluted common share, up from \$818,000 or \$0.09 per diluted common share in the second quarter. Year-to-date, we earned \$3.3 million, or \$0.35 per diluted common share which is down from \$7.6 million or \$0.70 per diluted common share in the first 9 months of 2008. We paid preferred dividends of \$414,000 this quarter and \$1.2 million year-to-date to the U.S. Treasury, under the TARP Capital Purchase Program.

We continue to build reserves with higher than historic provisions for loan losses. The third quarter provision was \$2.5 million making a year-to-date provision of just under \$8 million, which is more than double the \$3.2 million we booked in the first 9 months last year. These added provisions allowed us to build our Allowance for Loan Losses/Total Loans ratio by 15 basis points in the quarter and 55 basis points year-over-year. The Bank continues to add reserves even though our loan portfolio is performing better than our peers.

Net charge-offs for the quarter were \$1.4 million, or 67 basis points of average loans (on an annualized basis), compared to \$1.6 million, or 75 basis points in the second quarter. Year-to-date, net charge-offs were \$4.3 million compared to \$2.8 million a year ago.

The net interest margin for the quarter was 4.72%, up 15 basis points from the preceding quarter and up 8 basis points from a year ago. Our cost of funds dropped to 1.87% in the third quarter, down from 2.06% in the second quarter and 2.77% a year ago. Our yield on earning assets fell just 1 basis point in the quarter to 6.25% and yields on earning assets are down to 6.29% from 7.21% a year ago. Our efficiency ratio in the third quarter was 59.20% with full-time equivalent staffing of 279 at quarter end.

Our total risk-based capital position at the end of the quarter (prior to the capital raise) was strong with a total risk-based capital ratio of 16.3%.

Industry Challenges Today: Economic and governmental challenges today are major concerns of management, however, these are secondary to the importance placed on our communities and the ability of our customers to handle continuing economic conditions, high levels of unemployment, slowing pace of commerce, and continuing lag in the housing and construction industry.

We expect the economic hardships will continue into 2010, but with the ongoing support of our customers and shareholders, we are confident in our ability to weather the storm and to thrive in the face of adversity.



Jack Wagner
President & CEO

This communication contains forward-looking statements that are subject to risks and uncertainties. These forward-looking statements describe management's expectations regarding future events and developments such as future operating results, growth in loans and deposits, credit quality and loan losses, the continued success of the Company's business plan and acquisition opportunities. You should not place undue reliance on forward-looking statements, which reflect management's views only as of the date hereof. The words "should," "anticipate," "expect," "will," "believe," and words of similar meaning are intended, in part, to help identify forward-looking statements. Future events are difficult to predict, and the expectations described above are subject to risk and uncertainty that may cause actual results to differ materially. In addition to discussions about risks and uncertainties set forth from time to time in the Company's filings with the Securities and Exchange Commission, factors that may cause actual results to differ materially from those contemplated in these forward-looking statements include, among others: (1) local and national general and economic condition; (2) changes in interest rates and their impact on net interest margin; (3) competition among financial institutions; (4) legislation or regulatory requirements; (5) the ability to realize the efficiencies from investment in personnel and infrastructure ; (6) ability to bid on FDIC assisted transactions; and (7) terms of FDIC assisted transactions. Washington Banking Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made. Any such statements are made in reliance on the safe harbor protections provided under the Securities Exchange Act of 1934, as amended.