



Comptroller of the Currency
Administrator of National Banks

Western District Office
1225 17th Street, Suite 300
Denver, Colorado 80202
720-475-7650; FAX: 301-333-7010

**Conditional Approval #744
June 2006**

May 31, 2006

Michael F. Johnson, Esquire
Keller Rohrbach, L.L.P.
1201 Third Ave., Suite 3200
Seattle, WA 98101-3052

Re: Washington State Bank, N.A., Federal Way, WA
Reduction of Capital, OCC Control No. 2006-WE-12-159
and
Special Dividend Request

The Comptroller of the Currency (OCC) has conditionally approved the application you submitted to reduce the subject bank's capital surplus in the amount of \$1,100,000, as outlined in your letter of May 30, 2006. Additionally, the OCC has conditionally approved the bank's request to pay a Special Dividend in the amount of \$900,000, as set forth in your letter dated May 30, 2006 to Assistant Deputy Comptroller Brian Quade.

Specifically, you indicate that in connection with the merger of Washington State Bank, N.A., Federal Way, WA with and into Heritage Bank, Olympia, WA, and the related holding company merger agreements, Western Washington Bancorp (Washington State Bank, N.A.'s parent) is being required to retire \$2 million of Trust Preferred securities. At this time, Western Washington Bancorp does not have sufficient funds on hand to accomplish this retirement. Accordingly, Washington State Bank, N.A. has requested approval of the OCC to return \$1,100,000 million of its capital surplus to the bank's parent holding company, Western Washington Bancorp. The remaining \$900,000 will be paid to Western Washington Bancorp in the form of a Special Dividend from Washington State Bank, N.A. The payments to Western Washington Bancorp will be made on the same business day of the merger transactions.

Washington State Bank, N.A.
Federal Way, Washington
OCC Control No. 2006-WE-12-159 and Special Dividend

These conditional approvals to return capital and pay a Special Dividend to Western Washington Bancorp are subject to the following condition “imposed in writing by the agency in connection with the granting of any application or other request” within the meaning of 12 U.S.C. § 1818 and, as such, are enforceable under 12 U.S.C. § 1818.

- The transactions and activities described in the applications must be conducted and consummated in the order described and in accordance with the representations made in the applications. In the event that any of the transactions do not consummate in this manner, this approval is automatically terminated and any funds paid to the parent as a return of capital or Special Dividend must be contributed back to Washington State Bank, N.A.

Your letter indicates that, pursuant to 12 USC 59, approval by shareholders owning at least two-thirds of the bank’s capital stock was obtained May 25, 2006.

These approvals are granted based on a through review of all information available, including the representations and commitments made in the application and by the bank’s representatives.

These approvals and the activities and communications by OCC employees in connection with the filing do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the United States (U.S.), any agency or entity of the United States, or any officer or employee of the U. S., and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. The foregoing may not be waived or modified by any employee or agent of the OCC or the U. S.

Should you have any questions concerning this transaction, please contact Senior Licensing Analyst Louis Gittleman at (720) 475-7650 or Assistant Deputy Comptroller Brian Quade at (415) 291-7225, extension 247.

Sincerely,

signed

James A. Bundy
Acting Director for District Licensing