



March 15, 2013

To Valued Shareholders:

In 2012 Washington Bancorp initiated a merger for the purpose of becoming a Subchapter S Corporation and we are happy to report that the documents to complete that transition were filed with the IRS on March 13, 2013. We are confident that this was the best decision for the future of the Company better enabling us to control taxation and remain independent. Our intention is to pay distributions of earnings four times a year to coincide with the IRS due dates for tax estimates – April, June, September and January. This will provide cash to those shareholders who pay estimates and for those who don't it will provide cash until the 2013 taxes are due. The Company is pleased to report that in addition to the tax distribution, the April payment will also include a \$0.75 per share distribution of earnings.

As you will see in the annual report, our net income was affected by the costs to complete the merger as well as a reduction in net interest income. With interest rates remaining low, we anticipate that net interest income will continue to be a challenge the next several years. Net income was \$743,000 or \$1.69 per *average* common share compared to \$985,000 or \$2.18 per *average* common share last year. More encouraging, when we compare net income to actual *ending* outstanding shares in 2012 it was \$2.72 per share compared to \$2.17 last year. Because of the stock redemptions completed in 2012 as part of the merger, income is divided by fewer outstanding shares. Assets at year end were \$117 million compared to \$111 million last year – an increase of \$6 million. Looking forward, we are projecting 2013 income to be about the same as 2012 primarily due to a one-time deferred tax adjustment. We believe all of the changes we have made the last several years have positioned the Company for a stable future.

The past few years we have been making an effort to refurbish our buildings. In 2012 the Brighton bank had fresh paint, new tile, carpet and countertops installed in the lobby and the Wellman bank had the wood floors restored. This year our focus is the Washington main bank. It has been roughly 30 years since the lobby has had a complete update. This promises to be a complex project lasting four months but we are excited to be bringing back some of the original features that made this building special.

We would like to take the opportunity to thank you for your support of our company and the service that we provide to our local communities - Washington, Brighton, Wellman and Richland. Last month Federation Bank was named the #1 Bank and Lynn Engle was named #1 Teller through the readership of the "Washington Evening Journal." We are very proud of this distinction and would like to thank the staff and directors for making this possible. We feel that this is directly attributed to carrying out our mission statement to be a community-involved financial institution that provides diversified services by friendly and qualified staff committed to lasting customer and shareholder relationships.

Your votes FOR Director Gorham and Director Levy are important. Our directors have held strong and we feel have made the right kind of decisions that have served our company, our communities and you, the shareholder, well through the years. The annual meeting will be held April 9, 2013 at 4 p.m. at the main bank. We encourage you to take a moment to fill out your Proxy and return it to us in the postage-paid envelope. If you have any questions or concerns, please call one of us at 319-653-7256.

Dale J. Torpey
Chairman of the Board

James E. Miller
President,
Washington Bancorp

Jamie Collier
President & CEO,
Federation Bank