

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

Written Agreement by and between

WSB FINANCIAL GROUP, INC.
Bremerton, Washington

and

FEDERAL RESERVE BANK OF
SAN FRANCISCO
San Francisco, California

Docket No. 08-007-WA/RB-HC

WHEREAS, in recognition of their common goal to maintain the financial soundness of WSB Financial Group, Inc., Bremerton, Washington (“WSB”), a registered bank holding company that owns and controls Westsound Bank, Bremerton, Washington (the “Bank”), a state chartered nonmember bank, WSB and the Federal Reserve Bank of San Francisco (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on April 22, 2008, the board of directors of WSB, at a duly constituted meeting, adopted a resolution authorizing and directing Terry Peterson, President and Chief Executive Officer, to enter into this Agreement on behalf of WSB, and consenting to compliance by WSB and its institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)), with each and every provision of this Agreement.

NOW, THEREFORE, WSB and the Reserve Bank agree as follows:

Dividends

1. (a) WSB shall not directly or indirectly take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(b) WSB shall not declare or pay any dividends unless such declaration or payment is consistent with the Board of Governors of the Federal Reserve System's (the "Board of Governors") Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323). During the term of this Agreement, WSB shall also not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the "Director").

(c) WSB and its non-bank subsidiary shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director (*see*, Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure, Appendix A of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A, section II.A.1.c.iv)).

(d) All requests for prior approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, but not be limited to, current and projected information on consolidated earnings; cash flow, capital, asset quality, and loan loss reserve needs of the Bank; identification of the sources of funds for the proposed payment or distribution; and, to the extent that the

proposed payment or distribution will be made with dividends paid by the Bank, whether the Bank's federal and state regulators have approved the dividend payment to WSB. The Reserve Bank and the Director will determine whether to approve the request to pay dividends or make distributions pursuant to Federal Reserve policy, including, but not limited to, the proposed payment's impact on WSB's continued ability to serve as a source of financial strength to the Bank.

Debt and Stock Redemption

2. (a) WSB shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) WSB shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Affiliate Transactions

3. (a) WSB shall take all necessary actions to ensure that the Bank complies with sections 23A and 23B of the Federal Reserve Act (12 U.S.C. §§ 371c and 371c-1) and Regulation W of the Board of Governors (12 C.F.R. Part 223) in all transactions between the Bank and its affiliates, including WSB.

(b) Within 45 days of this Agreement, WSB shall submit to the Reserve Bank an acceptable written policy regarding transactions between WSB and the Bank, including, but not limited to, allocation of expenses.

(c) WSB shall comply with the “Interagency Policy Statement on Tax Allocation in a Bank Holding Company Structure,” dated December 23, 1998 and with the guidance in SR 79-533, “Diversion of Bank Income by Parent BHC,” dated March 19, 1979.

Appointment of New Officers and Directors, and Severance and Indemnification Payments

4. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, WSB shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

(b) WSB shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation’s regulations (12 C.F.R. Part 359).

Approval, Implementation, and Progress Reports

5. (a) WSB shall submit an intercorporate transactions policy that is acceptable to the Reserve Bank within the applicable time period set forth in paragraph 3 of this Agreement.

(b) Within 30 days of approval by the Reserve Bank, WSB shall adopt the approved intercorporate transactions policy. Upon adoption, WSB shall implement the approved policy, and thereafter fully comply with it.

(c) During the term of this Agreement, the approved intercorporate policy shall not be amended or rescinded without the prior written approval of the Reserve Bank.

6. Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure WSB’s compliance with the

provisions of this Agreement and the results thereof. The Reserve Bank may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

Communications

7. All communications regarding this Agreement shall be sent to:
 - (a) Mr. Kevin Zerbe
Director
Federal Reserve Bank of San Francisco
101 Market Street
Mail Stop 920
San Francisco, California 94105
 - (b) Mr. Terry Peterson
President and Chief Executive Officer
WSB Financial Group, Inc.
607 Pacific Avenue
Bremerton, Washington 98337
 - (c) Glen Garrison, Esq.
Keller Rohrback LLP
1201 Third Avenue, Suite 3200
Seattle, Washington 98101-3052

Miscellaneous

8. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to WSB to comply with any provision of this Agreement.

9. The provisions of this Agreement shall be binding upon WSB and each of its institution-affiliated parties, in their capacities as such, and their successors and assigns.

10. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended by the Reserve Bank.

11. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

12. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 23rd day of April, 2008.

WSB Financial Group, Inc.

Federal Reserve Bank of San Francisco

By: /s/ Terry Peterson
Mr. Terry Peterson
President and Chief Executive Officer

By: /s/ Kevin Zerbe
Mr. Kevin Zerbe
Director