



10500 NE 8th Street, Suite 1800
Bellevue, Washington 98040

QUARTERLY LETTER TO SHAREHOLDERS

July 18, 2007

Dear Shareholder:

On behalf of Puget Sound Bank, I am pleased to announce the financial results for the second quarter ending June 30, 2007. Here are some highlights:

Balance Sheet

(unaudited, in thousands)

	<u>6/30/2007</u>	<u>6/30/2006</u>
Assets:		
Cash and Due From Banks	\$1,430	\$1,733
Investments/FF Sold	31,350	15,769
Commercial	39,367	25,098
Commercial RE	33,532	16,717
Other	6,375	655
Total Loans	<u>79,274</u>	<u>42,470</u>
Allowance for Loan Losses	<u>(1,067)</u>	<u>(633)</u>
Net Loans	78,207	41,837
Other Assets	856	522
Total Assets	<u><u>111,843</u></u>	<u><u>59,861</u></u>
Liabilities:		
Noninterest Bearing Checking	6,336	9,886
Money Market, Savings, and Interest Bearing Checking	56,636	19,313
CDs	29,005	11,018
Total Deposits	<u>91,977</u>	<u>40,217</u>
Other Liabilities	465	421
Total Liabilities	<u>92,442</u>	<u>40,638</u>
Shareholder's Equity	19,401	19,223
Total Liabilities and Equity	<u><u>111,843</u></u>	<u><u>59,861</u></u>

Income Statement
(unaudited, actual dollars)

	Second Quarter 2007	Second Quarter 2006
Interest Income	\$1,829,680	\$985,292
Interest Expense	820,216	246,103
Net Interest Income	1,009,464	739,189
Provision for Loan Losses	209,630	142,000
Net Interest Income After Provision	799,834	597,189
Noninterest Revenue	9,282	11,073
Noninterest Expense	966,605	766,178
Net Income/(Loss) Before Taxes	(157,489)	(157,916)
Taxes	-	-
Net Income/(Loss) After Taxes	(157,489)	(157,916)
Net Loss Per Share	(0.07)	(0.07)
Book Value Per Share	8.72	8.73
Period End Shares Outstanding	2,224,633 ¹	2,201,150

¹ 22,000 shares were purchased by new Board members in 2006, and 1,513 shares were issued in 1Q 2007 as Board compensation.

Second quarter was another growth quarter for Puget Sound Bank:

- Loans increased \$37 million or 87% from \$42.4 million in second quarter 2006 to \$79.3 million in second quarter 2007.
- Deposits increased \$52 million or 129% from \$40.2 million in second quarter 2006 to \$92.0 million in second quarter 2007.
- Total assets increased \$52 million or 87% from \$59.9 million in second quarter 2006 to \$111.8 million in second quarter 2007.
- Net Loss in second quarter 2006 was \$157,916 and \$157,489 in second quarter 2007. More on this below.

We are very pleased with the Bank's progress and growth. One major milestone accomplished in the second quarter was hitting the \$100 million mark in total assets in two years. Of the sixty-eight start up banks in Washington since 1990, Puget Sound Bank is one of only three banks to reach \$100 million in total assets in two years.

The loss for the second quarter of \$157,489 was equal to the loss in the second quarter of 2006. The primary reason for the loss was very strong loan growth totaling \$15 million for the quarter. This growth in loans was almost half of our projected loan growth for the entire year, representing a 24% increase over the previous quarter ending 3-31-07. As a result, the expense for the loan loss provision that we must incur for all new loans was unusually large, \$210,000 for the quarter. The good news is that the loan growth has now positioned us to achieve higher revenue levels to better absorb the expense for loan loss provision in the future. We also had a \$23 million, or 34%, increase in deposits over the

previous quarter ending 3-31-07. This translated into growth of 26% in total assets over the first quarter to almost \$112 million.

PUGET SOUND BANK STOCK

Puget Sound Bank began trading on the Over-The-Counter Bulletin Board (OTCBB) under the symbol of PUGB in May. As of Friday, July 13th our stock was trading at \$15.00 per share. This is a 50% return to original shareholders that purchased their stock at \$10.00 per share two years ago.

DA Davidson is our primary market maker in Washington. Wedbush Morgan Securities is also a market maker in Oregon. To trade your shares you must deliver your stock certificates to a broker. DA Davidson and Wedbush Morgan Securities would welcome setting up an account for you with your Puget Sound Bank stock certificates at the following addresses:

John Bender
Vice President and
Branch Manager
DA Davidson
800 Bellevue Way NE
Bellevue, WA 98004
425 467 2222
jbender@dadco.com

Joey Warmenhoven
Vice President
Wedbush Morgan Securities
4949 SW Meadows
Suite 100
Lake Oswego, OR 97035
800 357 3680
Joey.warmenhoven@wedbush.com

DEPOSITS

Once again, I would like to put out a call to our shareholders/ambassadors of the Bank to continue to support Puget Sound Bank with your deposits and referrals. This is a critical part of our growth. Deposits are the fuel that enables a bank to continue to grow its loans and enhance the bottom line and thus your investment. To achieve our strong growth objectives we need your support. If you are not already a depositor at Puget Sound Bank, please contact: LoAnn Dinh at 425 637 3911, LoAnnDinh@pugetsoundbank.com, DeAnna Floyd at 425 637 3910, DeAnnaFloyd@pugetsoundbank.com or Mary Francis at 425 637 3902, MaryFrancis@pugetsoundbank.com. They will be able to assist you with any of the competitively priced deposit products that we offer.

- Be sure to take advantage of the special 12-month Shareholder CD at a 5.00% APY that we are still offering.

- For individuals, we offer checking, savings, credit and debit cards and home equity lines of credit.
- For businesses, we offer lines of credit, term loans, real estate construction loans, owner-occupied real estate loans and loans for real estate investment properties.

If you know someone who owns a business please refer them to us and we will service them promptly and professionally.

SUMMARY

Being headquartered in Bellevue, we are located in an area, Puget Sound, and a state, Washington, that has an economy that is running well ahead of the national average. We have a Board of Directors that is unmatched in community banking circles. Our staff is the most experienced, knowledgeable, customer focused, and team oriented group I have seen in my thirty-plus years of banking. If we add an engaged shareholder base to these advantages we will achieve amazing results. Please join us in accelerating our growth in 2007 and beyond. Thank you.

Sincerely,

Jim Mitchell
President and CEO