

## MESSAGE FROM THE CHAIRMAN

The year 2008 saw dramatic change for your company. In December, Bob Dickson, founder, long-time CEO and Chairman of Frontier Financial Corporation and Frontier Bank, announced his intention to step down from his role as Chairman and to retire from the Board of Directors at year-end. I accepted the invitation of the Board to become the Chairman and Chief Executive Officer of Frontier Financial Corporation and Chairman of Frontier Bank. I am enthusiastic about the opportunity to work with the experienced and talented staff at Frontier to meet the unprecedented challenges confronting us in this economic environment. My goal is to help realign the business model and direction of our company to address the realities of these times.

Frontier Bank has, for many years, been one of the best performing banks in the entire country. Despite the very severe collapse of the residential real estate markets and the economy, Frontier remains in a strong competitive position with a loyal customer following, thanks to the efforts of our tremendous staff members. To remain strong and improve the Bank's performance, we have intensified our efforts to diversify our portfolio and risk profile, and preserve capital by significantly increasing our focus on business banking, commercial and industrial lending and consumer banking. We intend to continue our aggressive resolution of problem real estate-related loans. As part of these initiatives, we have established a Business Banking Division to coordinate and target our efforts to increase our commercial banking portfolio.

I am pleased that Director and former CEO of the holding company, Mike Clementz, accepted the position as President of Frontier Financial Corporation and CEO of Frontier Bank as part of our leadership team to guide this redirection. John Dickson has assumed the position of President of Frontier Bank, and continues to oversee the core banking business.

While there are many uncertainties and obstacles in this economic environment, unlike anything that any of us have faced, I believe that all of us pulling together will allow us to succeed in accomplishing what needs to be done.

Looking back on 2008, Frontier Bank faced what has been the most challenging 12 months in its 30 years of business. Every one of us is experiencing the effects of a crippled economy and an unprecedented crisis in the entire financial system. Frontier is no exception.

Our goal is to implement a revised business plan that is focused on emphasizing our business banking team, rebalancing the loan portfolio and cultivating core deposits. This presents an exciting opportunity for our organization, and I look forward to working with our dedicated team members to achieve it.

Looking ahead, Frontier Bank cannot control the economic environment, so we will focus on what we can control:

- **We are working with our borrowers on repayment plans and aggressive resolution of problem loans.**
- **We are continuing aggressive additions to loan loss reserves.**
- **We have suspended the origination of new residential construction and land development loans.**

- **We are working to expand our business banking unit, which is comprised of some of the most seasoned and experienced commercial bankers in the Northwest. Over time, we will achieve a balanced asset mix for the Bank.**
- **We are strengthening our capital position by selling assets, reducing expenses and seeking outside investors, and have made the difficult decision to suspend the payment of a dividend.**
- **We have established new communication channels with our customers, shareholders and employees.**

You may recall from previous announcements that the Board eliminated its meeting fees in the third quarter, and the Executive Management Team took reductions in base salary and eliminated bonuses amounting to a 40% reduction in total compensation. Noninterest expenses were reduced by 10%, and that effort continues. This was done to forestall a reduction in staff members who take care of our very loyal customers.

The executive team is committed to successfully managing credit risk while maintaining adequate levels of capital and liquidity. Further, we are committed to leading Frontier Bank with experience and integrity.

We thank our Board for their steadfastness, especially through these unprecedented times. As we continue to fulfill our mission to be “a highly respected and profitable independent community bank and to be widely recognized as a premier provider of financial services,” we are grateful for the dedication, professionalism, and loyalty of our staff, and for the continued confidence and trust from our shareholders and customers. We believe that in the worst economic downturn in our lifetime, there is a brighter day for all of us, and we, at Frontier, are working very hard to make it so.

I appreciate your continued support, and thank you for your allegiance to Frontier Bank.

Sincerely,

Patrick M. Fahey  
Chairman and CEO