

OFFICE OF THRIFT SUPERVISION
Washington, D.C. 20552

FORM 10-Q

(x) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended: **January 31, 2006**

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Docket Number 8173

THE WASHINGTON SAVINGS BANK, F. S. B.
(Exact name of Registrant as specified in its Charter)

UNITED STATES
(State or other jurisdiction of
incorporation or organization)

52-1271169
(I.R.S. Employer
Identification No.)

4201 Mitchellville Road, Suite 200, Bowie, Maryland 20716
(Address of Principal Executive Offices)

(301) 352-3120
(Registrant's Telephone Number)

Indicate by check mark whether the Registrant has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

There were 7,412,094 shares of Common Stock (\$1.00 Par Value) outstanding as of March 3, 2006.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
FORM 10-Q
INDEX

	<u>Page Number</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Statements of Financial Condition at January 31, 2006 (Unaudited) and July 31, 2005 (Audited)	2
Consolidated Statements of Operations - Three Months and Six Months ended January 31, 2006 and 2005 (Unaudited)	3
Consolidated Statements of Changes in Stockholders' Equity For the Six Months ended January 31, 2006 and 2005 (Unaudited)	4
Consolidated Statements of Cash Flows - Six Months ended January 31, 2006 and 2005 (Unaudited)	5
Notes to Consolidated Financial Statements (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures about Market Risk	22
Item 4. Controls and Procedures	23
PART II.	
Item 1. Legal Proceedings	23
Item 4. Submission of Matters to a Vote of Security Holders	24
Item 6. Exhibits	24
Signatures	25

Item 1. Financial Statements**THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	January 31, 2006 <u>(Unaudited)</u>	July 31, 2005 <u>(Audited)</u>
ASSETS		
Cash	\$ 15,683,740	\$ 2,787,933
Federal funds sold and interest bearing deposits at FHLB - Atlanta	48,849,000	53,805,000
Total cash and cash equivalents	<u>64,532,740</u>	<u>56,592,933</u>
Loans receivable - net:		
Held for investment (net of allowance for loan losses of \$5,936,670 and \$7,325,682 respectively)	299,589,319	421,223,416
Held for sale	4,736,598	19,564,180
Total loans receivable - net	<u>304,325,917</u>	<u>440,787,596</u>
Investment securities - available for sale at fair value	82,397,617	10,441,585
Mortgage-backed securities - available for sale at fair value	23,241,944	-
Investment in Federal Home Loan Bank stock, at cost	3,642,100	3,642,100
Accrued interest receivable on loans	2,160,853	2,880,935
Accrued interest receivable on investments	1,063,139	52,282
Real estate held for investment	231,959	113,178
Real estate acquired in settlement of loans	953,649	1,296,230
Premises and equipment - net	6,142,095	6,214,642
Deferred income taxes	5,146,631	5,012,420
Income taxes receivable	1,660,640	-
Other assets	1,066,527	1,679,265
TOTAL ASSETS	<u>\$ 496,565,811</u>	<u>\$ 528,713,166</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 8,021,694	\$ 9,024,262
Interest bearing	371,788,512	404,254,350
Total deposits	<u>379,810,206</u>	<u>413,278,612</u>
Federal Home Loan Bank borrowings	55,900,000	55,900,000
Advances from borrowers for taxes and insurance	660,643	1,400,659
Accounts payable, accrued expenses and other liabilities	1,858,639	2,546,599
TOTAL LIABILITIES	<u>438,229,488</u>	<u>473,125,870</u>
STOCKHOLDERS' EQUITY:		
Preferred stock, no stated par value; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$1 par value; 20,000,000 shares authorized; 8,021,275 and 8,009,775 issued and outstanding	8,021,275	8,009,775
Additional paid-in capital	2,050,749	2,010,622
Treasury Stock - 610,681 and 610,681 shares at cost	(645,124)	(645,124)
Retained earnings - substantially restricted	49,165,783	46,220,169
Accumulated other comprehensive loss	(256,360)	(8,146)
TOTAL STOCKHOLDERS' EQUITY	<u>58,336,323</u>	<u>55,587,296</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 496,565,811</u>	<u>\$ 528,713,166</u>

See notes to consolidated financial statements.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months ended January 31,		Six Months ended January 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
INTEREST INCOME:				
Interest and fees on loans	\$ 6,903,677	\$ 10,397,753	15,397,156	\$ 20,130,618
Interest on mortgage-backed securities	196,299	27,764	196,299	58,013
Interest and dividends on investments	<u>1,574,703</u>	<u>219,273</u>	<u>2,497,727</u>	<u>404,857</u>
Total interest income	<u>8,674,679</u>	<u>10,644,790</u>	<u>18,091,182</u>	<u>20,593,488</u>
INTEREST EXPENSE:				
Interest on deposits	3,194,035	3,087,275	6,544,223	5,967,675
Interest on other borrowings	<u>766,136</u>	<u>953,266</u>	<u>1,526,680</u>	<u>1,797,444</u>
Total interest expense	<u>3,960,171</u>	<u>4,040,541</u>	<u>8,070,903</u>	<u>7,765,119</u>
NET INTEREST INCOME	4,714,508	6,604,249	10,020,279	12,828,369
Provision for loan losses	<u>-</u>	<u>670,000</u>	<u>200,000</u>	<u>1,190,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>4,714,508</u>	<u>5,934,249</u>	<u>9,820,279</u>	<u>11,638,369</u>
NON-INTEREST INCOME:				
Loan related fees	321,810	411,680	600,380	913,327
Gain on sale of loans	226,961	765,766	957,724	1,547,227
Gain on sale of real estate acquired in settlement of loans	103,884	-	192,297	2,646
Service charges on deposits	25,321	35,540	52,115	77,323
Rental Income	147,865	178,969	297,133	358,877
Sale of building lots and homes	-	-	7,681	-
Other income	<u>129,119</u>	<u>52,287</u>	<u>200,985</u>	<u>108,681</u>
Total non-interest income	<u>954,960</u>	<u>1,444,242</u>	<u>2,308,315</u>	<u>3,008,081</u>
NON-INTEREST EXPENSE:				
Salaries and benefits	1,672,480	2,257,082	3,665,797	4,315,663
Occupancy expense	188,994	181,611	408,633	383,037
Depreciation	170,455	167,633	337,576	327,249
Advertising	28,388	35,806	58,477	73,991
Service bureau charges	127,089	114,054	280,324	220,841
Service charges from banks	26,037	35,152	56,855	68,429
Stationary, printing and supplies	58,235	67,647	129,317	139,348
Professional services	243,000	159,614	542,027	244,980
SAIF/FDIC Insurance	244,384	40,937	492,668	79,614
Other taxes	37,042	33,910	72,084	70,970
Provision for losses on real estate acquired in settlement of loans	83,374	-	146,374	-
Other	<u>638,812</u>	<u>515,034</u>	<u>1,238,548</u>	<u>1,036,537</u>
Total non-interest expense	<u>3,518,290</u>	<u>3,608,480</u>	<u>7,428,680</u>	<u>6,960,659</u>
EARNINGS BEFORE PROVISION FOR INCOME TAXES	2,151,178	3,770,011	4,699,914	7,685,791
PROVISION FOR INCOME TAXES	<u>786,100</u>	<u>1,449,000</u>	<u>1,754,300</u>	<u>2,954,200</u>
NET INCOME	<u>\$ 1,365,078</u>	<u>\$ 2,321,011</u>	<u>\$ 2,945,614</u>	<u>\$ 4,731,591</u>
BASIC INCOME PER COMMON SHARE	<u>\$ 0.18</u>	<u>\$ 0.32</u>	<u>\$ 0.40</u>	<u>\$ 0.64</u>
DILUTED INCOME PER COMMON SHARE	<u>\$ 0.17</u>	<u>\$ 0.28</u>	<u>\$ 0.36</u>	<u>\$ 0.58</u>
CASH DIVIDENDS PAID	<u>\$ -</u>	<u>\$ 0.07</u>	<u>\$ -</u>	<u>\$ 0.14</u>
AVERAGE COMMON SHARES OUTSTANDING	<u>7,405,996</u>	<u>7,363,177</u>	<u>7,403,724</u>	<u>7,355,961</u>
AVERAGE DILUTED COMMON SHARES OUTSTANDING	<u>8,084,332</u>	<u>8,248,808</u>	<u>8,104,601</u>	<u>8,226,469</u>

See notes to consolidated financial statements.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JANUARY 31, 2006 AND 2005 (Unaudited)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
BALANCE, AUGUST 1, 2004	\$ 7,956,850	\$ 1,704,955	\$ (645,124)	\$ 39,764,172	\$ 27,448	\$ 48,808,301
Exercise of Stock Options	31,925	60,205	-	-	-	92,130
Comprehensive Income:						
Net income	-	-	-	4,731,591	-	4,731,591
Net changes in unrealized gain (loss) on available for sale securities Net of taxes of \$21,985	-	-	-	-	15,230	15,230
Total comprehensive income						4,746,821
Cash dividend (\$0.07 per common share)	-	-	-	(1,028,997)	-	(1,028,997)
BALANCE, JANUARY 31, 2005	<u>\$ 7,988,775</u>	<u>\$ 1,765,160</u>	<u>\$ (645,124)</u>	<u>\$ 43,466,766</u>	<u>\$ 42,678</u>	<u>\$ 52,618,255</u>
BALANCE, AUGUST 1, 2005	\$ 8,009,775	\$ 2,010,622	\$ (645,124)	\$ 46,220,169	\$ (8,146)	\$ 55,587,296
Exercise of Stock Options	11,500	40,127	-	-	-	51,627
Comprehensive Income:						
Net income	-	-	-	2,945,614	-	2,945,614
Net changes in unrealized gain (loss) on available for sale securities Net of taxes of \$139,896	-	-	-	-	(248,214)	(248,214)
Total comprehensive income						2,697,400
BALANCE, JANUARY 31, 2006	<u>\$ 8,021,275</u>	<u>\$ 2,050,749</u>	<u>\$ (645,124)</u>	<u>\$ 49,165,783</u>	<u>\$ (256,360)</u>	<u>\$ 58,336,323</u>

See notes to consolidated financial statements

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended January 31,	
	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES:		
Net income	\$ 2,945,614	\$ 4,731,591
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	200,000	1,190,000
Share-based compensation	11,314	-
Depreciation	337,578	327,249
Amortization	114,070	(58,512)
Gain on sale of other real estate owned	(192,297)	(2,646)
Gain on sale of loans	(957,724)	(1,547,227)
Gain on sale of building lots and homes	(7,681)	-
Origination of loans - held for sale	(136,260,434)	(141,391,154)
Proceeds from sale of loans held for sale	152,045,741	142,062,080
Decrease in other assets	395,399	663,299
Increase in accrued interest receivable	(290,775)	(402,493)
(Decrease) increase in net deferred loan fees	(505,826)	707,314
Increase in income taxes payable	211,883	1,005,477
Increase in income taxes receivable	(1,660,640)	-
(Decrease) increase in accrued interest payable	(48,939)	178,218
Decrease in accounts payable, accrued expenses and other liabilities	(687,960)	(1,287,437)
Net cash provided by operating activities	<u>15,649,322</u>	<u>6,175,759</u>
INVESTING ACTIVITIES:		
Net decrease (increase) in loans	121,217,894	(39,752,270)
Purchase of mortgage-backed securities - available for sale	(23,569,664)	-
Repayment of mortgage-backed securities	373,704	166,462
Purchase of Federal Home Loan Bank Stock	-	(353,300)
Purchase of investment securities - available for sale	(72,500,000)	-
Purchase of premises and equipment	(265,031)	(184,728)
Land development costs incurred	(118,782)	(176,207)
Sale of Land Held-for-Development	7,681	-
Development of real estate acquired in settlement of loans	(41,980)	(425,128)
Proceeds from sale of real estate acquired in settlement of loans	<u>1,298,886</u>	<u>266,659</u>
Net cash provided (used) by investing activities	<u>26,402,708</u>	<u>(40,458,512)</u>
FINANCING ACTIVITIES:		
Net decrease in demand deposits, NOW accounts and savings accounts	(9,653,813)	(7,593,045)
Proceeds from issuance of certificates of deposit	2,492,556	41,774,857
Payments for maturing certificates of deposit	(26,258,209)	(1,619,054)
Net decrease in advance payments by borrowers for taxes and insurance	(740,015)	(391,310)
Cash dividend paid	-	(1,028,997)
Proceeds from exercise of stock options	51,627	92,130
Tax effect of stock options	(4,369)	-
Net cash (used) provided by financing activities	<u>(34,112,223)</u>	<u>31,234,580</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>7,939,807</u>	<u>(3,048,173)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>56,592,933</u>	<u>12,978,533</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 64,532,740</u>	<u>\$ 9,930,360</u>
CASH PAID DURING THE PERIOD FOR:		
Income taxes	<u>\$ 3,201,569</u>	<u>\$ 2,132,523</u>
Interest	<u>\$ 8,110,464</u>	<u>\$ 7,485,636</u>
Non-cash transactions:		
Transfer from loans to foreclosed real estate	\$ 722,028	\$ 896,935

See notes to consolidated financial statements.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Financial Statements

The Consolidated Financial Statements for the three and six months ended January 31, 2006 and 2005 have been prepared by The Washington Savings Bank, F.S.B. ("WSB") without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at January 31, 2006, and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission and the Office of Thrift Supervision ("OTS"). Management believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and notes thereto included in WSB's Annual Report on Form 10-K for the year ended July 31, 2005 (the "2005 Annual Report"). There have been no significant changes to WSB's Accounting Policies as disclosed in the 2005 Annual Report. The results of operations for the period ended January 31, 2006, are not necessarily indicative of the operating results for the full year.

Certain prior year's amounts have been reclassified to conform with the current year's presentation.

1A. Risk Factors

For discussion of risk factors affecting WSB, see "Cautionary Notice Regarding Forward-Looking Statements" on page 11 of this quarterly report on Form 10-Q.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2. Earnings Per Common Share

The following is the reconciliation of the numerators and denominators of the basic and diluted Earnings Per Common Share ("EPS") computation for all periods presented in the Consolidated Statements of Operations.

Three Months Ended January 31,

	<u>2006</u>			<u>2005</u>		
	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic EPS						
Net income available to Common Stockholders	\$ <u>1,365,078</u>	7,405,996	\$ <u>0.18</u>	\$ <u>2,321,011</u>	7,363,177	\$ <u>0.32</u>
Effect of Dilutive Options Incremental Shares		<u>678,336</u>			<u>885,631</u>	
Diluted EPS						
Net income available to Common Stockholders	\$ <u>1,365,078</u>	<u>8,084,332</u>	\$ <u>0.17</u>	\$ <u>2,321,011</u>	<u>8,248,808</u>	\$ <u>0.28</u>

Six Months Ended January 31,

	<u>2006</u>			<u>2005</u>		
	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic EPS						
Net income available to Common Stockholders	\$ <u>2,945,614</u>	7,403,724	\$ <u>0.40</u>	\$ <u>4,731,591</u>	7,355,961	\$ <u>0.64</u>
Effect of Dilutive Options Incremental Shares		<u>700,877</u>			<u>870,508</u>	
Diluted EPS						
Net income available to Common Stockholders	\$ <u>2,945,614</u>	<u>8,104,601</u>	\$ <u>0.36</u>	\$ <u>4,731,591</u>	<u>8,226,469</u>	\$ <u>0.58</u>

Options to purchase 5,000 shares of common stock at \$9.11 per share were outstanding at January 31, 2006, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common stock for the quarter ended January 31, 2006.

All other options were included in the computation of diluted EPS because the options' exercise prices were lower than the average market price of the common stock for the six months ended January 31, 2006 and 2005, respectively.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Option Plans - WSB has five stock option plans, which reserve shares of common stock for issuance to certain key employees and non-employee directors. The combination of these plans reserves 2,310,000 shares under option, of which 1,881,875 options have been granted and 428,125 options remain available for grant. Options granted expire ten years after grant date and are exercisable at 50% one year after the date of grant and the remaining 50% two years after the date of grant, with the exceptions of (1) the Non-Employee Directors' Plan, which options are exercisable at 25% on the first and second anniversary dates and the remaining 50% three years after the date of grant and (2) the 5,000 option grant to Phillip C. Bowman in September 2005, which are fully vested at time of grant and expire 5 years after the date of grant. The exercise price of the options granted pursuant to these plans are the fair market value of the shares on the date of grant.

The following table summarizes stock option activity for the period ended January 31, 2006:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at July 31, 2005	1,058,550	\$2.91	
Exercised	(11,500)	3.51	
Granted	5,000	9.11	
Forfeited	(375)	5.20	
Outstanding at January 31, 2006	1,051,675	\$2.93	\$5,753,414
Exercisable at January 31, 2006	1,051,675	\$2.93	\$5,753,414

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123R, "Share-Based Payment". This standard is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values and is effective for the first interim period or annual reporting period beginning after June 15, 2005. WSB adopted SFAS No. 123R as of the beginning of our first quarter of 2006 using the modified prospective method, which requires companies to record stock compensation for all unvested and new awards as of the adoption date. Accordingly, WSB has not restated the prior period amounts presented herein. See Note 3 for further description of our stock-based compensation.

In November 2005, FASB issued FASB Staff Position (FSP) 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP provides additional guidance on when an investment in a debt or equity security should be considered impaired and when that impairment should be considered other-than-temporary and recognized as a loss in earnings. Specifically, the guidance clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. The FSP also requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. Management applied the guidance in this FSP 2005.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In May 2005, the FASB issued Statement of Financial Accounting Standard (“SFAS”) No. 154, Accounting Changes and Error Corrections, which changes the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle and changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This statement requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impractical to determine either the period-specific or cumulative effects of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The adoption of this standard is not expected to have a material effect on financial condition, results of operations, or liquidity.

**THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Washington Savings Bank, F.S.B. and subsidiaries' ("WSB") results of operations are primarily determined by the difference between the interest income and fees earned on loans, investments and other interest-earning assets and the interest expense paid on deposits and other interest-bearing liabilities. The difference between the average yield earned on interest-earning assets, and the average cost of interest-bearing liabilities is known as net interest-rate spread. The principal expense to WSB is the interest it pays on deposits and other borrowings. The difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities is referred to as net interest income. Net interest income is significantly affected by general economic conditions and by policies of state and federal regulatory authorities and the monetary policies of the Federal Reserve Board. WSB's net income is also affected by the level of its non-interest income, including loan related fees, deposit-based fees, rental income, operations of its service corporation subsidiary, gain on sale of real estate acquired in settlement of loans ("REO"), and gain on sale of loans, as well as its operating and tax expenses.

This report contains forward-looking statements within the meaning of and pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. A forward-looking statement encompasses any estimate, prediction, opinion or statement of belief contained in this report and the underlying management assumptions, including those identified by terminology such as "may," "will," "believe," "expect," "estimate," "anticipate," "continue," or similar expressions. Forward-looking statements are based on current expectations and assessments of potential developments affecting market conditions, interest rates and other economic conditions and assumptions and results may ultimately vary from the statements made in this report. WSB's future results and prospects may be dependent upon a number of factors that could cause WSB's performance to compare unfavorably to prior periods. Among these factors are (a) WSB's plans to reduce its residential construction and other forms of more speculative lending and to improve its credit standards; (b) ongoing review of WSB's business and operations; (c) implementation of changes in lending practices and lending operations; (d) WSB's compliance with the 2004 Supervisory Agreement with the OTS and the resolutions adopted in June, 2005 at the direction of the OTS and any regulatory actions in response thereto; (e) the Board of Directors review of WSB's capital management plan; (f) changes in accounting principles; (g) government legislation and regulation; (h) changes in interests rates; (i) changes in the economy; (j) credit or other risks of lending activity; (k) the impact of any legal or regulatory proceedings; and (l) other expectations, assessments and risks that are specifically mentioned in this report, in our Annual Report on Form 10-K for the year ended July 31, 2005 ("2005 Form 10-K") and in such other reports filed with the OTS. WSB wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including those described above, could affect WSB's financial performance and could cause WSB's actual results or circumstances for future periods to differ materially from those anticipated or projected. Unless required by law, WSB does not undertake, and specifically disclaims any obligations to publicly release the result of any revisions that may be made to any forward-looking statements to reflect statements to the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)

Critical Accounting Policies

The preparation of consolidated financial statements requires management to make judgments in the application of certain of its accounting policies that involve significant estimates and assumptions about the effect of matters that are inherently uncertain. These estimates and assumptions are based on information available as of the date of the financial statements, and may materially impact the reported amounts of certain assets, liabilities, revenues and expenses as the information changes over time. Accordingly, different amounts could be reported as a result of the use of revised estimates and assumptions in the application of these accounting policies.

Accounting policies considered relatively more critical due to either the subjectivity involved in the estimate and/or the potential impact that changes in the estimates can have on the reported financial results include the accounting for the allowance for loan losses. Information concerning this policy is included in the "Critical Accounting Policies" section of Management's Discussion and Analysis in WSB's 2005 Form 10-K. There were no significant changes in this accounting policy during the first six months of fiscal 2006.

Both basic and diluted EPS amounts are shown on the Consolidated Statements of Operations. However, "basic earnings" per share is utilized in this report's narrative when per share amounts are listed, unless otherwise stated.

Recent Regulatory and Related Developments

In March 2004, WSB entered into a supervisory agreement with the OTS that addressed a number of supervisory issues ("2004 Supervisory Agreement"). Under the supervisory agreement, among other things, WSB must (i) comply with various federal laws and regulations related to bank secrecy, (ii) conduct annual compliance audits and (iii) review and revise certain loan policies and procedures. In addition to adopting a number of policies and procedures addressing these supervisory issues, we submitted to OTS a comprehensive three year business plan, which, among other things, discusses the limitations for each type of loan activity, including WSB's construction portfolio.

In February 2005, WSB announced a plan to reduce its concentration in residential construction lending, primarily through a reduction of non-owner occupied residential construction. In March 2005, WSB appointed a new Chief Executive Officer. Under the new management structure, WSB continues to review its business and operations. Much of this review and the recent changes in our business reflect regulatory criticism of WSB's compliance with the 2004 Supervisory Agreement. Among the changes are changes in WSB's lending practices and lending operations. WSB expects, in light of these circumstances, that loan volumes will likely continue to decrease as WSB decreases certain categories of construction lending in its continuing plan to diversify its loan portfolio and tighten credit standards, which may negatively impact WSB's growth.

On June 14, 2005, OTS and WSB, without WSB admitting that it agreed with the findings of the OTS, entered into a Stipulation and Consent to the Issuance of an Order of Assessment of Civil Money Penalty under which the OTS imposed a \$100,000 civil money penalty on WSB based on alleged material breaches of the 2004 Supervisory Agreement and other alleged unsafe and unsound practices and violations of laws and regulations.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)

Also on June 14, 2005, the Board of Directors of WSB adopted resolutions at the request of OTS relating to WSB's compliance with the 2004 Supervisory Agreement and federal laws and regulations (the "Resolution"). Among other things, these Resolutions require that: (i) the Board take actions to ensure compliance with the 2004 Supervisory Agreement and applicable laws, regulations, and OTS requirements; (ii) take corrective actions to address certain matters noted in OTS' most recent examination report; (iii) take action to bring certain high loan-to-value construction loans into compliance with regulatory limitations; (iv) revise various loan policies; (v) revise internal asset review procedures; (vi) improve various loan administration activities; (vii) and enhance compliance with bank secrecy and other regulatory requirements.

WSB is also evaluating its capital management plan including its dividend policy and decided not to pay a dividend in the first and second quarter of fiscal 2006. WSB continues to remain "Well Capitalized" by regulatory standards.

As the result of the foregoing regulatory developments and continued review by the Board and management of WSB's loan portfolio and lending programs, WSB is in the process of making significant changes to its loan portfolio, including reducing volumes of certain categories of constructions loans and certain other loans that may have more "speculative" characteristics and enhancing credit standards. These changes may result in near-term reductions in loan volumes. Management expects that WSB's operating performance in subsequent quarters may compare unfavorably to operating performance in recent quarters. As described below, WSB made decreases in its provision for loan losses.

Consolidated Results of Operations

Net earnings for the three and six months ended January 31, 2006 were \$1,365,000, or \$0.18 per basic share and \$0.17 per diluted share, and \$2,946,000, or \$0.40 per basic share and \$0.36 per diluted share, respectively, compared to net earnings of \$2,321,000, or \$0.32 per basic share and \$0.28 per diluted share, and \$4,732,000, or \$0.64 per basic share and \$0.58 per diluted share for the corresponding fiscal 2005 periods. Net earnings for the three and six months period ended January 31, 2006, represent decreases of \$956,000, or 41%, and \$1,786,000, or 38% over the same periods last year.

The decrease in quarterly earnings is consistent with management's previously announced plan to reduce the Bank's concentration in higher-yielding construction loans, and the implications of the plan as to future earnings compared to prior quarters. Significant curtailment in the construction loan portfolio has been experienced during the quarter and prior six month periods, resulting in a significant reduction in interest income and loan related fees for the comparative periods. The rising interest rate environment has resulted in a 4% increase in interest expense for the six month period ended January 31, 2006 compared to the same period of the prior year.

Interest Income/Expense

Total interest income decreased \$2.0 million, or 18.5%, for the second quarter of fiscal 2006, and decreased \$2.5 million, or 12.2% for the six month period ending January 31, 2006, compared to the corresponding periods last year, due primarily to a decrease in the average volume of interest-earning assets. The average six-month

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)

balance of interest-earning assets decreased to \$502.1 million from \$528.9 million, due primarily to a decrease in the loans held-for-investment portfolio. The decrease in average yield on interest-earning assets to 7.21% from 7.79% is the result of the reinvestment of the loan portfolio runoff in short term investment securities. This provides for future loan growth as the restructuring of the existing loan portfolio under the business plan and transition into a more diversified loan portfolio with lower credit risk. Total interest expense decreased \$81,000, or 2.0% and increased \$306,000 or 3.9% for the three and six month periods ended January 31, 2006, compared to the same period in the prior year. The increase for the six month period was attributable to an increase in the average interest rate on WSB's interest-bearing liabilities. For the six month period ended January 31, 2006, WSB's average interest-bearing liabilities were \$454.7 million with an average rate of 3.59%, compared to \$489.5 million with an average rate of 3.37%, for the corresponding period last fiscal year.

Net interest income decreased \$1.9 million, or 28.6%, and \$2.8 million, or 21.9%, respectively, for the three and six month periods ended January 31, 2006, compared to the same periods in the prior fiscal year. Due to a lower average return on WSB's interest-earning assets, and a higher average cost of WSB's interest-bearing liabilities, WSB's net interest rate spread decreased to 2.91% for the six month period ended January 31, 2006 from 4.42% for the same period in the prior fiscal year. The ratio of WSB's interest-bearing assets to interest-bearing liabilities increased to 110.43% from 108.04%.

Management has reinvested excess liquidity as a result of the loan portfolio runoff in short term investment securities so as to provide liquidity for future loan growth as we continue the restructuring of the existing loan portfolio under the business plan and transition into a more diversified loan portfolio with lower credit risk. The reinvesting of high yielding loan funds into the investment portfolio will result in lower interest income until loan production again outpaces loan runoff and funds invested in our securities portfolio are redirected to loan production. During the quarter, the bank has seen a significant falloff in loan productions as a result of reducing our exposure to higher risk loans.

Provisions for Loan and REO Losses

WSB's loan portfolio is subject to varying degrees of credit risk. Credit risk is mitigated through portfolio diversification, and limiting exposure to any single customer or industry. WSB maintains an allowance for loan losses (the "allowance") to absorb losses inherent in the loan portfolio. The allowance is based on careful, continuous review and evaluation of the loan portfolio, along with ongoing, quarterly assessments of the probable losses inherent in that portfolio. The methodology for assessing the appropriateness of the allowance includes: (1) a formula allowance reflecting historical losses by credit category, (2) the specific allowance for risk rated credits on an individual or portfolio basis, and (3) a nonspecific allowance which considers risk factors not taken into factor by the other two components of the methodology. The amount of the allowance is reviewed monthly by WSB's Loan Committee, and reviewed and approved monthly by the Board of Directors.

The allowance is increased by provisions for loan losses, which are charged to expense. Charge-offs of loan amounts determined by management to be uncollectible or impaired decrease the allowance, while recoveries of loans previously charged-off are added back to the allowance. WSB makes provisions for loan losses in amounts

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)

necessary to maintain the allowance at an appropriate level, as established by use of the allowance methodology. Under the methodology, WSB considers trends in credit risk against broad categories of homogenous loans, as well as a loan by loan review of loans criticized or classified by management. Classified loans exceeding \$300,000 are evaluated individually as part of the calculation of the adequacy of the allowance. Resulting provisions were \$200,000 for the six months ended January 31, 2006 and \$1.2 million for the same period in the prior year.

No addition to the allowance for loan losses through provisioning was made during the second quarter of fiscal year 2006. Management continues to see favorable developments in many of its previously internally criticized loans in which many such loans have been refinanced out of the bank or have seen credit enhancements secured from borrowers to better position the bank as to the collateral value securing outstanding loans. While significant progress has been made addressing management's assessment as to the inherent risk within the portfolio, the slowing real estate market, especially as it pertains to custom high-end residential properties merits the existing allowance level.

During the six months ended January 31, 2006, the allowance decreased in net by \$1.4 million, or 19%, to \$5.9 million from \$7.3 million at July 31, 2005, as a result of net charge-offs of \$1.6 million and the provision of \$200,000. At January 31, 2006, the allowance was 1.94% of total loans held-for-investment, versus 1.71% of total loans held-for-investment, at July 31, 2005.

WSB has experienced a reduction in its loan portfolio as well as payoffs and/or credit enhancements of previously internally criticized loans, which has resulted in a lower level of inherent probable loss. Assets subject to WSB's Loan Committee criticism includes loans which meet the sub-standard criteria due to collateral deficiencies that may reflect possible losses. Based on the review of the individual loans involved, management estimates probable losses. Management has continued to assess the probable losses as new and relevant data is obtained.

Management believes that the allowance reflects its best estimate of the losses existing in the \$305.5 million loans-held for investment portfolio as of January 31, 2006. The \$4.7 million loan held-for-sale portfolio has already been committed to be purchased by investors at January 31, 2006 and will be settled subsequent to that date. Analysis of WSB's history of sold loans indicates that no credit losses have been realized after the sale of loans.

WSB's determination of the adequacy of the allowance requires significant judgment, and estimates of probable losses inherent in the loans held-for-investment portfolio can vary significantly from the amounts actually observed. See Critical Accounting Policies in the 2005 Form 10-K. While management uses available information to recognize probable losses, future additions to the allowance may be necessary based on changes in the credits comprising the portfolios, changes in the financial condition of borrowers, such as may result from changes in economic conditions, or other considerations determined by management to be appropriate. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the loan portfolio and the allowance. Such review may result in additional provisions based upon their judgments of information available at the time of each examination.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)

Management has developed a comprehensive review process to monitor the adequacy of the allowance for loan losses. The review process and guidelines were developed utilizing guidance from federal banking regulatory agencies and relies on relevant observable data. The observable data considered in the determination of the allowance is modified as more relevant data becomes available. The results of this review process support management's view that the allowance reflects probable losses within the loan portfolio as of January 31, 2006. Please refer to WSB's 2005 Form 10-K under the caption "Significant Accounting Policies" for an overview of the underlying methodology management employs on a monthly basis to maintain the allowance.

Changes in the estimation methods may take place based on the status of the economy and the estimate of the value of the property securing loans and as a result, the allowance may increase or decrease. Future adjustments could substantially affect the amount of the allowance.

During the six month period of fiscal 2006, WSB's overall allowance for loan losses decreased \$1.4 million, despite the additional provision of \$200,000. WSB provisioned for the following reasons identified and occurring during the fiscal year and current quarter:

- WSB's loan loss experience increased, primarily in the construction loan portfolio. This increase is the result of arrangements between WSB and a borrower in bankruptcy that has responsibility for approximately 39 loans of which most are construction rehabilitation loans. An auction by the bankruptcy trustee took place in December 2005 in which auction recoveries approximated the net of partial charge-offs on the properties. Management had taken partial charge-offs on the loans during the first fiscal quarter based off of management's best estimate as recovery value from a bulk sale. A final adjustment as to the loss sustained on these loans was taken during the current quarter. Management is working with the borrower as to a similar auction for other related entity loans which management has provisioned for.
- WSB has experienced defaults in first trust residential loans. Such defaults on custom built properties carry additional risk of loss due to limited marketability of some of the properties.
- As a result of an analysis of its current portfolio, WSB has recognized a decrease of the loss allocation percentages to internally classified loans. This decrease is due to a significant runoff that has been experienced in internally classified loans. As a result of this runoff it has been a reduction in the corresponding specific allocations for loss exposure.

Management believes its evaluation as to the adequacy of the allowance as of January 31, 2006 is appropriate, and cautions the reader that the provision for this quarter is not necessarily indicative of future quarters provisioning. Subjective judgment is significant in the determination of the provision and allowance for loan losses, manifested in the valuation of collateral, a borrower's prospects of repayment, and in establishing allowance factors and components for the formula allowance for homogeneous loans. The establishment of allowance factors is a continuing exercise, based on management's assessment of the factors and their impact on the portfolio, and that allowance factors may change from period to period, resulting in an increase or decrease in the amount of the provision or allowance, based upon the same volume and classification of loans. A time lag between the recognition of loss exposure in the evaluation of the adequacy of the allowance and a loan's ultimate resolution and or charge-off is normal and to be expected. A discussion

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)

of some of the factors that have had a significant impact during the quarter in the evaluation of the adequacy of WSB's allowance for loan losses is discussed above.

WSB has experienced noticeable change in its loan portfolio during the quarter, which was observed in management's analysis of the adequacy of the allowance for loan loss during the quarter, and at quarter end. Management reviews monthly the adequacy of the allowance for loan losses, provisioning accordingly to meet the deemed losses within the portfolio. For a better understanding of the allowance and the evaluation process refer to WSB's 2005 Form 10-K for a more complete description.

WSB, as shown below in tabular format, has seen a decrease of charge-offs during the current quarter but experienced a significant increase during the first quarter of fiscal 2006. While there has been a decrease in loan charge-offs, we believe there is additional, yet unidentified, probable losses within the portfolio, which may be reflected as charge-offs against the allowance in future quarters, as these losses manifest themselves and loan collection efforts continue.

Fiscal year	2006			2005		
	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Provision for loan losses	\$ 0	\$ 200,000	\$ 1,430,000	\$ 2,790,000	\$ 670,000	\$ 520,000
Loan charge-offs	\$ 51,024	\$ 1,548,218	\$ 121,773	\$ 947,876	\$ 474,283	\$ 56,217
Loan recoveries	9,830	400	1,821	8,978	475	1,228
Net Charge-offs	\$ 41,194	\$ 1,547,818	\$ 119,952	\$ 938,898	\$ 473,808	\$ 54,989
Allowance for loan losses at period end	\$ 5,936,670	\$ 5,977,864	\$ 7,325,682	\$ 6,015,634	\$ 4,164,532	\$ 3,968,340
Total loans held for investment at period end	305,525,989	367,610,162	428,549,098	480,463,870	507,143,388	505,749,680
Allowance to total loans held for investment at period end	1.94%	1.63%	1.71%	1.25%	0.82%	0.78%

At January 31, 2006, total non-performing loans were \$8.3 million of which included non-accrual loans of \$6.2 million and \$2.1 million in accruing loans which were contractually past due more than four months but with current payments, compared to \$7.1 million of which included non-accrual loans of \$5.7 million and \$1.4 million in accruing loans which were contractually past due more than four months but with current payments, or 1.68% of total loans held-for-investment, at July 31, 2005. Total non-performing loans represented 140% of the allowance at January 31, 2006, versus 103% at July 31, 2005. Significant variation in this ratio may occur from period to period because the amount of non-performing loans depends largely on the condition of a small number of individual credits and borrowers relative to the total loan and lease portfolio. Most of the \$2.1 million loans that are contractually past due have current payments, request for extensions need to be formally filed on their current contract to extend the maturity date to bring the loan to current status.

While there has been an increase in non-accruals since July 31, 2005, there is not a direct relationship between the discontinuation of interest accrual and the level of inherent risk of loss associated with those loans or the portfolio.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)

Based upon management's analysis of WSB's Real Estate Owned ("REO"), WSB's provisions were \$83,000 and \$63,000 for the three and six month periods ending January 31, 2006. REO held at January 31, 2006 and July 31, 2005, was \$954,000 and \$1.3 million, respectively, which was net of \$0 reserves for REO losses at January 31, 2006 and July 31, 2005.

Non-Interest Income

Total non-interest income decreased \$489,000, or 33.9%, and \$700,000, or 23.3% for the three and six month period ended January 31, 2006, respectively, compared to the same periods in the prior year. The decrease was attributable to a decrease in the gain on sale of loans, loan related fees and rental income which offset in part, the increase on the gain on sale of real estate acquired in settlement of loans and other income.

Gain on the sale of real estate acquired in settlement of loans increased by \$190,000 due to the sale of two properties in the first quarter and nine properties in during the second quarter.

Loan-related fees decreased \$90,000, or 22% and \$313,000, or 34% for the three and six month periods ending January 31, 2006 due to a reduction in WSB's loan settlements. Real estate loans closed for the three and six month periods ended January 31, 2006, were approximately \$147.9 million and \$48.4 million, compared to approximately \$175.0 million and \$374.2 for the same periods last year. The decrease in real estate loans closed is primarily the result of a higher interest rate environment, and a reduction in loan refinancing volume. Gain on the sale of loans decreased \$539,000 and \$590,000 for the three and six month periods ending January 31, 2006. WSB's ability to realize gains in future periods depends largely on interest rates and the demand for mortgage loans. WSB's loans in process, which are loans that have not yet settled as of January 31, 2006 decreased to \$44.8 million, compared to \$144.8 million at January 31, 2005.

The decrease in rental income of \$31,000 and \$62,000 for the three and six month periods ending January 31, 2006 is primarily due to the reduction in rented space at the Corporate Bowie Building. The square footage previously designated for other businesses has decreased due to the additional space needed for WSB's support staff.

Non-Interest Expenses

Non-interest expenses decreased \$90,000, or 2.5% for the second quarter ended January 31, 2006 and increased \$468,000, or \$6.7% for the six month period ended January 31, 2006, respectively, as compared to the corresponding prior fiscal year periods.

The decrease in non-interest expenses for the three month period ended January 31, 2006 compared to the same period last year was primarily due to decreases of \$585,000 in salaries and benefits, which offset increases of \$83,000 in professional fees and \$124,000 other expense, which consisted primarily of repairs and installation and foreclosure costs, and \$83,000 in provision for losses on real estate acquired in settlement of loans. The increase in non-interest expense for the six month period ended January 31, 2005 compared to the same period last year was primarily due to increases of \$297,000 in professional fees, \$200,000 in other expense, which consisted primarily of repairs and installation and foreclosure costs, \$146,000 in provision for losses on real estate acquired in settlement of loans, which offset the decrease of \$650,000 in salaries and benefits.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)

The increase in professional services is associated with compliance under the Supervisory Agreement between WSB and the OTS discussed in "Recent Regulatory and Related Developments" above, legal fees associated with the pending litigation by a former employee, consultant costs associated with the implementation of the internet banking product and the mortgage origination software, the restructuring of the mortgage banking operations, and a write-down of foreclosed property.

Income Taxes

The effective income tax rate for the six months ended January 31, 2006 was 37.3% compared to 38.4% for the same period last year. The decrease compared to last year is the result of higher percentage of income attributable to WSB's wholly-owned operating subsidiary, WSB Investments, Inc. which maintains and manages a portfolio of investment securities that are not subject to Maryland state taxes.

Liquidity and Capital Resources

Total assets were \$496.6 million and \$528.7 million at January 31, 2006 and July 31, 2005, respectively. The 6.1% decrease in assets at January 31, 2006, compared to July 31, 2005, was primarily attributable to a decrease in the loan portfolio, partially offset by increases in the investment and mortgage-backed securities portfolios.

Deposits were \$379.8 million at January 31, 2006, compared to \$413.3 million at July 31, 2005. The decrease in deposits at January 31, 2006, compared to July 31, 2005, was primarily due to decreases in the origination of new certificates of deposit. Management anticipates utilizing excess funding liquidity to offset a runoff of higher costing certificate of deposits which were previously originated to fund loan production.

Total borrowings, which consisted of Federal Home Loan Bank ("FHLB") advances, were \$55.9 million at both January 31, 2006 and July 31, 2005. WSB maintains funding activities with correspondent banks and the Federal Home Loan Bank of Atlanta, which are cancelable by the lender and subject to lender discretion. To the extent WSB does not or can not use FHLB borrowings, it would rely on alternative funding sources including its depositor base and correspondent bank lines of credit.

WSB continually seeks to increase its core deposits and advertises its lower-cost NOW accounts, no fee checking incentives, an overdraft protection program, variable money fund savings account priced to current interest rates, and the advantages of customer access to ATM networks.

As a member of the FHLB system, and in order to maintain insurance with the Federal Deposit Insurance Corporation ("FDIC"), WSB must maintain average daily balances of long-term liquid assets of not less than 4% of the average daily balance of its liquidity base (net withdrawable savings accounts and borrowings during the preceding calendar month which are payable within one year). Liquid assets are defined as cash, Federal Reserve deposits, time and savings deposits in certain institutions, obligations of states and political subdivisions thereof, highly rated corporate debt, mortgage loans and mortgage-backed securities ("MBS"), and accrued interest receivable and principal on certain qualified unpledged assets, payable within five years. Internal sources of liquidity used by WSB are various short-term investments, mortgage-backed securities, and short-term borrowings. During January 2006, WSB's long-term average daily balances of liquid assets were \$177.7 million, which exceeded the \$15.4 million required.

**THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)**

Current regulations require subsidiaries of an institution to be separately capitalized and require investments in and extensions of credit to any subsidiary engaged in activities not permissible for a bank to be deducted in the computation of an institution's regulatory capital. These regulations have affected WSB through its service corporation subsidiary, which is engaged in real estate development and construction activities. At January 31, 2006, WSB's investment in its service corporation subsidiary was \$419,000, and the subsidiary's assets totaled \$536,000. Therefore, for regulatory capital calculations, WSB was required to deduct \$419,000 from its capital and \$536,000 from its assets. WSB's regulatory capital and regulatory assets below also reflect increases of \$256,000 and \$396,000, respectively, which represents unrealized losses (after-tax for capital deductions and pre-tax for asset deductions, respectively) on investment securities classified as available for sale. In addition, WSB's risk-based capital reflects an increase of \$4.1 million in the general loan loss reserve. The loan loss reserve factor represents 1.25% of WSB's risk weighted assets. Regulatory thrift capital ratios required, WSB's actual ratios, and the amount over which WSB's ratios exceed regulatory ratio required, as of January 31, 2006, are shown as follows.

<u>Capital Category</u>	<u>Regulatory Ratios Required</u>	<u>WSB's Ratio</u>	<u>WSB's Excess of Requirements</u>	<u>Calculations</u>	<u>Based Upon</u>
Leverage	\$ 19,857,035 4.00%	\$ 58,172,835 11.72%	\$ 38,315,800 7.72%	\$ 58,172,835 \$ 496,425,873	Regulatory Capital Regulatory Assets
Tangible	\$ 7,446,388 1.50%	\$ 58,172,835 11.72%	\$ 50,726,447 10.22%	\$ 58,172,835 \$ 496,425,873	Regulatory Capital Regulatory Assets
Risk-Based	\$ 26,108,628 8.00%	\$ 62,252,308 19.07%	\$ 36,143,680 11.07%	\$ 62,252,308 \$ 326,357,851	Regulatory Capital Risk-Weighted Assets

WSB's management believes that, under current regulations, WSB will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of WSB, such as a shift in interest rates or a downturn in the economy in areas where WSB extends credit, could adversely affect future earnings and, consequently, the ability of WSB to meet its future minimum capital requirements.

Cash dividends are subject to determination and declaration by the Board of Directors, which takes into account WSB's financial condition, results of operations, tax considerations, industry standards, economic conditions, and other factors, including regulatory restrictions. However, the ability of WSB to pay quarterly cash dividends will be dependent on earnings, financial condition and business of WSB, as well as other factors, such as regulatory requirements. Cash dividends that are declared are paid in a subsequent quarter. For a discussion of the regulatory restrictions on the declaration and payment of dividends, see "Business—Supervision and Regulation—Restrictions on Capital Distributions." WSB is continuing to evaluate its capital management plan including its dividend policy and has decided not to declare a dividend in the first quarter of fiscal 2006. While not declaring a dividend for this quarter, the Board will continue to review WSB's dividend practice on a quarterly basis. The Board believes that the retention of the approximately \$560,000 that would have been paid this quarter under our historical dividend practice will help WSB maintain its current "well capitalized" capital level and pursue its business plan and strategic objectives, which the Board believes is in the stockholders' long term best interests.

**THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)**

The Qualified Thrift Lender ("QTL") Test currently requires that "qualified thrift investments" be at least 65% of portfolio assets as defined by the OTS. At January 31, 2006, WSB's ratio was approximately 75% of defined portfolio assets.

Off Balance Sheet Transactions

WSB is a party to financial instruments with off-balance sheet risk including commitments to extend credit under existing lines of credit and commitments to sell loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated Statement of Financial Condition.

Off-balance sheet financial instruments whose contract amounts represent credit and interest rate risk are summarized as follows:

Commitments to originate new loans	\$	4,014,619
Unfunded commitments to extend credit under existing construction, equity line and commercial lines of credit		43,220,828
Standby letters of credit		1,487,418
Commitments to sell loans held-for-sale		4,736,598

WSB does not have any unconsolidated special purpose entities or other similar forms of off-balance sheet financing arrangements.

Commitments to originate new loans or to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally expire within 90 days. Most equity line commitments for the unfunded portion of equity lines are for a term of 12 months, and commercial lines of credit are generally renewable on an annual basis. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. WSB evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by WSB upon extension of credit, is based on management's credit evaluation of the borrower.

Commitments to sell loans held-for-sale are agreements to sell loans to third parties at an agreed upon price.

Contractual Obligations

The following chart list WSB's contractual obligations as of January 31, 2006:

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
(Continued)

	Payments due by period (dollars in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$ 55,900	\$ -	\$ -	\$ 43,000	\$ 12,900
Operating leases	815	158	458	199	-
Time Deposits	<u>313,739</u>	<u>89,593</u>	<u>103,824</u>	<u>120,284</u>	<u>38</u>
Total	<u>\$ 370,454</u>	<u>\$ 89,751</u>	<u>\$ 104,282</u>	<u>\$ 163,483</u>	<u>\$ 12,938</u>

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Management of WSB considers interest rate risk (“IRR”) and credit risk as the two most significant factors impacting WSB’s financial performance. WSB currently utilizes no derivatives to mitigate its credit risk, relying instead on loan review and an adequate loan loss allowance. WSB’s exposure to IRR is reviewed on at least a quarterly basis by the Board of Directors and management, and is measured in accordance with OTS Thrift Bulletin No. 13a using interest rate risk sensitivity analysis, including Net Portfolio Value (“NPV”) and net interest income under various rate scenarios.

The OTS provides all institutions that file the Consolidated Maturity Rate Schedule (“CMR”) as part of their quarterly thrift financial report with an interest rate sensitivity report of NPV on a calendar quarter basis. The NPV is defined as the netting of the present value of expected cash flows related to existing assets and liabilities and off-balance sheet contracts. In addition to the discounted cash flow analysis, the OTS simulator model also employs an option-based pricing approach to measuring the interest rate sensitivity of the NPV. Per the OTS interest rate risk exposure report, WSB’s sensitivity measure, or decline in the NPV ratio, at December 31, 2005 was a minimal 230 basis points, compared to 112 basis points at December 31, 2004. This 118 basis point increase primarily resulted from a slight increase in the interest rates and a reclassification of approximately \$57 million of loans-held-for-investment to balloon mortgages from the 15 year mortgage loan category. WSB relies on the OTS model and does not prepare its own model.

The following table compares the calculated estimates of change in NPV and net interest income as of December 31, 2005 (the most recent data available) to current limits established by management and approved by the Board of Directors.

Basis Point Change In Market Rates	Percentage Change In			
	Net Interest Income		Net Portfolio Value as a % of PV of Assets	
	Board Limits	Projected Change	Minimum Board Limits	OTS Projections
+200	-30%	+20%	6%	16%
- 100	-30%	- 10%	10%	14%

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
(Continued)

Item 4. Controls and Procedures

WSB's management, under the supervision and with the participation of WSB's Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of the design and operation of WSB's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, WSB's Principal Executive Officer and Principal Financial Officer concluded that WSB's disclosure controls and procedures are effective in timely alerting them to material information which is required to be included in the periodic reporting that WSB must file with the OTS.

During the quarterly period covered by the report, there were no changes (including corrective actions with regard to significant or material weaknesses) in the WSB's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect WSB's internal controls over financial reporting.

PART II.

Item 1. Legal Proceedings

On July 29, 2005, WSB was notified of suit in John Sullivan v. The Washington Savings Bank, F.S.B., Stephen J. Troese, Randall Robey and the Office of Thrift Supervision (U.S. District Court for the District of Maryland, Case No. L05-CV2083). The complaint arises out of the termination of Mr. Sullivan's employment by WSB, alleges a range of federal and state statutory and common law claims, and purports to claim compensatory damages in the amount of \$1 million and, in connection with certain tort claims, \$5 million in punitive damages, plus all costs, interests, and attorney's fees. WSB has undertaken to indemnify, and advance expenses for, its co-defendants, Stephen Troese, a director of the Company, and Randall Robey, an officer of the Company. On September 19, 2005, WSB filed a motion with the court to dismiss the complaint on the ground that all claims are subject to arbitration, and in the alternative has sought to dismiss most claims against it and co-defendants Troese and Robey for failure to state a claim. WSB believes that its actions to terminate Mr. Sullivan were legally justified. WSB further believes that it has substantial defenses to each of the claims asserted by Mr. Sullivan, and thus is vigorously defending the case. However, at this time, WSB is unable to predict the outcome of this matter or to estimate the amount or range of amounts for which the Company may be liable in the event of an unfavorable outcome.

In addition, from time to time, WSB is a party to litigation or administrative proceedings relating to claims arising from its operations in the normal course of business. Management believes that the ultimate resolution of any such litigation or administrative proceedings currently pending against WSB is unlikely, either individually or in the aggregate, to have a material adverse effect on WSB's results of operations or financial condition.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
(Continued)

Item 4. Submission of Matters to a Vote of Security Holders

Incorporated by reference from Part II, Item 4 of WSB's 10-Q for the quarter ended October 31, 2005.

Item 6. Exhibits

- 3.1 Amended and Restated Federal Stock Charter of WSB. (Incorporated by reference from WSB's Quarterly Report on Form 10-Q for the quarter ended January 31, 1997.)
- 3.2 Amended and Restated By-Laws of WSB. (Incorporated by reference from WSB's Form 8-K, as filed on February 22, 2005.)
- 3.3 Certificate of Amendment to Federal Stock Charter of WSB. (Incorporated by reference from WSB's Definitive Proxy Statement filing for the year ended July 31, 2001, as filed on October 22, 2001.)
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
- 31.2 Certification of Principal Financial Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith).
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith).
- 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith).

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf, by the undersigned, thereunto duly authorized.

THE WASHINGTON SAVINGS BANK, F.S.B.

By: /s/ Phillip C. Bowman
Phillip C. Bowman
Chief Executive Officer

By: /s/ Randall M. Robey
Randall M. Robey
Senior Vice President and Chief Financial Officer

Date: March 15, 2006

EXHIBIT 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Phillip C. Bowman, Chief Executive Officer of The Washington Savings Bank, F.S.B. ("WSB"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of WSB;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of WSB as of, and for, the periods presented in this quarterly report;
4. WSB's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to WSB, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of WSB's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. WSB's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to WSB's auditors and the audit committee of WSB's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect WSB's ability to record, process, summarize and report financial data; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in WSB's internal control over financial reporting.

Date: March 15, 2006

By: /s/ Phillip C. Bowman
Phillip C. Bowman
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Randall M. Robey, Sr. Vice-President and Chief Financial Officer of The Washington Savings Bank, F.S.B. ("WSB"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of WSB;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of WSB as of, and for, the periods presented in this quarterly report;
4. WSB's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to WSB, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of WSB's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
4. WSB's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to WSB's auditors and the audit committee of WSB's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect WSB's ability to record, process, summarize and report financial data; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in WSB's internal control over financial reporting.

Date: March 15, 2006

By: /s/ Randall M. Robey
Randall M. Robey
Sr. Vice President
and Chief Financial Officer

EXHIBIT 32.1

Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge and on the date hereof, that the accompanying Quarterly Report on Form 10-Q of The Washington Savings Bank, F.S.B. (“WSB”) for the quarterly period ended January 31, 2006, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and that the information contained in this Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of WSB.

By: /s/ Phillip C. Bowman
Phillip C. Bowman
Chief Executive Officer

March 15, 2006

EXHIBIT 32.2

Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge on the date hereof, that the accompanying Quarterly Report on Form 10-Q of The Washington Savings Bank, F.S.B. ("WSB") for the quarterly period ended January 31, 2006, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and that the information contained in this Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of WSB.

By: /s/ Randall M. Robey
Randall M. Robey
Sr. Vice President
and Chief Financial Officer

March 15, 2006