

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: **April 30, 2005**

( ) 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)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class  
**Common Stock, par value \$1.00 per share**

Name of Each Exchange on Which Registered  
**American Stock Exchange**

Securities Registered Pursuant to Section 12(g) of the Act:

(Title of Class)  
None

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

There were 7,382,594 shares of Common Stock (\$1.00 Par Value) outstanding as of June 3, 2005.

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 April 30, 2005 (Unaudited) and July 31, 2004 (Audited)	2
Consolidated Statements of Operations - Three Months and Nine Months ended April 30, 2005 and 2004 (Unaudited)	3
Consolidated Statements of Changes in Stockholders' Equity for the Nine Months ended April 30, 2005 and 2004 (Unaudited)	4
Consolidated Statements of Cash Flows - Nine Months ended April 30, 2005 and 2004 (Unaudited)	5
Notes to Consolidated Financial Statements (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosures about Market Risk	21
Item 4. Controls and Procedures	21
PART II.	
Item 1. Legal Proceedings	22
Item 6. Exhibits	22
Signatures	24

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

	April 30 2005 (Unaudited)	July 31 2004 (Audited)
<b>ASSETS</b>		
Cash	\$ 3,231,175	\$ 3,004,533
Federal funds sold	4,636,000	9,974,000
Total cash and cash equivalents	7,867,175	12,978,533
Loans receivable - net:		
Held for investment (net of allowance of \$6,015,634 and \$3,503,329 respectively)	474,448,236	466,020,833
Held for sale	20,243,323	14,696,830
Total loans receivable - net	494,691,559	480,717,663
Mortgage-backed securities - available for sale	1,985,388	2,155,182
Investment securities - held to maturity	5,675,808	5,587,560
Investment in Federal Home Loan Bank stock, at cost	4,272,100	4,495,000
Accrued interest receivable on loans	3,113,474	2,963,284
Accrued interest receivable on investments	124,744	29,420
Real estate held for investment	88,062	87,897
Real estate acquired in settlement of loans	1,723,376	689,971
Premises and equipment - net	6,228,793	6,305,829
Deferred income taxes	4,902,925	3,616,006
Other assets	2,537,608	1,853,301
<b>TOTAL ASSETS</b>	\$ 533,211,012	\$ 521,479,646
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 10,241,446	\$ 10,345,534
Interest bearing	394,655,688	367,939,410
Total deposits	404,897,134	378,284,944
Other borrowings	69,900,000	89,900,000
Advances from borrowers for taxes and insurance	1,448,324	1,412,564
Accounts payable, accrued expenses and other liabilities	2,183,155	3,073,837
Income taxes payable	1,324,207	-
<b>TOTAL LIABILITIES</b>	479,752,820	472,671,345
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; 7,988,775 and 7,956,850 issued	7,988,775	7,956,850
Additional paid-in capital	1,765,160	1,704,955
Treasury Stock - 610,681 and 610,681 shares at cost	(645,124)	(645,124)
Retained earnings - substantially restricted	44,317,894	39,764,172
Accumulated other comprehensive income	31,487	27,448
<b>TOTAL STOCKHOLDERS' EQUITY</b>	53,458,192	48,808,301
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ 533,211,012	\$ 521,479,646

See notes to consolidated financial statements.

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2005	2004	2005	2004
<b>INTEREST INCOME:</b>				
Interest and fees on loans	\$ 10,604,603	\$ 7,950,260	\$ 30,735,221	\$ 22,431,681
Interest on mortgage-backed securities	27,622	30,204	85,636	91,838
Interest and dividends on investments	<u>244,896</u>	<u>173,714</u>	<u>649,755</u>	<u>560,465</u>
Total interest income	<u>10,877,121</u>	<u>8,154,178</u>	<u>31,470,612</u>	<u>23,083,984</u>
<b>INTEREST EXPENSE:</b>				
Interest on deposits	3,111,730	2,280,599	9,079,405	6,687,058
Interest on other borrowings	<u>832,431</u>	<u>673,143</u>	<u>2,629,876</u>	<u>2,008,961</u>
Total interest expense	<u>3,944,161</u>	<u>2,953,742</u>	<u>11,709,281</u>	<u>8,696,019</u>
<b>NET INTEREST INCOME</b>	6,932,960	5,200,436	19,761,331	14,387,965
Provision for loan losses	<u>2,790,000</u>	<u>180,000</u>	<u>3,980,000</u>	<u>360,000</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>4,142,960</u>	<u>5,020,436</u>	<u>15,781,331</u>	<u>14,027,965</u>
<b>NON-INTEREST INCOME:</b>				
Loan-related fees	300,585	594,204	1,213,912	1,510,428
Gain on sale of loans	787,986	1,096,402	2,335,213	2,200,082
Gain on sale of real estate acquired in settlement of loans	369,022	109,300	371,669	109,300
Service charges on deposits	29,402	40,420	106,725	131,043
Rental Income	160,962	200,050	519,838	582,619
Net gain on sale of building lots and homes	118,410	-	118,410	-
Other income	<u>45,449</u>	<u>72,194</u>	<u>154,130</u>	<u>212,639</u>
Total non-interest income	<u>1,811,816</u>	<u>2,112,570</u>	<u>4,819,897</u>	<u>4,746,111</u>
<b>NON-INTEREST EXPENSE:</b>				
Salaries and benefits	2,051,571	1,653,793	6,367,234	4,704,250
Occupancy expense	197,516	178,193	580,552	548,304
Deposit insurance premiums and assessments	44,194	35,025	123,808	95,362
Depreciation	164,879	140,292	492,127	430,174
Donations	4,721	33,759	8,245	38,539
Advertising	44,755	24,229	118,747	78,579
Service bureau charges	115,462	108,406	336,303	315,298
Service charges from banks	29,306	36,190	97,735	107,454
Stationary, printing and supplies	68,615	58,348	207,963	198,773
Professional services	432,097	25,500	677,077	56,500
Other taxes	33,910	33,603	104,879	103,958
Reversal of provision for losses on real estate acquired in settlement of loans	-	-	-	7,450
Other expense	<u>551,057</u>	<u>495,066</u>	<u>1,584,071</u>	<u>1,510,625</u>
Total non-interest expense	<u>3,738,083</u>	<u>2,822,404</u>	<u>10,698,741</u>	<u>8,195,266</u>
<b>EARNINGS BEFORE PROVISION FOR INCOME TAXES</b>	2,216,693	4,310,602	9,902,487	10,578,810
<b>PROVISION FOR INCOME TAXES</b>	<u>849,100</u>	<u>1,650,900</u>	<u>3,803,300</u>	<u>4,007,800</u>
<b>NET EARNINGS</b>	<u>\$ 1,367,593</u>	<u>\$ 2,659,702</u>	<u>\$ 6,099,187</u>	<u>\$ 6,571,010</u>
<b>BASIC EARNINGS PER COMMON SHARE</b>	<u>\$ 0.19</u>	<u>\$ 0.37</u>	<u>\$ 0.83</u>	<u>\$ 0.93</u>
<b>DILUTED EARNINGS PER COMMON SHARE</b>	<u>\$ 0.17</u>	<u>\$ 0.33</u>	<u>\$ 0.74</u>	<u>\$ 0.82</u>
<b>AVERAGE COMMON SHARES OUTSTANDING</b>	<u>7,378,093</u>	<u>7,253,835</u>	<u>7,363,338</u>	<u>7,066,102</u>
<b>AVERAGE DILUTED COMMON SHARES</b>	<u>8,218,494</u>	<u>8,075,981</u>	<u>8,223,811</u>	<u>8,009,467</u>

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
NINE MONTHS ENDED APRIL 30, 2005 AND 2004

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCE, AUGUST 1, 2003	\$ 7,567,650	\$ 92,502	\$ (677,781)	\$ 32,449,769	\$ 15,035	\$ 39,447,175
Exercise of Stock Options	350,950	642,227	-	-	-	993,177
Tax effect of Stock Options Exercised	-	639,400	-	-	-	639,400
Treasury Stock Issued to Profit Sharing	-	277,539	32,657	-	-	310,196
Comprehensive Income:						
Net earnings	-	-	-	6,571,010	-	6,571,010
Net changes in unrealized depreciation on available for sale securities (net of reclassification adjustment)	-	-	-	-	2,203	2,203
Total comprehensive income						6,573,213
Cash dividend (\$0.05 per common share paid quarterly)	-	-	-	(1,133,114)	-	(1,133,114)
BALANCE, APRIL 30, 2004	<u>\$ 7,918,600</u>	<u>\$ 1,651,668</u>	<u>\$ (645,124)</u>	<u>\$ 37,887,665</u>	<u>\$ 17,238</u>	<u>\$ 46,830,047</u>
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 earnings	-	-	-	6,099,187	-	6,099,187
Net changes in unrealized appreciation on available for sale securities (net of reclassification adjustment)	-	-	-	-	4,039	4,039
Total comprehensive income						6,103,226
Cash dividend (\$0.07 per common share paid quarterly)	-	-	-	(1,545,465)	-	(1,545,465)
BALANCE, APRIL 30, 2005	<u>\$ 7,988,775</u>	<u>\$ 1,765,160</u>	<u>\$ (645,124)</u>	<u>\$ 44,317,894</u>	<u>\$ 31,487</u>	<u>\$ 53,458,192</u>

See notes to consolidated financial statements.

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

	Nine months ended April 30,	
	<u>2005</u>	<u>2004</u>
<b>OPERATING ACTIVITIES:</b>		
Net earnings	\$ 6,099,187	\$ 6,571,010
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for loan losses	3,980,000	360,000
Provision for losses on real estate acquired in settlement of loans	-	7,450
Depreciation	492,127	430,174
(Accretion)/Amortization	(88,248)	2,610
Gain on sale of other real estate owned	(371,669)	(109,300)
Gain on sale of loans	(2,335,213)	(2,200,082)
Gain on sale of building lots and homes	(118,410)	-
Origination of loans - held for sale	(220,457,696)	(280,458,200)
Proceeds from sale of loans held for sale	217,246,416	354,989,309
(Increase) decrease in other assets	(1,973,307)	1,296,573
Increase in accrued interest receivable	(245,514)	(632,212)
Decrease in net deferred loan fees	140,575	416,956
Increase (decrease) in income taxes payable	1,324,207	(1,553,539)
Increase in accrued interest payable	49,087	3,455
Decrease in accounts payable, accrued expenses and other liabilities	(890,682)	(73,596)
Net cash provided by operating activities	<u>2,850,861</u>	<u>79,050,608</u>
<b>INVESTING ACTIVITIES:</b>		
Net increase in loans	(13,560,522)	(123,588,426)
Purchase of mortgage-backed securities - available for sale	-	(1,914,525)
Repayment of mortgage-backed securities	175,915	610,921
Redemption of Federal Home Loan Bank Stock	222,900	550,000
Recall of investment securities - held to maturity	-	808,502
Purchase of premises and equipment	(415,092)	(157,472)
Land development costs incurred	(316,810)	(49,033)
Sale of Land Held-for-Development	435,055	-
Development of real estate acquired in settlement of loans	(467,596)	(702,800)
Sale of real estate acquired in settlement of loans	818,404	622,261
Net cash used by investing activities	<u>(13,107,746)</u>	<u>(123,820,572)</u>
<b>FINANCING ACTIVITIES:</b>		
Net (decrease) increase in demand deposits, NOW accounts and savings accounts	(11,752,568)	9,728,228
Proceeds from issuance of certificates of deposit	38,680,040	87,915,540
Payments for maturing certificates of deposit	(364,369)	(39,529,521)
Net increase (decrease) in advance payments by borrowers for taxes and insurance	35,759	(164,649)
Cash dividend paid	(1,545,465)	(1,133,115)
Decrease in FHLB Advances	(20,000,000)	(11,000,000)
Decrease in other borrowings	-	(14,430,757)
Proceeds from exercise of stock options	92,130	993,177
Net cash provided by financing activities	<u>5,145,526</u>	<u>32,378,902</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(5,111,358)</b>	<b>(12,391,063)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>12,978,533</b>	<b>14,447,330</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ <u>7,867,175</u></b>	<b>\$ <u>2,056,267</u></b>
<b>CASH PAID DURING THE PERIOD FOR:</b>		
Income taxes	\$ <u>3,605,513</u>	\$ <u>7,561,339</u>
Interest	\$ <u>11,643,595</u>	\$ <u>8,697,840</u>
Non-cash transactions:		
Issuance of stock to profit sharing plan:	\$ -	\$ 310,196
Reduction in accrued expenses	-	(310,196)
Transfer from loans to foreclosed real estate	1,012,545	238,768

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 nine months ended April 30, 2005 and 2004 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 April 30, 2005, 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, 2004 (the "2004 Annual Report"). There have been no significant changes to WSB's Accounting Policies as disclosed in the 2004 Annual Report. The results of operations for the period ended April 30, 2005, 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.

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.

	<u>Three Months Ended April 30,</u>					
	<u>2005</u>			<u>2004</u>		
	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic EPS						
Income available to common stockholders	\$ <u>1,367,593</u>	7,378,093	\$ <u>0.19</u>	\$ <u>2,659,702</u>	7,253,835	\$ <u>0.37</u>
Effect of Dilutive Options Incremental Shares		<u>840,401</u>			<u>822,146</u>	
Diluted EPS						
Income available to Common Stockholders	\$ <u>1,367,593</u>	<u>8,218,494</u>	\$ <u>0.17</u>	\$ <u>2,659,702</u>	<u>8,075,981</u>	\$ <u>0.33</u>

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

	<u>Nine Months Ended April 30,</u>					
	<u>2005</u>			<u>2004</u>		
	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic EPS						
Income available to Common Stockholders	\$ <u>6,099,187</u>	7,363,338	\$ <u>0.83</u>	\$ <u>6,571,010</u>	7,066,102	\$ <u>0.93</u>
Effect of Dilutive Options Incremental Shares		<u>860,473</u>			<u>943,365</u>	
Diluted EPS						
Income available to Common Stockholders	\$ <u>6,099,187</u>	<u>8,223,811</u>	\$ <u>0.74</u>	\$ <u>6,571,010</u>	<u>8,009,467</u>	\$ <u>0.82</u>

All 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 three and nine months ended April 30, 2005 and 2004, respectively.

### 3. Stock-Based Compensation

WSB has incentive compensation plans that permit the granting of incentive and non-qualified awards in the form of stock options. Generally, the terms of these plans stipulate that the exercise price of options may not be less than the fair market value of WSB's common stock on the date the options are granted. Options vest over a two year period from the date of grant, and generally expire not later than ten years from date of grant.

WSB has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (Statement 123) which allows an entity to continue to measure compensation costs for those plans using the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." WSB has elected to follow APB Opinion 25 and related guidance in accounting for its employee stock options. Accordingly, no compensation expense has been recorded in these financial statements as a result of any stock-based awards, as all options granted had an exercise price equal to the market value of the underlying common stock as of the date of grant.

The pro-forma information below was determined as if WSB had accounted for its employee stock options under the fair value method of Statement 123. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. WSB's pro forma information is as follows:

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

	<b>For the three months ended</b>	
	April 30 2005	April 30 2004
Net Earnings		
As reported.....	\$ 1,367,593	\$ 2,659,702
Deduct: Total stock-based compensation expense determined under fair value-based method for all awards, net of related tax effects.....	(32,302)	(85,752)
Pro forma.....	\$ 1,335,291	\$ 2,573,950
Basic earnings per common share:		
As reported.....	\$ 0.19	\$ 0.37
Pro forma.....	\$ 0.18	\$ 0.35
Diluted earnings per common share:		
As reported.....	\$ 0.17	\$ 0.33
Pro forma.....	\$ 0.16	\$ 0.32

	<b>For the nine months ended</b>	
	April 30 2005	April 30 2004
Net Earnings		
As reported.....	\$ 6,099,187	\$ 6,571,010
Deduct: Total stock-based compensation expense determined under fair value-based method for all awards, net of related tax effects.....	(64,604)	(198,960)
Pro forma.....	\$ 6,034,583	\$ 6,372,050
Basic earnings per common share:		
As reported.....	\$ 0.83	\$ 0.93
Pro forma.....	\$ 0.82	\$ 0.90
Diluted earnings per common share:		
As reported.....	\$ 0.74	\$ 0.82
Pro forma.....	\$ 0.73	\$ 0.80

4. New Accounting Pronouncements

The Emerging Issues Task Force has reached a consensus on Issue 03-1, "Meaning of Other Than Temporary Impairment" (Issue 03-1). The Task Force reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under Statement of Financial Accounting Standards No. 115. "Accounting for Certain Investments in Debt and Equity Securities" and cost method investments. The basic model developed by the Task Force in evaluating whether an investment within the scope of Issue 03-1 is other-than-temporarily impaired is as follows: Step 1: Determine whether the investment is impaired. An investment is impaired if its fair value is less than its cost. Step 2: Evaluate whether the impairment is other-than-temporary. Step 3: If the impairment is other-than-temporary, recognize an impairment loss equal to the difference between the investment's cost and its fair value. The three-step model used to determine other-than-temporary impairments shall be applied prospectively to all current and future investments in interim or annual reporting periods beginning after June 15, 2004. The adoption of Issue 03-1 did not have a material impact on WSB's financial condition or results of operations.

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

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement No. 123 (R), Share-Based Payment. This statement replaces Statement of Financial Accounting Standards No. 123 (“SFAS 123”), Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS 123(R) must be adopted as of the first interim or annual reporting period that begins after June 15, 2005. WSB is currently evaluating both the timing and method of adopting the new standard.

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

Item 2.

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 borrowings 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 the WSB's performance to compare unfavorable 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, 2004 ("2004 Form 10-K") and in such other reports filed with the OTS.

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.

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

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 2004 Form 10-K. There were no significant changes in this accounting policy during the first nine months of fiscal 2005.

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, WSB appointed a new Chief Executive Officer. Under the new management structure, WSB is in the midst of a thorough review of its business and operations. Much of this review and anticipated changes result from regulatory criticism of the WSB's compliance with the 2004 Supervisory Agreement. Among the changes management is implementing are changes in WSB's lending practices and lending operations. WSB expects, in light of these circumstances, that loan volumes will likely 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.

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.

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

WSB is also evaluating its capital management plan including its dividend policy and determined not to pay a dividend in the 3<sup>rd</sup> quarter of 2005. While the WSB remains "Well Capitalized" by regulatory standards, WSB's recent growth rates have resulted in a decline in its capital ratios.

As the result of the foregoing regulatory development 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. Also, as described below, WSB has made significant increases in its provision for loan losses. Thus, as the result of one or more of these factors, management expects that the WSB's operating performance in subsequent quarters may compare unfavorably to operating performance in recent quarters.

Consolidated Results of Operations

Net earnings for the three and nine months ended April 30, 2005 were \$1,368,000, or \$0.19 per basic share and \$0.17 per diluted share, and \$6,099,000, or \$0.83 per basic share and \$0.74 per diluted share, compared to net earnings of \$2,660,000, or \$0.37 per basic share and \$0.33 per diluted share, and \$6,571,000, or \$0.93 per basic share and \$0.82 per diluted share, for the corresponding fiscal 2004 periods. Net earnings for the three and nine month periods ended April 30, 2005, represent decreases of \$1,292,000, or 49%, and \$472,000, or 7% from the same periods last year.

The decrease in net earnings for the three and nine month periods ending April 30, 2005 was primarily the result of a \$2.8 million charge in the third quarter to the provision for loan losses. The provision was made due to unfavorable trends including an increase in internally criticized loans and to reflect changes in WSB's lending policies and procedures. See below under "Provisions for Loan Losses and REO Losses" for a full discussion.

Interest Income/Expense

Total interest income increased \$2.7 million, or 33.4%, for the third quarter of fiscal 2005, and increased \$8.4 million, or 36.3% for the nine month period ending April 30, 2005, compared to the corresponding periods last year, due primarily to an increase in the average volume of interest-earning assets. The average nine-month balance of interest-earning assets increased to \$529.5 million from \$413.3 million, due primarily to an increase in the loans held-for-investment portfolio. The increase in average yield on interest-earning assets to 7.93% from 7.45% is the result of a slightly higher interest rate environment, in general. Total interest expense increased \$990,400 or 33.5%, and \$3.0 million, or 34.7% for the three and nine month periods ended April 30, 2005, respectively, compared to the same periods in the prior year. The increases were attributable to an increase in the average volume on WSB's interest-bearing liabilities offset partially by a slight decline in WSB's average interest rate for the interest-bearing liabilities. For the nine month period ended April 30, 2005, WSB's average interest-bearing liabilities were \$490.5 million with an average rate of 3.47%, compared to \$366.7 million with an average rate of 3.51%, for the corresponding period last fiscal year.

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

Net interest income increased \$1.7 million, or 33.3%, and \$5.4 million, or 37.3%, respectively, for the three and nine month periods ended April 30, 2005, compared to the same periods in the prior fiscal year. Due to a higher average return of WSB's interest-earning assets, primarily loans, and a slightly lower average cost of WSB's interest-bearing liabilities, primarily deposits and borrowings, WSB's net interest rate spread increased to 4.46% for the nine month period ended April 30, 2005 from 3.94% for the same period in the prior fiscal year. The ratio of WSB's interest-bearing assets to interest-bearing liabilities decreased to 107.96% from 112.70%.

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 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. Resulting provisions were \$3,980,000 for the nine months ended April 30, 2005 and \$360,000 for the same period in 2004.

During the nine months ended April 30, 2005, the allowance increased by \$2.5 million, or 72%, to \$6,015,634 from \$3,503,329 at July 31, 2004. At April 30, 2005, the allowance was 1.27% of total loans held-for-investment, versus 0.75% of total loans held-for-investment, at July 31, 2004.

The increase in the provision is the result of the increased loan portfolio as well as an increase in assets subject to management's criticism. 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 \$474.4 million loan-held for investment portfolio as of April 30, 2005. The \$20.2 million loan held-for-sale portfolio has already been committed to be purchased by investors at April 30, 2005 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.

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

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 2004 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.

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 April 30, 2005. Please refer to WSB's 2004 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 third quarter of 2005, WSB increased its provision for loan losses due to the following reasons identified and occurring during the quarter:

- WSB's loan loss experience increased, primarily in the construction loan portfolio. Delays in the permitting process and construction delays are impacting construction budgets by causing significant cost overruns. WSB believes that recent increases in construction material costs are straining our construction loan customers, many of which are depleting personal liquidity to carry and finish construction with budget overruns.
- WSB has experienced increased construction defaults by contractors which have left borrowers involved in protracted legal cases seeking recovery against their contractors, with inadequate financial means to complete the construction due to additional costs associated with the contractors default, and rising construction costs. WSB believes that many contractors are experiencing liquidity problems due to rising construction costs exceeding budgeted levels with the greatest impact being felt by small contractors who do not have the buying power to lock in material costs during construction. Because many of WSB's portfolio construction are more susceptible to price increases during construction and construction overruns, WSB is experiencing greater loan loss.
- WSB has discovered environmental issues involving a \$297,000 loan in its construction portfolio. WSB is working with the borrower to identify, and mitigate the environmental

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

issues; however, WSB recognizes the impairment based on the underlying collateral value of the loan, and the fact that liability may convey to WSB if we were to foreclose on the loan.

- WSB's loss experience in the current quarter and year is significantly affecting the historical loss factors utilized in providing for losses within its homogenous loan pools in its portfolio.
- As a result of an analysis of its current portfolio WSB identified the following factors which have resulted in increasing the loss allocation percentages to internally classified loans: a) increased delinquencies, b) rising interest rates, c) increased defaults, and d) concerns over its construction loan portfolio especially in the non-owner occupied residential construction segment.

WSB, as shown below in tabular format, has seen a significant increase during the current quarter, and previous 2005 fiscal quarters, of losses within the portfolio. While there has been a sharp increase 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.

Management believes its evaluation as to the adequacy of the allowance as of April 30, 2005 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 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 the reader is referred to the 2004 Form 10-K for a more complete description.

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

	<u>Fiscal Year Ended July 31, 2005</u>		
	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>
Provision for loan losses	\$520,000	\$670,000	\$2,790,000
Loan charge-offs	56,217	474,283	947,876
Loan recoveries	1,228	475	8,978
Net Charge-offs	54,989	473,808	989,388
Allowance for loan losses at period end	3,968,340	4,164,532	6,015,634
Total loans held for investment at period end	\$505,749,680	507,143,388	480,463,870
Allowance to total loans held for investment at period-end	0.78%	0.82%	1.25%

At April 30, 2005, total non-performing assets were \$5.1 million or 1.07% of total loans held-for-investment, compared to \$3.6 million or 0.77% of total loans held-for-investment, at July 31, 2004. The allowance for loan losses to total non-performing loans represented 118% of the allowance at April 30, 2005, versus 97% at July 31, 2004. 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. Non-performing loans include \$1.1 million in loans that are contractually past due 90 days or more but with current payments, compared to \$1.6 million at July 31, 2004. Although most of these loans 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. Classified loans exceeding \$300,000 are evaluated individually as part of the calculation of the adequacy of the allowance. The evaluation of these loans indicates that there is minimal risk associated with these classified loans.

Based upon management's analysis of WSB's Real Estate Owned ("REO"), WSB made no provisions for write-down or loss for the nine month period ending April 30, 2005. REO held at April 30, 2005 and July 31, 2004, was \$1.7 million and \$690,000, respectively, which was net of no reserves for REO losses at April 30, 2005 and July 31, 2004.

Non-Interest Income

Total non-interest income decreased \$301,000, or 14.2%, and increased \$74,000, or 1.6%, for the three and nine month periods ended April 30, 2005, respectively, compared to the same periods in the prior year. The decrease in the third quarter was attributable to a decrease in loan related fees and rental income which offset the increase on the gain on sale of real estate acquired in settlement of loans and on the gain of sale of building lots and homes.

Gain on the sale of real estate acquired in settlement of loans increased by \$260,000 and \$262,000 for the three and nine month periods ending April 30, 2005 respectively, compared to the corresponding periods last year. The gain on the sale of real estate was due to the sale of the lot that WSB retained from the real estate held-for-investment property donated to the Maryland Environment Trust during fiscal 2003. The gain of \$118,000 on the sale of building lots and homes is the result of the completion of a lot on which a house was built through WSB's subsidiary, WSB, Inc. Information concerning WSB, Inc. is included in "Part I -Item 1" of WSB's 2004 Form 10-K.

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

Loan-related fees decreased \$294,000 and \$297,000 for the three and nine month periods ending April 30, 2005 due to a reduction in WSB's loan settlements. Real estate loans closed for the three and nine month periods ended April 30, 2005, were approximately \$121.3 million and \$495.5 million, respectively, compared to approximately \$224.1 million and \$610.5 million, respectively, for the same periods last year. The decrease on real estate loans closed is primarily the result of a higher interest rate environment, in general as well as a reduction in loan refinancing volume. Gain on the sale of loans decreased \$308,000 and increased \$135,000 for the three and nine month periods ending April 30, 2005. 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 April 30, 2005 increased to \$180.7 million, compared to \$84.8 million at April 30, 2004.

The decrease in rental income of \$39,000 and \$63,000 for the three and nine month periods ending April 30, 2005 is primarily due to a reduction of occupied 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

During the three and nine month periods ending April 30, 2005, non-interest expenses increased \$916,000, 32.4%, and \$2.5 million, or 30.5%, respectively, as compared to the corresponding prior fiscal year periods.

The increase in non-interest expenses for the third quarter compared to the same period last year was primarily due to increases of \$407,000 in professional services, \$398,000 in salaries and benefits, \$25,000 in depreciation expense, and \$56,000 increase in other expense, which consisted primarily of lease commission expense, machine rental and repairs and installation. The increase for the nine month period ended April 30, 2005, as compared to the prior fiscal year period, consisted primarily of increases of \$1.7 million in salaries and benefits, \$621,000 in professional services, \$62,000 in depreciation, and \$73,000 in other expenses. The increase in other expenses is a result of increases in machine rental, foreclosure costs, lease commissions, and repairs and installation.

The increase in salaries is associated with loan production commissions and staffing increases for loan operations support. The increase in professional fees included in other expenses is the result of additional expenses associated with the 2004 Supervisory Agreement discussed in "Recent Regulatory and Related Developments" above, as well as the preparation for the required Sarbanes-Oxley Act Section 404 assertions.

Income Taxes

The effective income tax rate for the nine months ended April 30, 2005 was 38.4% compared to 37.9% for the same period last year.

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

Liquidity and Capital Resources

Total assets were \$533.2 million and \$521.5 million at April 30, 2005 and July 31, 2004, respectively. The 2.2% increase in assets at April 30, 2005, compared to July 31, 2004, was primarily attributable to an increase in the total loan portfolio.

Deposits were \$404.9 million at April 30, 2005, compared to \$378.3 million at July 31, 2004. The increase in deposits at April 30, 2005, compared to July 31, 2004, was primarily due to increases in the origination of new certificates of deposit. These deposits were used to fund new loan originations.

Total borrowings, which consisted of Federal Home Loan Bank ("FHLB") advances, at April 30, 2005 were \$69.9 million compared to \$89.9 million at July 31, 2004. In the first quarter of this fiscal year, WSB borrowed an additional \$10 million, which consisted of \$5.0 million at a fixed rate of 3.95% and \$5.0 million with a fixed rate of 4.19%. A \$5.0 million fixed rate of 3.81% was replaced with an adjustable rate advance that was called during the second quarter of fiscal 2005. The balance of the variable daily rate advance decreased to \$9.0 million, compared to \$39.0 million with a variable daily rate at July 31, 2004. To the extent WSB does not or can not use FHLB borrowings, it would rely on alternative funding sources including its depositor base and bank line 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 a specified percentage 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, MBS, and short-term borrowings. WSB's long-term liquidity is calculated at 4% of its liquidity base. During April 2005, WSB's long-term average daily balances of liquid assets were \$35.5 million, which exceeded the \$16.7 million required.

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 April 30, 2005, WSB's investment in its service corporation subsidiary was \$403,000, and the subsidiary's assets totaled \$579,000. Therefore, for regulatory capital calculations, WSB was required to deduct \$403,000 from its capital and \$579,000 from its assets. WSB's regulatory capital and regulatory assets below also reflect decreases of \$31,000 and \$48,000, respectively, which represents unrealized gains (after-tax for capital deductions and pre-tax for asset deductions, respectively) on MBS classified as available for sale. In addition,

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

WSB's risk-based capital reflects an increase of \$5.7 million in the general loan loss reserve. The loan loss reserve factors 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 ration required, as of April 30, 2005, 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	\$ 21,303,357 4.00%	\$ 53,024,109 9.96%	\$ 31,720,752 5.96%	\$ 53,024,109 \$ 532,583,913	Regulatory Capital Regulatory Assets
Tangible	\$ 7,988,759 1.50%	\$ 53,024,109 9.96%	\$ 45,035,350 8.46%	\$ 53,024,109 \$ 532,583,913	Regulatory Capital Regulatory Assets
Risk-Based	\$ 36,548,235 8.00%	\$ 58,734,771 12.86%	\$ 22,186,536 4.86%	\$ 58,734,771 \$ 456,852,937	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.

While not declaring a dividend this quarter, the Board will review WSB's dividend practice on a quarterly basis. The Board believes that the retention of the approximately \$516,000 that would have been paid this quarter under our historical dividend practice will help the Bank 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 Qualified Thrift Lender ("QTL") Test currently requires that "qualified thrift investments" be at least 65% of portfolio assets as defined by the OTS. At April 30, 2005, WSB's ratio was approximately 90% 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.

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

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

Commitments to originate new loans	\$	9,478,145
Unfunded commitments to extend credit under existing construction, equity line and commercial lines of credit		111,413,979
Standby letters of credit		1,820,607
Commitments to sell loans held-for-sale		20,243,323

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 April 30, 2005:

	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	\$ 69,900	\$ 9,000	\$ -	\$ 15,000	\$ 45,900
Operating leases	1,030	103	833	94	-
Time Deposits	<u>319,951</u>	<u>85,438</u>	<u>88,175</u>	<u>143,173</u>	<u>3,165</u>
Total	<u>\$ 390,881</u>	<u>\$ 94,541</u>	<u>\$ 89,008</u>	<u>\$ 158,267</u>	<u>\$ 49,065</u>

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

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 March 31, 2005 was a minimal 206 basis points, compared to 23 basis points at March 31, 2004. This 183 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 March 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%	+17%	6%	15%
- 100	-30%	- 8%	10%	13%

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.

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

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 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.

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. 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 the 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.

**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.)
- 10.1 Stock Option Plan for Non-Employee Directors of WSB. (Incorporated by reference from WSB's Definitive Proxy Statement filing for the year ended July 31, 1995, as filed on October 24, 1995.) \*
- 10.2 1997 Omnibus Stock Plan of WSB. (Incorporated by reference from WSB's Definitive Proxy Statement filing for the year ended July 31, 1997, as filed on October 22, 1997.) \*

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

- 10.3 1999 Stock Option and Incentive Plan of WSB. (Incorporated by reference from WSB's Definitive Proxy Statement filing for the year ended July 31, 1999, as filed on October 21, 1999.) \*
- 10.4 2001 Stock Option and Incentive Plan. (Incorporated by reference from WSB's Definitive Proxy Statement filing for the year ended July 31, 2001, as filed on October 29, 2001). \*
- 10.5 Supervisory Agreement dated March 19, 2004 by and between The Washington Savings Bank, F.S.B. and The Office of Thrift Supervision (Incorporated by reference from WSB's Current Report on Form 8-K filed on March 19, 2004).
- 10.6 Form of Stock Award Agreement for executive officers pursuant to 2001 Stock Option and Incentive Plan. (Incorporated by reference from WSB's Current Report on Form 8-K, as filed on March 21, 2005). \*
- 10.7 Employment Agreement dated March 21, 2005 by and among The Washington Savings Bank, F.S.B. and Phillip C. Bowman. (Incorporated by reference from WSB's Current Report on Form 8-K, as filed on March 21, 2005). \*
- 10.8 Letter Agreement dated March 25, 2005 by and between The Washington Savings Bank, F.S.B. and Mr. John F. Motzer. (Incorporated by reference from WSB's Current Report on Form 8-K, as filed on March 21, 2005). \*
- 10.9 Stipulation and Consent to the Issuance of an Order of Assessment of Civil Money Penalty dated June 14, 2005, attaching Order of Assessment of Civil Money Penalty.
- 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).

\*Denotes management contract or compensatory arrangement required to be filed as an exhibit to this form.

**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: June 14, 2005

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of
The Washington Savings Bank, FSB
Bowie, Maryland
OTS Docket No.: 08173
Order No.: ATL-2005-12
Date: June 14, 2005

STIPULATION AND CONSENT TO THE ISSUANCE OF
AN ORDER OF ASSESSMENT OF CIVIL MONEY PENALTY

WHEREAS, the Office of Thrift Supervision (OTS), based upon information derived from the exercise of its regulatory responsibilities, has informed The Washington Savings Bank, Bowie, Maryland, OTS Docket No. 08173 (TWSB or Bank) that the OTS is of the opinion that grounds exist to initiate an administrative proceeding, the assessment of a civil money penalty, against TWSB pursuant to Section 8(i) of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1818(i),<sup>1</sup> and

WHEREAS, TWSB desires to cooperate with the OTS to avoid the time and expense of such administrative proceeding and, without admitting or denying that such grounds exist and without any adjudication on the merits, but only admitting the statements and conclusions in Paragraph 1 below, hereby stipulates and agrees to the following terms:

1. Jurisdiction

a. TWSB, at all times relevant hereto, was a "savings association" within the meaning of Section 3(b) of the FDIA, 12 U.S.C. § 1813(b), and Section 2(4) of the Home Owners' Loan Act (HOLA), 12 U.S.C. § 1462(4). Accordingly, the Bank was an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, 12 U.S.C. § 1813(c).

b. Pursuant to Section 3(q) of the FDIA, 12 U.S.C. § 1813(q), the Director of the OTS is the "appropriate Federal Banking agency" with jurisdiction to assess civil money penalties against such a savings association. Therefore, the Bank is subject to the jurisdiction of the OTS to initiate and maintain civil money penalty assessment proceedings against it pursuant to Section 8(i) of the FDIA, 12 U.S.C. § 1818(i). The Director of the OTS has delegated to the Regional Director of the Southeast Region of the OTS or his/her designee (Regional Director) the authority to issue civil money penalty assessment orders where an association has consented to the issuance of the order.

<sup>1</sup> All references to the United States Code (U.S.C.) are as amended, unless otherwise indicated.

## **2. OTS Findings of Fact**

a. The OTS finds that the Bank has engaged in certain unsafe and unsound practices and violated certain laws and regulations to which the Bank is subject. Further, the practices and violations by the Bank also constitute a material breach of the terms of the Bank's March 22, 2004 Supervisory Agreement with the OTS. The Bank's unsafe and unsound practices, violations of law and regulation, and breach of a written agreement with the OTS are fully detailed in the OTS' November 29, 2004 Report of Examination of TWSB (2004 Examination). Such violations of law and regulation include violations of (i) the Home Mortgage Disclosure Act<sup>2</sup>, the Equal Credit Opportunity Act<sup>3</sup>, the Truth in Lending Act<sup>4</sup>, the Real Estate Settlement Procedures Act<sup>5</sup>, the lending limitations for loans made to one borrower<sup>6</sup>, the interagency real estate lending standards<sup>7</sup>, and the regulations governing the establishment and maintenance of adequate records<sup>8</sup>.

b. The OTS finds that TWSB, in cooperation with the OTS, has proposed to make and has already made substantial corrective actions and changes to address the violations and practices noted in the Bank's 2004 Examination and improve its compliance program and systems.

c. Notwithstanding WSB's cooperation and the corrective actions taken thus far, the OTS is of the opinion that a civil money penalty (CMP) is necessary and appropriate to address the violations and practices committed by the Bank. Accordingly, OTS believes that a CMP of One Hundred Thousand Dollars (\$100,000.00) should be assessed.

## **3. Consent**

TWSB consents to the issuance by the OTS of the accompanying Consent Order of Assessment of Civil Money Penalty (CMP Order). The Bank further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

## **4. Finality**

The Order is issued by the OTS under the authority of 12 U.S.C. § 1818(i). Upon issuance by the Regional Director for the Southeast Region, this Order shall be a final order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

## **5. Waivers**

TWSB waives the following:

- a. the right to be served with a written notice of the OTS's assessment of a civil money penalty against it (12 U.S.C. § 1818(i) and 12 C.F.R. Part 509);
- b. the right to an administrative hearing of the OTS's charges against it (12 U.S.C. § 1818(i));
- c. the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(i), or otherwise to challenge the validity of the Order;

---

<sup>2</sup> 12 U.S.C. § 2801 et seq.

<sup>3</sup> 15 U.S.C. § 1691 et seq.

<sup>4</sup> 15 U.S.C. § 1601 et. seq.

<sup>5</sup> 12 U.S.C. § 2601 et seq.

<sup>6</sup> 12 C.F.R. § 563.93.

<sup>7</sup> 12 C.F.R. § 560.101

<sup>8</sup> 12 C.F.R. § 563.170

d. any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, the Equal Access to Justice Act, 5 U.S.C. § 504, or 28 U.S.C. § 2412; and

e. the right to assert this proceeding, this consent to the issuance of the Order, and/or the issuance of the Order, the payment of any monies, or the provision of any other financial relief as contemplated by the Order, as the basis for a claim of double jeopardy in any pending or future proceeding brought by the United States Department of Justice or any other governmental entity.

**6. Other Governmental Actions Not Affected**

TWSB acknowledges and agrees that its consent to the issuance of the accompanying Order is solely for the purpose of resolving certain potential OTS administrative enforcement charges as provided above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, liability, or any other administrative, civil, or criminal proceeding that arise pursuant to this action or otherwise, and that may be or has been brought by another governmental entity.

**7. Reservation of Rights**

TWSB acknowledges that the OTS reserves the right to utilize the violations alleged above in Paragraph 2 of this Stipulation, in connection with future action(s), charge(s), or proceeding(s), to establish a pattern or practice of violations or the continuation of a pattern or practice of violations.

**8. Miscellaneous**

a. The construction and validity of this Stipulation and the Order shall be governed by the laws of the United States of America;

b. In case any provision of this Stipulation and the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise;

c. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns;

d. The section and paragraph headings in this Stipulation and the Order are for convenience only, and such headings shall not affect the interpretation or construction of this Stipulation or the Order; and

e. This Stipulation and the Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Regional Director, or other authorized representative.

**9. Signature of Directors**

Each Director signing this Stipulation attests that he/she voted in favor of a resolution authorizing the execution of the Stipulation.

**WHEREFORE**, TWSB, by a majority of its directors, executes this Stipulation and Consent to the Issuance of an Order of Assessment of Civil Money Penalty, intending to be legally bound hereby.

The Washington Savings Bank  
Accepted by a majority of its directors:

**OFFICE OF THRIFT SUPERVISION**

By: /s/William J. Harnett  
Director

/s/ John E. Ryan  
John E. Ryan  
Regional Director, Southeast Region

/s/ George Q. Conover  
Director

Dated: June 14, 2005

/s/ Michael J. Sullivan  
Director

/s/ Phillip C. Bowman  
Director

/s/ Kevin P. Huffman  
Director

/s/ Eric S. Lodge  
Director

/s/ Stephen J. Troese  
Director

**UNITED STATES OF AMERICA**  
**Before The**  
**OFFICE OF THRIFT SUPERVISION**

_____ )	
In the Matter of )	Order No.: ATL-2005-12
)	
The Washington Savings Bank, FSB )	Date: June 14, 2005
Bowie, Maryland )	
)	
OTS Docket No.: 08173 )	
_____ )	

**ORDER OF ASSESSMENT OF CIVIL MONEY PENALTY**

**WHEREAS**, The Washington Savings Bank, Bowie, Maryland, OTS Docket No. 08173 (TWSB or Bank), by and through its Board of Directors (Board), has executed a Stipulation and Consent to the Issuance of an Order of Assessment of Civil Money Penalty (Stipulation); and

**WHEREAS**, TWSB, by executing the Stipulation, has consented and agreed to the issuance of this Order of Assessment of Civil Money Penalty (CMP Order) by the Office of Thrift Supervision (OTS), pursuant to Section 8(i) of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1818(i)<sup>9</sup>; and

**WHEREAS**, the Director of the OTS, pursuant to delegated authority, has delegated to the Regional Directors of the OTS the authority to issue Orders of Assessment of Civil Money Penalty on behalf of the OTS where the savings association that is the subject of the Order has consented to the issuance of the Order.

**NOW THEREFORE, IT IS ORDERED** that:

**1. Payment of Civil Money Penalty**

Within ten (10) calendar days of the date of this CMP Order, TWSB shall pay the sum of One Hundred Thousand Dollars (\$100,000.00) by tendering a certified check or bank draft made payable to the order of the Treasurer of the United States. The certified check or bank draft and a copy of the CMP Order shall be delivered by overnight courier, together with a cover letter referencing The Washington Savings Bank, Bowie, Maryland, OTS Docket No. 08173, to the following address: Controller's Division, Office of Thrift Supervision, 1700 G Street, N.W., Washington, D.C., 20552. A copy of the certified check or bank draft and the cover letter shall be provided by U.S. Mail or overnight courier to Karen Bruton, Regional Counsel, Office of Thrift Supervision, 1475 Peachtree St., N.E., Atlanta, GA 30309.

<sup>9</sup> All references to the United States Code (U.S.C.) are as amended.

## **2. Definitions**

All technical words or terms used in this CMP Order and the Stipulation for which meanings are not specified or otherwise provided by the provisions of this CMP Order shall, insofar as applicable, have meanings as defined in the FDIA. Any such technical words or terms used in this CMP Order and the Stipulation and undefined in said FDIA shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

## **3. Successor Statutes, Regulations, Guidance, and Amendments**

Reference in this CMP Order and the Stipulation to provisions of statutes, regulations, and OTS Publications shall be deemed to include references to all amendments to such provisions as have been made as of the effective date of this CMP Order, and references to successor provisions as they become applicable.

## **4. Notices**

- a. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted by the CMP Order to be made upon, given or furnished to, delivered to, or filed with:
  - i. OTS, by TWSB, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree St., N.E., Atlanta, Georgia 30309 or telecopied to 404.897.1861 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
  - ii. TWSB, by OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to TWSB Board at 4201 Mitchellville Road, Suite 300, Bowie, Maryland 20716, or telecopied to 301.352.3121 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
- b. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service, or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this CMP Order, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two business days after the date of the postmark on the envelope in which the notice was enclosed.

## **5. Duration, Termination or Suspension of Order**

This CMP Order is and shall become effective on the date it is issued, as shown in the caption hereof. The Stipulation and the CMP Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Regional Director, or other authorized representative.

**THE OFFICE OF THRIFT SUPERVISION**

By: /s/ John E. Ryan  
John E. Ryan  
Regional Director, Southeast Region

## 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: June 14, 2005

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
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: June 14, 2005

By: /s/ 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 April 30, 2005, 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

June 14, 2005

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 April 30, 2005, 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

June 14, 2005