

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: **October 31, 2007**

() 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 7,594,135 shares of Common Stock (\$1.00 Par Value) outstanding as of December 3, 2007.

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 October 31, 2007 (Unaudited) and July 31, 2007	2
Consolidated Statements of Operations - Three Months ended October 31, 2007 and 2006 (Unaudited)	3
Consolidated Statements of Changes in Stockholders' Equity For the Three Months ended October 31, 2007 and 2006 (Unaudited)	4
Consolidated Statements of Cash Flows - Three Months ended October 31, 2007 and 2006 (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	20
Item 4. Controls and Procedures	21
PART II.	
Item 1. Legal Proceedings	21
Item 1A. Risk Factors	22
Item 6. Exhibits	22
Signatures	23

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

	October 31, 2007 <u>(Unaudited)</u>	July 31, 2007 <u></u>
ASSETS		
Cash	\$ 17,603,983	\$ 1,347,305
Federal funds sold and interest bearing deposits at FHLB - Atlanta	6,376,842	5,880,806
Total cash and cash equivalents	<u>23,980,825</u>	<u>7,228,111</u>
Loans receivable - net:		
Held for sale	1,859,857	4,377,945
Held for investment (net of allowance for loan losses of \$4,158,516 and \$4,044,781 respectively)	208,451,763	204,001,711
Total loans receivable - net	<u>210,311,620</u>	<u>208,379,656</u>
Investment securities - available for sale at fair value	101,989,668	120,590,915
Mortgage-backed securities - available for sale at fair value	69,019,673	70,349,428
Investment in Federal Home Loan Bank stock, at cost	4,598,900	4,823,900
Accrued interest receivable on loans	1,450,047	1,422,483
Accrued interest receivable on investments	1,241,953	1,362,871
Real estate acquired in settlement of loans	1,152,454	1,028,683
Bank owned life insurance	10,397,545	10,286,092
Premises and equipment - net	5,944,302	6,055,013
Deferred income taxes	3,116,855	3,599,907
Income taxes receivable	447,277	737,757
Other assets	1,704,693	1,161,076
TOTAL ASSETS	\$ <u>435,355,812</u>	\$ <u>437,025,892</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 6,704,591	\$ 6,583,054
Interest bearing	278,852,180	276,315,665
Total deposits	<u>285,556,771</u>	<u>282,898,719</u>
Federal Home Loan Bank borrowings	84,000,000	89,000,000
Advances from borrowers for taxes and insurance	306,166	714,986
Accounts payable, accrued expenses and other liabilities	2,050,020	1,605,521
TOTAL LIABILITIES	<u>371,912,957</u>	<u>374,219,226</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; 8,201,816 and 8,198,816 issued and outstanding	8,201,816	8,198,816
Additional paid-in capital	2,677,552	2,661,393
Treasury Stock - 610,681 shares at cost	(645,124)	(645,124)
Retained earnings - substantially restricted	52,805,224	53,230,759
Accumulated other comprehensive income (loss)	403,387	(639,178)
TOTAL STOCKHOLDERS' EQUITY	<u>63,442,855</u>	<u>62,806,666</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>435,355,812</u>	\$ <u>437,025,892</u>

See notes to consolidated financial statements.

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

	Three Months ended October 31,	
	<u>2007</u>	<u>2006</u>
INTEREST INCOME:		
Interest and fees on loans	\$ 4,234,147	\$ 4,891,983
Interest on mortgage-backed securities	1,005,846	632,996
Interest and dividends on investments	1,775,823	1,763,927
	<hr/>	<hr/>
Total interest income	7,015,816	7,288,906
INTEREST EXPENSE:		
Interest on deposits	2,735,780	2,721,641
Interest on other borrowings	1,127,690	811,788
	<hr/>	<hr/>
Total interest expense	3,863,470	3,533,429
NET INTEREST INCOME		
	3,152,346	3,755,477
Provision (Reversal) for loan losses	<hr/>	<hr/>
	-	(300,000)
NET INTEREST INCOME AFTER PROVISION (REVERSAL) FOR LOAN LOSSES		
	<hr/>	<hr/>
	3,152,346	4,055,477
NON-INTEREST INCOME:		
Loan related fees	143,429	251,803
Gain on sale of loans	120,423	290,339
Gain on sale of real estate acquired in settlement of loans	57,325	297,131
Gain on disposal of fixed assets	-	5,250
Service charges on deposits	20,310	21,164
Rental income	113,170	130,239
Other income	173,742	71,612
	<hr/>	<hr/>
Total non-interest income	628,399	1,067,538
NON-INTEREST EXPENSE:		
Salaries and benefits	1,692,400	1,813,903
Occupancy expense	227,671	224,471
Depreciation	193,093	171,962
Advertising	114,351	25,394
Service bureau charges	134,880	130,642
Service charges from banks	20,019	23,983
Stationary, printing and supplies	60,675	56,843
Professional services	148,550	315,675
SAIF/FDIC Insurance	34,856	187,383
Other taxes	39,475	36,826
Other	629,976	475,210
	<hr/>	<hr/>
Total non-interest expense	3,295,946	3,462,292
INCOME BEFORE PROVISION FOR INCOME TAXES		
	484,799	1,660,723
PROVISION FOR INCOME TAXES		
	<hr/>	<hr/>
	132,556	585,800
NET INCOME		
	<hr/>	<hr/>
	\$ 352,243	\$ 1,074,923
BASIC EARNINGS PER COMMON SHARE		
	<hr/>	<hr/>
	\$ 0.05	\$ 0.14
DILUTED EARNINGS PER COMMON SHARE		
	<hr/>	<hr/>
	\$ 0.04	\$ 0.13
CASH DIVIDENDS DECLARED PER COMMON SHARE		
	<hr/>	<hr/>
	\$ 0.04	\$ 0.04
AVERAGE COMMON SHARES OUTSTANDING		
	<hr/>	<hr/>
	7,588,331	7,427,680
AVERAGE DILUTED COMMON SHARES OUTSTANDING		
	<hr/>	<hr/>
	8,065,638	8,123,595

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED OCTOBER 31, 2007 AND 2006 (Unaudited)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
BALANCE, AUGUST 1, 2006	\$ 8,036,025	\$ 2,143,567	\$ (645,124)	\$ 51,282,613	\$ (870,301)	\$ 59,946,780
Exercise of Stock Options	28,500	47,735	-	-	-	76,235
Comprehensive Income:						
Net income	-	-	-	1,074,923	-	1,074,923
Net changes in unrealized gain on available for sale securities Net of taxes of \$(158,724)	-	-	-	-	585,859	585,859
Total comprehensive income						1,660,782
Cash dividend payable (0.04 per common share)	-	-	-	(298,409)	-	(298,409)
BALANCE, OCTOBER 31, 2006	<u>\$ 8,064,525</u>	<u>\$ 2,191,302</u>	<u>\$ (645,124)</u>	<u>\$ 52,059,127</u>	<u>\$ (284,442)</u>	<u>\$ 61,385,388</u>
BALANCE, AUGUST 1, 2007	\$ 8,198,816	\$ 2,661,393	\$ (645,124)	\$ 53,230,759	\$ (639,178)	\$ 62,806,666
Exercise of Stock Options	3,000	13,250	-	-	-	16,250
Stock-based compensation	-	1,758	-	-	-	1,758
Tax benefits from Stock-based compensation	-	1,151	-	-	-	1,151
Cumulative effect of applying provisions of FIN48				(474,253)		(474,253)
Comprehensive Income:						
Net income	-	-	-	352,243	-	352,243
Net changes in unrealized gain on available for sale securities Net of taxes of \$403,387	-	-	-	-	1,042,565	1,042,565
Total comprehensive income						1,394,808
Cash dividend paid (0.04 per common share)	-	-	-	(303,525)	-	(303,525)
BALANCE, OCTOBER 31, 2007	<u>\$ 8,201,816</u>	<u>\$ 2,677,552</u>	<u>\$ (645,124)</u>	<u>\$ 52,805,224</u>	<u>\$ 403,387</u>	<u>\$ 63,442,855</u>

See notes to consolidated financial statements

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

	Three months ended October 31,	
	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES:		
Net income	\$ 352,243	\$ 1,074,923
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision (Reversal) for loan losses	-	(300,000)
Stock-based compensation	1,758	-
Depreciation	193,093	166,711
Accretion of discounts on investment securities	(83,873)	(96,817)
Gain on sale of other real estate owned	(57,325)	(297,131)
Gain on sale of loans	(120,423)	(290,339)
Loans originated for sale	(20,100,454)	(21,559,156)
Proceeds from sale of loans originated for sale	22,738,964	24,057,995
Increase in cash surrender value of bank owned life insurance	(111,453)	-
(Increase)decrease in other assets	(543,616)	515,679
Excess tax benefits from share-based payment	(1,151)	-
Decrease in accrued interest receivable	93,354	262,268
Deferred income taxes	(166,831)	-
Decrease in net deferred loan fees	(11,486)	(143,338)
Decrease in income taxes receivable	291,631	585,779
Increase (decrease) in accrued interest payable	38,904	(35,363)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(29,753)	229,107
	<u>2,483,582</u>	<u>4,170,318</u>
Net cash provided by operating activities		
INVESTING ACTIVITIES:		
Net (increase) decrease in loans	(5,111,024)	31,649,245
Repayment of mortgage-backed securities - available for sale	1,893,867	1,664,760
Redemption/(purchase)of Federal Home Loan Bank Stock	225,000	(607,500)
Purchase of investment securities - available for sale	-	(29,947,600)
Repayment of investment securities	19,813,456	1,068,882
Purchase of premises and equipment	(82,382)	(113,047)
Development of real estate acquired in settlement of loans	(59,353)	(16,351)
Proceeds from sale of real estate acquired in settlement of loans	665,364	401,898
	<u>17,344,928</u>	<u>4,100,287</u>
Net cash provided by investing activities		
FINANCING ACTIVITIES:		
Net decrease (increase) in demand deposits, NOW accounts and savings accounts	1,238,705	(9,128,946)
Proceeds from issuance of certificates of deposit	5,167,494	219,151
Payments for maturing certificates of deposit	(3,787,051)	(7,978,960)
Net decrease in advance payments by borrowers for taxes and insurance	(408,820)	(266,397)
Cash dividend paid	(303,525)	-
(Increase)decrease in advance from the Federal Home Loan Bank	(5,000,000)	13,500,000
Decrease in short term borrowings	-	(5,000,000)
Proceeds from exercise of stock options	16,250	76,235
Excess tax benefit from stock-based compensaiton	1,151	-
	<u>(3,075,796)</u>	<u>(8,578,917)</u>
Net cash (used) by financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,752,714	(308,312)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>7,228,111</u>	<u>13,770,470</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 23,980,825</u>	<u>\$ 13,462,158</u>
CASH PAID DURING THE PERIOD FOR:		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ 3,847,257</u>	<u>\$ 3,524,746</u>
Non-cash transactions:		
Transfer from loans to foreclosed real estate	<u>\$ 672,457</u>	<u>\$ 801,400</u>
See notes to consolidated financial statements.		

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED OCTOBER 31, 2007 AND 2006
(unaudited)

1. Financial Statements

The Consolidated Financial Statements for the three months ended October 31, 2007 and 2006 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 October 31, 2007, and for all periods presented have been made. All significant intercompany transactions have been eliminated.

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 consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in WSB's Annual Report on Form 10-K for the year ended July 31, 2007 (the "2007 Annual Report"). The results of operations for the period ended October 31, 2007, are not necessarily indicative of the operating results for the full year, or any other period.

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 October 31,</u>					
	<u>2007</u>			<u>2006</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>352,243</u>	7,588,331	\$ <u>0.05</u>	\$ <u>1,074,923</u>	7,427,680	\$ <u>0.14</u>
Effect of Dilutive Options						
Incremental Shares		<u>477,307</u>			<u>695,915</u>	
Diluted EPS						
Net income available to Common Stockholders	\$ <u>352,243</u>	<u>8,065,638</u>	\$ <u>0.04</u>	\$ <u>1,074,923</u>	<u>8,123,595</u>	\$ <u>0.13</u>

Options to purchase 10,000 shares of common stock, 5,000 shares at \$9.11 per share and 5,000 shares at \$8.65 per share were outstanding at October 31, 2007, 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 three months ended October 31, 2007. 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 three months ended October 31, 2007.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED OCTOBER 31, 2007 AND 2006
(Continued)

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 predominantly vest over a two year period from the date of grant, and expire not later than ten years from date of grant.

In April 2007, WSB awarded 5,000 shares under the 1997 Plan to its Chief Executive Officer, which have a ten-year contractual term and vest over a two year period. Total pre-tax stock-based compensation of \$1,758 was recognized in the Statement of Operations for the three months ending October 31, 2007. There were no awards granted and no compensation expense during the first quarter ending October 31, 2006. Approximately \$9,963 stock-based compensation expense remains for future periods. The fair value of the options awarded is estimated on the date of grant using the Black-Scholes option pricing model with volatility calculated based on historical fiscal-year end close prices and a risk free rate is based on the five year treasury rate as of the grant date closing price.

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 1,880,125 options have been granted and 429,875 options remain available for grant. Options granted generally 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 were 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 is in each case the fair market value of the shares on the date of grant.

The following table summarizes stock option activity for the three month period ended October 31, 2007:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at July 31, 2007	827,575	\$2.96		
Exercised	(3,000)	5.42		
Granted	-	-		
Forfeited	-	-		
Outstanding at October 31, 2007	<u>824,575</u>	<u>\$2.95</u>	<u>3.03</u>	<u>\$2,929,320</u>
Exercisable at October 31, 2007	<u>819,575</u>	<u>\$2.91</u>	<u>3.03</u>	<u>\$2,940,070</u>

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED OCTOBER 31, 2007 AND 2006
(Continued)

4. New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (the “FASB”) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109, which provides guidance on the measurement, recognition, and disclosure of tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, and disclosure. FIN 48 prescribes that a tax position should only be recognized if it is more-likely-than-not that the position will be sustained upon examination by the appropriate taxing authority. A tax position that meets this threshold is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. WSB adopted FIN 48 in the first quarter of fiscal year 2008. See Note 5 for information pertaining to the effects of adoption.

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements.” This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of this interpretation is not anticipated to have a material impact on our financial condition, results of operations or liquidity.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (“EITF”) on Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 requires the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods as defined in SFAS No. 106, Employers’ Accounting for Postretirement Benefits Other Than Pensions. The EITF reached a consensus that Bank Owned Life Insurance policies purchased for this purpose do not effectively settle the entity’s obligation to the employee in this regard and, thus, the entity must record compensation costs and a related liability. Entities should recognize the effects of applying this issue through either, (a) a change in accounting principle through a cumulative-effective adjustment to retained earnings or to other components of equity or net assets in the balance sheet as of the beginning of the year of adoption, or (b) a change in accounting principle through retrospective application to all prior periods. This issue is effective for fiscal years beginning after December 15, 2007. Management is currently evaluating the impact of adopting this issue on WSB’s financial statements.

In February 2007, the FASB issued Statement No. 159, “The Fair Value option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement 115”. Statement 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments and not to portions of instructions. Statement 159 is effective for WSB on January 2, 2008, and is not expected to have a significant impact on WSB’s financial statements.

5. Uncertain Income Tax Positions

Effective August 2007, WSB adopted FASB Interpretation No. 48 (“Fin 48”), “Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109”. As required by FIN 48, the cumulative effect has resulted in an increase to our liability for uncertain tax positions of a \$474,253 charge to the retained earnings balance as of October 31, 2007. The full value of unrecognized tax benefits is \$482,009 at October 31, 2007. If

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED OCTOBER 31, 2007 AND 2006
(Continued)

this liability were de-recognized, it would favorably impact the effective tax rate for the period of de-recognition. These non-current income tax liabilities are recorded in other liabilities in our consolidated balance sheet at October 31, 2007.

Interest and penalties related to income tax liabilities are included in income tax expense. The balance of accrued interest and penalties included in the total \$482,000 liability recorded in the consolidated balance sheet at October 31, 2007 was \$7,756.

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.

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.

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) ongoing review of WSB's business and operations; (b) implementation of changes in lending practices and lending operations; (c) the Board of Directors ongoing review of WSB's capital management plan; (d) changes in accounting principles; (e) government legislation and regulation; (f) changes in interest rates; (g) changes in the economy; (h) credit or other risks of lending activity; (i) the impact of any legal or regulatory proceedings; and (j) 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, 2007 ("2007 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.

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

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

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 2007 Form 10-K. There were no significant changes in this accounting policy during the first three months of fiscal 2008.

Recent Regulatory and Related Developments

The first fiscal quarter cash dividend of four cents per share will be paid on December 14, 2007, to stockholders of record as of December 3, 2007. The Board will continue to review WSB's dividend practice on a quarterly basis. WSB continues to remain "Well Capitalized" by regulatory standards.

On September 27, 2007, the Bank announced that it adopted a Plan of Merger and Reorganization (the "Plan"), pursuant to which Washington Savings Bank will become a wholly owned subsidiary of WSB Holdings, Inc., a Delaware corporation formed for the purpose of becoming a savings and loan holding company for Washington Savings Bank. Upon completion of the Plan, all shares of Washington Savings Bank will be converted into an equal number of newly issued shares of WSB Holdings, as a result of which the shareholders of Washington Savings Bank will become the shareholders of WSB Holdings, Inc. in the identical proportion as they were shareholders of Washington Savings Bank immediately before the reorganization. Washington Savings Bank will continue to exist as a federally chartered savings bank and be managed by its current board of directors and officers.

Completion of the Plan is subject to the approval of Washington Savings Bank's stockholders at an annual stockholder meeting to be held on December 19, 2007, and the Office of Thrift Supervision.

Consolidated Results of Operations

Net income for the three months ended October 31, 2007 was \$352,000, or \$0.05 per basic share and \$0.04 per diluted share, compared to net earnings of \$1,075,000, or \$0.14 per basic share and \$0.13 per diluted share for the corresponding 2006 period. Net income for the 2006 period includes a \$300,000 recovery from the allowance for loan losses, compared to no provision for the same period in 2007. Net earnings for the three months ended October 31, 2007 represent a decrease of \$723,000, or 67% over the same period last year.

The decrease in net income for the three month period reflects the general slowdown of the residential real estate market and the related decline in mortgage loan originations and the continuing reduction in the Bank's concentration in higher-yielding construction loans. WSB has experienced a reduction in its construction loan portfolio of approximately 47% compared to October 31, 2006. The overall reduction in WSB's loan production has resulted in a 16% decrease in net interest income and a 41% decrease in non-interest income, compared to the same three month period last year. The decrease in non-interest income is primarily the result of a decrease in loan

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

related fees and gain on loan sales for loans sold in the secondary market which offset the increase in other income, which is primarily the result of increase in cash surrender value of the bank owned life insurance.

As previously discussed, management continues to seek more diversity in its loan portfolio and has established commercial business and commercial real estate lending departments staffed with experienced lenders in an effort to significantly expand its nonresidential loan portfolio. This has resulted in an increase to the portfolios of commercial business and commercial real estate to commercial borrowers of \$17 million during the quarter. WSB expects to see the results of its investment in loans to commercial business and commercial real estate to commercial borrowers to continue in fiscal 2008. To expand its commercial customer deposit base, the bank recently implemented remote deposit capture services for commercial customers. This service complements the Bank's PC Banking platform and allows us a commercially viable means to serve the depository needs of businesses beyond our branch network. The expansion of its commercial base is significant to the profitability of the Bank in that commercial customers provide lower cost deposit funding, with commercial loan borrowings structures that reprice to interest rate changes under terms that are favorable to the Bank.

Due to the decreased demand for housing and current interest rate environment, mortgage loan originations both nationally and for the Bank, have declined. WSB's experienced reduction in loan production has resulted in a 16% decrease in net interest income and a 41% decrease in non-interest income, compared to prior year fiscal quarter. The decrease in non-interest income is primarily the result of a decrease in loan related fees: primarily gain on loan sales for loans sold in the secondary market. WSB had benefited the past several years from the historically low interest rate environment and strong demand for housing which had resulted in higher levels of mortgage originations and related earnings from loan fees and gains on loan sales.

Interest Income/Expense

Total interest income decreased \$273,000, or 3.7%, for the first quarter of fiscal 2008 compared to the corresponding period last year, due primarily to a decrease in both the average volume and yield of interest-earning assets.

The average three-month balance of interest-earning assets decreased to \$411.3 million from \$417.2 million, due primarily to a decrease in the loans held-for-investment portfolio. The decrease in average yield on interest-earning assets to 6.82% from 6.99% is the result of the reinvestment of the loan portfolio runoff in short term investment securities. Investment in short term securities is being used to maintain liquidity for future loan growth as we restructure the existing loan portfolio under the business plan with a transition into a more diversified loan portfolio with lower credit risk.

Total interest expense increased \$330,000, or 8.5% for the three month period ended October 31, 2007, compared to the same period in the prior year. The increase was attributable to the increase in the average interest rate on WSB's interest-bearing liabilities and average outstanding balances. For the three month period ended October 31, 2006, WSB's average interest-bearing liabilities were \$365.9 million with an average rate of 4.19%, compared to \$377.5 million with an average rate of 3.71%, for the corresponding period last fiscal year.

Net interest income decreased \$603,000, or 19.1% for the three month period ended October 31, 2007, compared to the same period in the prior fiscal year. Due to the higher average cost of WSB's interest-bearing liabilities, WSB's net interest rate spread decreased to 2.63% for the three month period ended October 31, 2007

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

from 3.28% for the same period in the prior fiscal year. The ratio of WSB's interest-bearing assets to interest-bearing liabilities increased to 112.40% from 110.54%.

During this period of economic slowdown management continues to stress credit quality within both its loan and investment portfolios. Management's continues with its diversification of WSB's loan portfolio from residential lending into commercial real estate and commercial and industrial (more commonly referred as business lending). It is management's believe that this diversification will be appropriate in dealing with both interest rate spread compression and portfolio risk management. However, these changes continue to be significantly hampered by the current economic slow down.

The bank is currently experiencing a compression of its interest rate margins due to a slowing demand for loans and lower yields on loan originations and investment security offerings. This lower interest rate environment for loans and investments securities compresses interest rate spread by a reduction of interest income. As prevailing rates on deposits and Federal Home Loan Bank advance funding structures continue to decline it will be favorable to WSB. Interest rate margins will be further enhanced when economic conditions begin to become more favorable to lending and funds currently held in investment securities can be redirected back into the loan portfolio. As funds currently held in investment securities can be re-directed to the loan portfolio, yields can be expected to increase and with it and increase in interest rate spread and net interest income.

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. Classified loans exceeding \$300,000 are evaluated individually as part of the calculation of the adequacy of the allowance.

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. As a result of these developments within the portfolio, no provision was made during the first quarter of fiscal 2008 compared to a recovery of prior provisioning of \$300,000 from the allowance for loan losses during the first quarter of fiscal year 2007. The reserve for loans losses is very subjective in nature, relying significantly on historical loss

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

experience, collateral valuations available to management on specific loans, and economic factors deemed to exist at quarter end affecting the inherent loss within the portfolio. Management believes the current reserve level is appropriate, and that the recapture of prior provisioning brings the subsequent reserve position to justified levels. 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, and management cautions the reader not to rely on the possibility of further recaptures of prior loan loss provisioning.

During the three months ended October 31, 2007, the allowance increased in net by \$114,000 or 3%, to \$4.2 million from \$4.0 million at July 31, 2007, as a result of net recoveries of \$114,000. Most of this change was due a recovery of a lot loan previously charged off in fiscal year 2007. At October 31, 2007, the allowance was 1.96% of total loans held-for-investment, versus 1.94% of total loans held-for-investment, at July 31, 2007.

WSB has experienced a reduction in its mortgage 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 \$212.6 million loans-held for investment portfolio as of October 31, 2007. The \$1.9 million loan held-for-sale portfolio has already been committed to be purchased by investors at October 31, 2007 and will be settled subsequent to that date. Analysis of WSB's history of sold loans indicates that generally credit losses are not 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 2007 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 October 31, 2007. Please refer to WSB's 2007 Form 10-K under the caption "Significant Accounting Policies" for an overview of the underlying methodology management employs on a monthly basis to evaluate the allowance.

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

Changes in the estimation valuations 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.

The following occurred during the first quarter of fiscal 2008:

- WSB's continued reduction in the mortgage loans held for investment portfolio.
- WSB experienced default in 1-4 family residential loans however, a recovery in a land lot loan that was previously charged off in last fiscal year resulted in a positive net amount.
- 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. A result of this runoff has been a corresponding reduction in the specific allocations for loss exposure.
- While experiencing significant growth in the commercial portfolio, WSB has not experienced delinquencies or defaults as of October 31, 2007. Such favorable trends reduce reserve experience factors as to the calculation of the allowance.

Management believes its evaluation as to the adequacy of the allowance as of October 31, 2007 is appropriate, and cautions the reader that the provisioning 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. See above for 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.

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 and a more complete description of the allowance and the evaluation process, refer to WSB's 2007 Form 10-K.

WSB, as shown below in tabular format, has seen a decrease of charge-offs compared to the first quarter of fiscal 2007. 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.

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

Fiscal year	2008		2007			
	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	
(Recovery) Provision for loan losses	\$ 0	\$ 0	\$ 0	\$ 0	\$ (300,000)	
Loan charge-offs	\$ 188,256	\$ 428,264	\$ 67,823	\$ 157,866	\$ 400,659	
Loan recoveries	301,992	6,908	22,792	8,354	14,814	
Net (Recoveries) .Charge-offs	\$ (113,736)	\$ 421,356	\$ 45,031	\$ 149,512	\$ 385,845	
Allowance for loan losses at period end	\$ 4,158,516	\$ 4,044,781	\$ 4,466,137	\$ 4,511,168	\$ 4,660,680	
Total loans held for investment at at period end	212,610,279	208,046,492	210,754,216	204,596,274	215,099,302	
Allowance to total loans held for investment at period end	1.96%	1.94%	2.12%	2.20%	2.17%	

At October 31, 2007, total non-performing loans were \$7.0 million or 3.30% of total loans, all were included as non-accrual loans, compared to \$7.4 million or 3.56% of total loans held-for-investment, at July 31, 2007. The allowance is approximately 59.2% of non-accrual loans, versus 54.7% at July 31, 2007. 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.

While there has been a slight decrease in non-accruals since July 31, 2007, 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.

Based upon management's analysis of WSB's Real Estate Owned ("REO"), WSB's had no provision for loss/write-down for the three month period ending October 31, 2007. REO held at October 31, 2007 and July 31, 2007, was \$1.2 million and \$1.0 million, respectively, which was net of \$0 reserves for REO losses at October 31, 2007 and July 31, 2007.

Non-Interest Income

Total non-interest income decreased \$439,000, or 41.1% for the three month period ended October 31, 2007, compared to the same period in the prior year. The decrease was attributable to a decrease in the gain on sale of loans, loan related fees, and gain on sale of real estate acquired in settlement of loans, which was offset in part, by an increase in other income which primarily consisted of proceeds on Bank Owned Life Insurance.

Loan-related fees decreased \$108,000, or 43% for the three month period ending October 31, 2007 due to a reduction in WSB's loan settlements. Mortgage loans closed for the three month period ended October 31, 2007, were approximately \$23.7 million, compared to approximately \$38.2 million for the same period last year. The decrease in real estate loans closed reflects the general slowdown of the residential real estate market and the related decline in mortgage loan originations. Commercial loans and commercial real estates loans closed for the three month period ending October 31, 2007, were approximately \$18.8 million, compared to approximately \$4.4 million for the same period last year. The increase on commercial loans closed for the three month period ending October 31, 2007 was primarily the result of the newly established commercial business and commercial real estate lending departments.

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

Gain on the sale of loans decreased \$170,000 for the three month period ending October 31, 2007. WSB's ability to realize gains in future periods depends largely on interest rates and the demand for mortgage loans.

While production of loans held-for-sale has been negatively impacted nationally by the current market constriction as to non-conforming and non-traditional mortgage offerings, and overall credit tightening, the Company continues to offer traditional mortgage financing through its mortgage banking operations. The Company continues to monitor the anticipated negative impact and/or exposure of many of the larger secondary market investors, and as such has further reduced or eliminated the selling of loans to investors where liquidity or financial capacity is in question.

The decrease on the gain on sale of real estate acquired in settlement of loans is the result of the gain on sale of two "REO" properties in which WSB recorded a net gain at October 31, 2007 compared to the net gain recorded on the sale of five "REO" properties at October 31, 2006.

Non-Interest Expenses

Non-interest expenses decreased \$166,000, or 4.8% for the first quarter ended October 31, 2007 as compared to the corresponding prior fiscal year period.

The decrease in non-interest expenses for the three month period ended October 31, 2007 compared to the same period last year was primarily due to decreases of \$122,000 in salaries and benefits, \$167,000 in professional services and \$153,000 in deposit insurance premiums and assessments, which offset the increase of \$154,000 in other expenses and \$89,000 in advertising expenses.

The decrease in salaries and benefits is the result of the reduced loan production on loans sold in the secondary market and the commissions associated with these loans and was offset by the increased staff for the newly established commercial loan departments

The decrease in professional services was due to the reduction in legal fees, consultant costs associated with the implementation of the mortgage origination software, the restructuring of the mortgage banking operations, and the search to hire experienced commercial business and commercial real estate lenders in an effort to significantly expand the nonresidential loan portfolio that took place during the first quarter of fiscal 2007.

A decrease in deposit insurance premiums and assessments is the result of the Federal Deposit Insurance Corporation ("FDIC") ruling, pursuant to the Federal Deposit Insurance Reform Act of 2005, to assess deposit insurance premiums against all depository institutions based on their current condition and nature of their activities

and on the revenue needs, as determined by the FDIC for the Deposit Insurance Fund. Many insured depository institutions, including WSB, are entitled to a credit against these premiums based on the premiums they paid on or before December 31, 1996. Under the FDIC's current risk-based deposit insurance assessment system, the assessment rate for an insured depository institution depends on the assessment risk classification assigned to the institution by the FDIC which is determined by the institution's capital level and supervisory evaluations.

The increase in other expenses is primarily the result of costs associated with foreclosure of loans and expenses associated with WSB's stock to be listed on The NASDAQ Global Market and the formation of the proposed holding company, "WSB Holdings".

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

Income Taxes

The effective income tax rate for the three months ended October 31, 2007 was 27.3% compared to 35.2% for the same period last year. The decrease compared to last year is the result of higher percentage of income attributable to WSB's Investments portfolio of which a significant portion is not subject to Maryland state taxes and the exclusion of income for the bank owned life insurance proceeds.

Liquidity and Capital Resources

Total assets were \$435.4 million and \$437.0 million at October 31, 2007 and July 31, 2007, respectively. The decrease in assets at October 31, 2007, compared to July 31, 2007, was primarily attributable to a decrease in the investment securities available for sale, partially offset by increases in the loan portfolio held for investment and cash.

Deposits were \$285.6 million at October 31, 2007, compared to \$282.9 million at July 31, 2007. The increase in deposits at October 31, 2007, compared to July 31, 2006, was primarily due to increases in money fund deposit accounts. Management anticipates to continue to utilize 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 \$84.0 million and \$89.0 million at October 31, 2007 and July 31, 2007. 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 withdraw able 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 October 2007, WSB's long-term average daily balances of liquid assets were \$213.4 million, which exceeded the \$12.0 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 October 31, 2007, WSB's investment in its service corporation subsidiary was \$528,000, and the subsidiary's assets totaled \$689,000. Therefore, for regulatory capital calculations, WSB was required to deduct \$528,000 from its capital

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

and \$689,000 from its assets. WSB's regulatory capital and regulatory assets below also reflect decreases of \$403,000 and \$657,000, respectively, which represents unrealized gains (after-tax for capital deductions and pre-tax for asset deductions, respectively) on MBS and investment securities classified as available for sale. In addition, WSB's risk-based capital reflects an increase of \$2.8 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 required, as of October 31, 2007, are shown as follows.

<u>Capital Category</u>	<u>Regulatory Ratios Required</u>	<u>WSB's Amount and Ratio</u>	<u>WSB's Excess of Requirements</u>	<u>Calculations</u>	<u>Based Upon</u>
Leverage	\$ 17,390,352 4.00%	\$ 62,510,285 14.38%	\$ 45,119,993 10.38%	\$ 62,510,285 \$ 434,758,793	Regulatory Capital Regulatory Assets
Tangible	\$ 6,521,382 1.50%	\$ 62,510,285 14.38%	\$ 55,988,903 12.88%	\$ 62,510,285 \$ 434,758,793	Regulatory Capital Regulatory Assets
Risk-Based	\$ 19,164,706 8.00%	\$ 65,286,802 27.25%	\$ 46,122,096 19.25%	\$ 65,286,802 \$ 239,558,824	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." The first fiscal quarter cash dividend of four cents per share will be paid on December 14, 2007, to stockholders of record as of December 3, 2007. The Board will continue to review WSB's dividend practice on a quarterly basis. WSB continues to remain "Well Capitalized" by regulatory standards.

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 October 31, 2007, WSB's ratio was approximately 83% 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	\$ 2,503,026
Unfunded commitments to extend credit under existing construction, equity line and commercial lines of credit	32,615,053
Standby letters of credit	869,709
Commitments to sell loans held-for-sale	1,859,857

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 lists WSB's contractual obligations as of October 31, 2007:

	Total	Payments due by period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Long-term debt	\$ 84,000	\$ 10,000	\$ 10,000	\$ 64,000	-
Operating leases	1,305	249	870	186	-
Time Deposits	<u>233,603</u>	<u>92,554</u>	<u>134,507</u>	<u>6,542</u>	-
Total	<u>\$ 318,908</u>	<u>\$ 102,803</u>	<u>\$ 145,377</u>	<u>\$ 70,728</u>	<u>\$ -</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

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

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 September 30, 2007 was a minimal 176 basis points, compared to 134 basis points at September 30, 2006. 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 September 30, 2007 (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%	+24%	6%	14%
- 100	-30%	-12%	10%	16%

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 April 6, 2006, the Internal Revenue Service issued a notice attributable to the disallowance of a conservation easement charitable donation. On May 8, 2006, WSB filed a timely Protest appealing an Internal Revenue Service proposed adjustment on the valuation of the conservation easement donated to the Maryland Environmental Trust. The bank maintains that it complied with the statutory requirements of 26 U.S.C. §170(h). Based the relevant statutory provisions, regulations and case law on point, WSB believes the Bank will be

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

successful in establishing that it complied with and satisfied the applicable rules and regulations and therefore, is entitled to a charitable conservation easement donation. The courts have traditionally resolved valuation disputes by reaching a middle ground between the competing values as proposed by the Internal Revenue Service and the taxpayer. Therefore, at this time, we are unable to determine whether or to what extent WSB's valuation of the conservation easement will be sustained.

The cumulative effect of applying FIN 48 is to be reported as an adjustment to the beginning balance of retained earnings in the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. WSB adopted FIN 48 in the first quarter of fiscal year 2008 and will reflect a cumulative adjustment reducing retained earnings by approximately \$470,000, which management does not believe is of a material impact on its financial statements.

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.

Item 1A. Risk Factors

During the quarter, no material changes in risk factors have occurred since the July 31, 2007 year end. See page 16 of WSB's 2007 Form 10K for a complete discussion and analysis of risk factors.

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: December 13, 2007

**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: December 13, 2007

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
6. 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: December 13, 2007

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 October 31, 2007, 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

December 13, 2007

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 October 31, 2007, 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

December 13, 2007