

**THE WASHINGTON SAVINGS BANK, F.S.B.
ANNUAL MEETING OF STOCKHOLDERS**

November 18, 2004

NOTICE

The Annual Meeting of the Stockholders (the "Meeting") of The Washington Savings Bank, F.S.B., ("WSB") will be held at the Comfort Inn Conference Center, 4500 Crain Highway, Bowie, Maryland, on Thursday, November 18, 2004, 10:00 a.m., Eastern Standard Time, to consider and act upon the following proposals:

- I. Election of Messrs. Harnett and Huffman as Directors for a term of three years each; and
- II. Any and all other business which may properly come before the Meeting or any adjournments thereof.

A Proxy Statement containing information for stockholders is annexed hereto and a copy of the Annual Report on Form 10-K of WSB for the fiscal year ended July 31, 2004, is enclosed herewith. Stockholders of record at the close of business on October 8, 2004, will be entitled to notice of and to vote at the Meeting.

Regardless of whether you expect to attend the Meeting, you are requested to sign the enclosed proxy and return it in the enclosed envelope as soon as possible. Stockholders who attend the Meeting and wish to vote in person may do so by revoking their proxy at the Meeting. The Board of Directors recommends that you vote FOR the directors nominated.

By Order of the Board of Directors

William J. Harnett
Chairman of the Board and
Chief Executive Officer

Kevin P. Huffman
President and
Chief Operating Officer

October 22, 2004
4201 Mitchellville Road, Suite 200
Bowie, Maryland 20716
(301) 352-3120

**THE WASHINGTON SAVINGS BANK, F.S.B.
ANNUAL MEETING OF STOCKHOLDERS**

November 18, 2004

PROXY STATEMENT

INTRODUCTION

This Proxy Statement and the accompanying form of proxy are furnished in connection with the solicitation of proxies by the Board of Directors of The Washington Savings Bank, F.S.B. (hereinafter called "WSB"), to be voted at the Annual Meeting of Stockholders of WSB (the "Meeting") to be held on Thursday, November 18, 2004, at 10:00 a.m., Eastern Standard Time, at the Comfort Inn Conference Center, 4500 Crain Highway, Bowie, Maryland, 20716, and at any and all adjournments or postponements thereof. This Proxy Statement, the accompanying Notice of Annual Meeting and proxy and the Annual Report on Form 10-K for the fiscal year ended July 31, 2004 are expected to be sent to stockholders on or about October 22, 2004.

The only business which management of WSB intends to present or knows that others will present at the Annual Meeting are the matters set forth in the accompanying Notice. However, if other matters are properly presented prior to the Meeting, such matters will be considered and acted upon, and the persons named as proxies will vote in accordance with their best judgment on such matters.

WSB's principal executive offices are located at 4201 Mitchellville Road, Suite 200, Bowie, Maryland 20716, and its telephone number at such address is (301) 352-3120.

SHARES ENTITLED TO VOTE

Holders of Common Stock of record at the close of business on October 8, 2004, will be entitled to vote on all matters presented at the Meeting. On that date there were outstanding 7,349,919 shares of WSB's Common Stock, and 330 stockholders of record.

The presence, in person or by proxy, of stockholders entitled to cast a majority of all votes entitled to be cast at the Meeting shall constitute a quorum. For all matters except the election of directors, holders of Common Stock are entitled to one vote per share.

In the election of directors, each stockholder is entitled to cast a number of votes equal to the number of his shares multiplied by the number of directors nominated. Cumulative voting is permitted whereby the votes may all be cast for a single nominee or may be distributed among two or more nominees as the stockholder determines. Any stockholder wishing to cumulate votes must so state before ballots are cast, and may do so by writing cumulative voting instructions on a separate sheet and attaching same to the proxy card. In the absence of specific instructions to the contrary, each stockholder will be assumed to have cast a number of votes equal to the number of his shares for each nominee designated by him.

The Board of Directors has designated Gerald J. Whittaker and Lory E. Ebron, or either of them, as the lawful attorneys and proxies, and solicits discretionary authority to cumulate votes if other stockholders indicate their intentions to cumulate votes. If votes in the election for directors are cumulated, votes cast by proxy will be distributed among nominees selected by the stockholder in a manner intended to elect the maximum number of the nominees of the Board of Directors, unless he otherwise indicates how such votes will be cast. All votes may be cast in person or by proxy.

All shares of Common Stock represented by properly executed and unrevoked proxies will be voted at the Meeting. Such proxies may be revoked by executing a later-dated proxy or by oral or written notice to Lory E. Ebron, Assistant Secretary of WSB, at any time before they are voted.

Directors are elected by a plurality of the votes cast by the holders of shares of Common Stock of WSB present or represented by proxy at the Meeting, with a quorum present. For purposes of the election of directors, abstentions and broker non-votes are not considered to be votes cast and do not affect the plurality vote required for directors.

PROPOSAL I: ELECTION OF BOARD OF DIRECTORS

The Charter of WSB provides that directors be elected for three-year terms, with approximately one-third of the directors being elected at each Annual Meeting of Stockholders. WSB currently has seven directors, two of whom (Messrs. Harnett and Huffman) are nominated herein to be elected to serve until the 2007 Annual Meeting of Stockholders, as set forth below, and until their successors are elected and qualified. During fiscal 2004, the Board of Directors accepted the resignation of former President, Chief Financial Officer and Director, Mr. Joseph W. Gross, who had been on a medical leave of absence. Mr. Kevin P. Huffman was elected to the Board of Directors at the time of his resignation. The nomination of Mr. Kevin P. Huffman for election as director for a three-year term is included with this proxy.

It is intended that the votes represented by the proxies, unless directed to the contrary, will be cast FOR the election as directors of the nominees listed below. If any of the nominees listed below are unable to serve for any reason not presently known, a substitute or substitutes will be nominated by the Board of Directors, and those proxies voted for the original nominee or nominees will be voted for such substitute or substitutes. WSB has no reason to believe that any nominee will be unable to serve.

The Board of Directors recommends a vote FOR the Nominees to the Board.

The following table sets forth certain information as of October 8, 2004, with respect to the two nominees and the five continuing directors, none of whom are related to each other or to any other corporate officer of WSB:

Names and Ages of
Proposed Nominees
To Serve Until 2007

William J. Harnett
Age 73

Principal Occupation, Directorships with Public Companies & Past Experience

Mr. Harnett has been Chairman of the Board and Chief Executive Officer of WSB since August 1988, and a director of WSB since its inception. He was founder, Chairman and Chief Executive Officer of the former WSB parent company, Washington Homes, Inc., which was listed on the New York Stock Exchange before being sold in 1988.

Kevin P. Huffman
Age 44

Mr. Huffman has been President, Chief Operating Officer and Director of WSB since January 2004. He joined WSB in November 2001 as Senior Vice President and was appointed Chief Operating Officer in May 2003. From 2000 to 2001 he served as Vice President, Director and Secretary of Penn Mar Bancshares. Prior to that, Mr. Huffman was the Executive Vice President, Chief Operating Officer and Director of Patapsco Valley Bancshares, Inc. and Commercial and Farmers Bank from 1996 to March 2000.

Names and Ages of
Continuing Directors
To Serve Until 2006

Eric S. Lodge
Age 30

Mr. Lodge has served as a Director of WSB since November 20, 2003. Mr. Lodge is a Senior Manager with High Street – Partners, Inc., an International Finance Consulting Firm headquartered in Annapolis, Maryland. Prior to joining High Street – Partners in 2004, he worked from June 2000 in Corporate Finance at the headquarters for CIENA Corporation as well as Northrop Grumman – Electronic Sensors and Systems Sector (ESSS) from 1997 to June 2000. He also served as Internal Auditor of the WSB during 1996. In December 1996, he received his Bachelor of Science Degree in Finance and Economics from the University of Maryland, and is currently pursuing his MBA in Global Management.

George Q. Conover
Age 72

Mr. Conover has served as a Director of WSB since August 17, 1989, and previously served as a Director from the inception of WSB until October 1985. He also served as Product Development Manager for Financial Freedom, a wholly owned subsidiary of Lehman Brothers Bank.

Michael J. Sullivan
Age 48

Mr. Sullivan has been a Director of WSB since its inception and has been a realtor with Matthews Realty Corp., a real estate brokerage firm, located in Waldorf, Maryland, for more than 20 years. He is also a Principal of Cherrywood Development, LLC, a residential development company located in the suburban area of Washington, D.C.

Names and Ages of
Continuing Directors
To Serve Until 2005

John F. Motzer
Age 64

Mr. Motzer has been a Director of WSB since 1984, and has been a Senior Vice President of WSB since August 1988. He was a Vice President of WSB from 1985 until August 1988. He is President of WSB, Inc., a subsidiary of WSB.

Stephen J. Troese
Age 65

Mr. Troese has been a Director of WSB since its inception and has been an attorney in private practice in Annapolis and Camp Springs, Maryland, for more than 36 years specializing in real estate law. He is currently Chief Executive Officer of Troese Title Group, Inc., a service corporation assisting and consulting with various real estate, title mortgage and lending institutions regarding RESPA issues.

Compensation of Directors

Directors who are employees of WSB receive no additional compensation for service on the Board of Directors or any of its committees. Directors who are not employees of WSB are compensated at a specified rate for their attendance at each Board meeting and for their attendance at each committee meeting, unless the committee meets immediately prior or subsequently to a regular scheduled board meeting. The specified rate during fiscal 2004 was \$1,000 per meeting. Messrs. Conover and Sullivan received approximately \$13,000, Mr. Troese received approximately \$11,000 and Mr. Lodge received approximately \$10,000, for a combined total of \$47,000 in their capacity as directors during the 2004 fiscal year.

A Non-Employee Directors' Stock Option Plan (the "Non-Employee Directors' Plan") was approved by stockholders at the 1995 Annual Meeting of Stockholders. Under the provisions of the plan, each non-employee director received an option grant for 3,000 shares of Common Stock on December 20 of each year for five consecutive years. Subsequent grants after December 20, 1999 to non-employee directors were made under the 1999 Stock Option and Incentive Plan ("1999 Plan"), and the 2001 Stock Option and Incentive Plan ("2001 Plan").

Board Meetings and Committees

During the fiscal year ended July 31, 2004, the Board held 12 regular meetings. All of the directors attended at least 95% of all Board meetings and meetings held by the Board committees on which each served. The Board of Directors has determined that Messrs. Sullivan, Conover, Troese and Lodge are independent directors meeting the independence requirements of AMEX (the "Independent Directors").

WSB does not have a standalone nominating committee. WSB currently does not have a nominating committee charter. The Independent Directors recommend nominees to the Board for election as directors. Stockholder recommendations for director nominees may be made in writing and must be addressed to the Assistant Secretary of WSB at WSB's principal executive office. Stockholder recommendations for director should include: (i) the name and address of the stockholder recommending the person to be nominated, (ii) a representation that the stockholder is a holder of record of stock of WSB including the number of shares held and the period of holding, (iii) a description of all arrangements or understandings between the stockholder and the recommended nominee, (iv) such other information regarding the recommended nominee as would be required to be included in a proxy statement filed pursuant to Regulation 14A promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended and (v) the consent of the recommended nominee to serve as the director of WSB if so elected. To submit a recommendation for a director for an upcoming annual stockholder meeting, it is necessary that you notify WSB not less than 120 days or more than 180 days before the first anniversary of the date that the proxy statement for the preceding year's annual meeting was first sent to stockholders. Our 2004 Proxy Statement was first sent to stockholders on October 22, 2004. Thus, in order for any such nomination to be considered by WSB for the 2005 annual meeting, it must be received by WSB no later than June 24, 2005. In addition, the notice must meet all other requirements contained in our bylaws, if any. Upon receipt by the Assistant Secretary of a stockholder notice of a Director nomination, the Assistant Secretary will notify the stockholder that the notice has been received and will be presented to the Independent

Directors for their review. The Independent Directors endeavor to identify, recruit and nominate candidates characterized by wisdom, maturity, sound judgment, excellent business skills and high integrity. Stockholder recommendations for director nominees complying with the procedures above will receive the same consideration as other candidates identified by the Independent Directors. Stockholder nominations for directors may be made in writing and must be addressed to and received by the Assistant Secretary of WSB at least five days before the annual meeting.

An Audit Committee composed of outside directors consists of Messrs. Sullivan (Chairman), Conover, Troese and Lodge. The functions of the Audit Committee are to (i) review the independence of the independent auditors and make decisions regarding engaging and discharging the independent auditors, (ii) review the plan, scope, results, and fees of the independent auditing firm and (iii) to review the adequacy of internal audit controls. The Audit Committee meets with the independent auditors and with WSB's Internal Auditor, which reports on the results of WSB's Quality Control reviews. The Audit Committee's responsibilities are as described in a written Charter adopted by the Board of Directors, which is attached as Exhibit A to this Proxy Statement. The Audit Committee held three meetings during the fiscal year ended July 31, 2004.

The Option Committee is composed of the full Board of Directors. The purpose of the Option Committee is to administer WSB's stock option plans which include the 1997 Omnibus Stock Plan ("1997 Plan"), the Non-Employee Directors' Plan, the 1999 Plan and the 2001 Plan. The Option Committee has the sole and exclusive authority to select employees to be eligible to receive awards or grants under the plans and to make all decisions concerning the timing, pricing and amount of grants or awards under the plans. Although, the Board of Directors has not appointed a separate Compensation Committee, executive officer compensation is subject to review and approval by the Independent Directors.

It is WSB's policy that all Board members are in attendance at the annual meeting of stockholders. All Board members were in attendance at the 2003 Annual Meeting of Stockholders, with the exception of Mr. Gross, who was on a medical leave of absence.

Stockholders wishing to report complaints or concerns about WSB's accounting, internal accounting controls or auditing matters or other concerns to the Board or the Audit Committee may do so by writing to the Board or Audit Committee at WSB's principal executive offices.

Complaints relating to WSB's accounting, internal accounting controls or auditing matters will be referred to members of the Audit Committee. Other concerns will be referred to the Board of Directors. All complaints and concerns will be received and processed by the General Counsel's office. You will receive a written acknowledgement from the General Counsel's office upon receipt of your written complaint or concern. You may report your concerns anonymously or confidentially.

WSB has adopted a code of ethics that covers the chief executive officer, the chief financial officer, the chief accounting officer, controller, and any person serving in an equivalent position regardless of whether or not they are designated as executive officer for Regulation O purposes. WSB maintains a copy of this code on its internet web site. The address of WSB's internet website is www.twsb.com.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Securities Exchange Act of 1934 requires WSB's directors, executive officers and beneficial owners of more than 10% of the Common Stock of WSB to file reports of ownership of equity securities of WSB and to furnish such copies to WSB. Based solely upon a review of such reports, WSB believes that all executive officers, directors, director nominees and beneficial owners of more than 10% of the Common Stock of WSB complied with the Section 16(a) reporting requirements during the 2004 fiscal year, and all required forms 3, 4, and 5 were filed timely and without deficiencies, except for two late filings of Form 4's for Mr. Harnett for the total purchase of 1,950 shares of WSB common stock and one late filing for Mr. Conover for the purchase of 200 shares of WSB common stock.

SECURITIES BENEFICIALLY OWNED

The following table sets forth the following information as of October 8, 2004: the amount and percentage of WSB's outstanding Common Stock beneficially owned by each director and nominee for director, each executive officer named in the Summary Compensation Table, all directors and executive officers as a group, and by all persons, to the knowledge of WSB, beneficially owning more than five percent (5%) of WSB's Common Stock.

<u>Name</u>	<u>Amount and Nature of Beneficial Ownership (1)</u>	<u>Percentage of Outstanding Shares</u>
William J. Harnett	3,655,248 (2) (3) (4)	46.7%
Kevin P. Huffman	703,629 (2) (3)	9.5%
John F. Motzer	933,069 (2) (3)	12.6%
Gerald J. Whittaker	75,500 (3)	1.0%
George Q. Conover	101,660 (5)	1.4%
Michael J. Sullivan	140,346 (5)	1.9%
Stephen J. Troese	109,553 (5)	1.5%
Eric S. Lodge	180 (6)	*
All directors and executive officers as a group (8 persons)	4,369,229 (7)	53.2%
<u>Name and Address of Other 5% Holders of Common Stock</u>		
The Washington Savings Bank Profit Sharing Plan 4201 Mitchellville Road Bowie, Maryland 20716	674,978	9.2%

* Constitutes less than 1% of the outstanding shares of Common Stock.

- (1) Except as otherwise indicated, all the shares set forth above are owned individually with sole voting and dispositive powers.
- (2) The beneficial ownership of each of Messrs. Harnett, Huffman, and Motzer shown above includes 674,978 shares owned by WSB's Profit Sharing Plan, of which Messrs. Harnett, Huffman, and Motzer are co-trustees and share voting and dispositive power.

- (3) Beneficial ownership of Messrs. Harnett, Huffman, Motzer and Whittaker includes 471,750 shares, 28,500 shares, 138,750 shares, and 75,500 shares, respectively, subject to currently exercisable options granted under WSB's option plans.
- (4) Does not include 260,886 shares owned by Mr. Harnett's adult children.
- (5) Beneficial ownership of each of Messrs. Conover, Sullivan, and Troese includes 48,000 shares subject to current exercisable options granted under WSB's option plans.
- (6) Includes 150 shares which are jointly owned with Mr. Lodge's wife.
- (7) Includes 674,978 shares of Common Stock owned by WSB's Profit Sharing Plan and a total of 858,500 shares subject to currently exercisable options granted under WSB's option plans.

EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the compensation for the last three completed fiscal years of the four highest compensated executive officers of WSB. No other executive officer of WSB received salary and bonus, which in the aggregate was \$100,000 or more during fiscal year 2004. Other than as disclosed below, the named executive officers received no other compensation during the years presented.

SUMMARY COMPENSATION TABLE								
Name and Principal Position	Fiscal Year Ended July 31,	Annual Compensation			Long Term Compensation Awards Payout			
		Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options Granted	LTIP Payouts	All Other Compensation
William J. Harnett	2004	\$229,000	\$115,000	--	--	--	--	--
Chairman of the Board	2003	217,000	115,000	--	--	13,500	--	--
And Chief Executive Officer	2002	190,000	85,000	--	--	172,500	--	--
Kevin P. Huffman	2004	\$107,500	\$ 15,000	--	--	--	--	--
President and	2003	87,000	8,000	--	--	3,000	--	--
Chief Operating Officer	2002	50,000	--	--	--	27,000	--	--
John F. Motzer	2004	\$112,000	\$ 50,000	--	--	--	--	--
Senior Vice President	2003	100,000	40,000	--	--	7,500	--	--
	2002	85,000	28,000	--	--	34,500	--	--
Gerald J. Whittaker	2004	\$105,600	\$ 28,000	--	--	--	--	--
Senior Vice President	2003	96,000	25,000	--	--	3,000	--	--
and Secretary	2002	83,000	18,000	--	--	30,000	--	--

Options Granted in Last Fiscal Year

There were no options granted during the fiscal year ended July 31, 2004.

Exercisable Options at Fiscal Year End

The following table sets forth certain information concerning the number of stock options exercised, the value realized as a result of said exercises, and the number and value of unexercised options at the end of fiscal 2004 for the executive officers whose compensation is reported in the Summary Compensation Table. Value is considered to be, in the case of exercised options, the difference between the exercise price and the closing market price on the date of exercise. In the case of unexercised options, value is considered to be the difference between the exercise price and the closing market price at July 31, 2004.

Fiscal Year-End Option Values Table

Name	Number of Shares		Number of Securities Underlying Unexercised Options at July 31, 2004	Value of Unexercised "In-the-Money" Options at July 31, 2004 (1)
	Acquired on Exercise	Value Realized		
William J. Harnett	-	\$ -	471,750 / 6,750	\$3,611,847 / \$35,303
Kevin P. Huffman	-	\$ -	28,500 / 1,500	\$198,854 / \$7,845
John F. Motzer	-	\$ -	138,750 / 3,750	\$1,072,346 / \$19,613
Gerald J. Whittaker	31,000	\$ 233,651	75,500 / 1,500	\$570,027 / \$7,845
All executive officers as a group (4 persons)	31,000	\$ 233,651	714,500 / 13,500	\$5,453,075 / \$70,605

1) An "In-the-Money" option is an option for which the option price of the underlying stock is less than the market price at July 31, 2004, and all of the value shown reflects stock price appreciation since the granting of the option.

Profit Sharing Plan

WSB maintains a Profit Sharing Plan ("PSP") for all employees. Employees of WSB participate upon completion of required service. Annual contributions by WSB may be made in an amount not to exceed the maximum amount deductible under Section 404 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), or the corresponding provision of any subsequent revenue law. WSB's PSP currently qualifies as a "Top Heavy Plan" (as defined in the Internal Revenue Code), and 100% vesting occurs after six years of continuous service. Should the PSP subsequently cease to qualify as a Top Heavy Plan, the vested interest of a member with fewer than three years of continuous service on the date the PSP ceased to be a Top Heavy Plan would revert to a seven-year vesting schedule.

Benefits are payable to a participant upon request after attaining the age of 59.5, and upon normal retirement, disability (as determined by the Social Security Administration), termination of employment or death. Benefits are payable in a lump sum after determination of the member's account has been made on the next valuation date of the PSP. Also, benefits can be payable in five equal annual installments or in such other manner as agreed between the trustees and the participants. Employees may voluntarily contribute up to 10% of their compensation per year, subject to limitations as defined under top-heavy plan regulations for employees deemed highly compensated. WSB's PSP had 74 participants at the date of this Proxy Statement.

For the 2004 fiscal year, the contribution made by WSB to the PSP was \$399,099 or 5% of the total eligible compensation paid to its 74 participants. Aggregate amounts accrued under the PSP during the 2004 fiscal year to Messrs. Harnett, Huffman, Motzer and Whittaker, were \$10,000, \$6,128, \$8,093, \$6,682, totaling \$30,903, respectively.

Compensation Committee Interlocks and Insider Participation

WSB does not have a separate Compensation Committee of the Board of Directors. Messrs. Harnett, Huffman, and Motzer are executive officers and served on WSB's Board of Directors during fiscal 2004. Accordingly, each participated in the Board of Directors' deliberations concerning executive compensation. However, only outside directors vote on compensation levels. No director or executive officer of WSB is a director or executive officer of any other corporation that has a director or executive officer who is also a director or board committee member of WSB.

Audit Committee Report

The Audit Committee of the Board of Directors in fiscal 2004 consisted of Messrs. Sullivan (Chairman), Conover, Troese and Lodge, all of whom meet the independence requirements of Section 121(A) of AMEX listing standards. The Audit Committee's responsibilities are as described in a written Charter adopted by the Board of Directors, which is attached as Exhibit A to this Proxy Statement for the 2004 Annual Meeting of Stockholders.

The Audit Committee has reviewed and discussed WSB's audited financial statements for the fiscal year ended July 31, 2004 with management and with WSB's independent auditors, Stegman & Company. The Audit Committee has discussed with Stegman & Company the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit. The Audit Committee has received the written disclosures and the letter from Stegman & Company required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with Stegman & Company their independence.

Based on the Audit Committee's review of the audited financial statements and the review and discussions described in the foregoing paragraph, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ended July 31, 2004 be included in WSB's Annual Report on Form 10-K for the fiscal year ended July 31, 2004.

Submitted by the members of the Audit Committee:

Michael J. Sullivan (Chairman)
George Q. Conover
Stephen J. Troese
Eric S. Lodge

Report of the Board of Directors on Executive Compensation

Under proxy statement disclosure requirements established by the Securities and Exchange Commission ("SEC") and administered by the Office of Thrift Supervision ("OTS"), WSB is required to provide certain information in regard to the compensation and benefits provided to WSB's chief executive officer and other executive officers.

The Board of Directors conducts an annual review of the compensation package for WSB's corporate officers, including executive officers. The Board of Directors does not have a separate Compensation Committee. Therefore, all directors consider and are responsible for establishing the levels of compensation and benefits, however, only independent director's vote on compensation levels. Currently, the compensation of WSB's executive officers is primarily comprised of base salary, cash bonuses and stock option grants. In addition, executive officers participate in WSB's PSP and fringe and health benefits on primarily the same terms as all other employees of WSB.

WSB's compensation philosophy is to provide a compensation package that is competitive in the marketplace, that will accomplish WSB's long-term corporate goals, and that links executive compensation to WSB's financial performance. In order to provide incentive compensation that is directly linked with the performance of WSB, the Board of Directors establishes, through its annual budgeting process, a bonus pool for all of WSB's employees. Bonuses are paid to executive officers upon the attainment of certain growth and earnings goals established by the Board of Directors during its budgeting process.

In determining the base salary for Messrs. Harnett, Huffman, Motzer and Whittaker, allocations of WSB's bonus pool, and stock option grants, the Board of Directors takes into consideration, in addition to the attainment of financial performance goals, the fact that these four individuals constitute WSB's senior management team, each shares broad company-wide management and operating responsibilities, and that each has been an active participant in WSB's positive operating results. With respect to financial performance goals, the Board of Directors considers return on assets, return on equity, and earnings, but does not assign any particular weight to any one factor. In addition, the Board of Directors considered the executive officer compensation levels of several peer group thrifts which were included in the SNL Securities 2001 Executive Compensation Review for Thrift Institutions.

William J. Harnett serves as Chief Executive Officer of WSB and has the responsibility of the performance, operating results and financial condition of WSB as well as carrying out WSB's policies and procedures. Based on the Independent Director review and the evaluation of the responsibilities and experience of Mr. Harnett, the Board of Directors feel that Mr. Harnett's compensation is competitive.

The Board of Directors believes that 2004 compensation levels for the executive officers named in the Summary Compensation Table are reasonable and appropriate in view of WSB's policy to reward executives for their efforts and contributions in achieving long-term value for WSB's stockholders.

The SEC requires that compensation committees of public companies, or Board of Directors performing that function, state their compensation policies with respect to the federal income tax laws that limit to \$1 million the deductibility of compensation paid to executive officers named in the proxy statement of such companies. In light of the current level of compensation for WSB's named executive officers, the Board of Directors has not adopted a policy with respect to the deductibility limit but will adopt such a policy should it become relevant.

William J. Harnett*	Kevin P. Huffman*
George Q. Conover	Eric S. Lodge
John F. Motzer*	Michael J. Sullivan
Stephen J. Troese	

*Messrs. Harnett, Huffman and Motzer did not participate in the deliberation or vote on their executive compensation.

Employment Contracts, Termination of Employment and Change-in-Control Arrangements

Effective November 20, 1997, the Board of Directors approved a lump sum severance payment for WSB officers with the title at the time of Vice President and above in the event of a change-in-control as defined by the OTS. Effective December 19, 2001, the eligible officers shall be entitled to a lump sum severance payment in the event their employment is involuntarily terminated or, if their level of compensation does not remain substantially the same (including bonuses), they voluntarily terminate within 18 months of such change-in-control as defined by OTS. The stipulated amounts for Messrs. Harnett, Huffman, Motzer, Whittaker and all eligible officers as a group (9 persons) were \$500,000, \$150,000, \$200,000, \$125,000 and \$1,275,000, respectively.

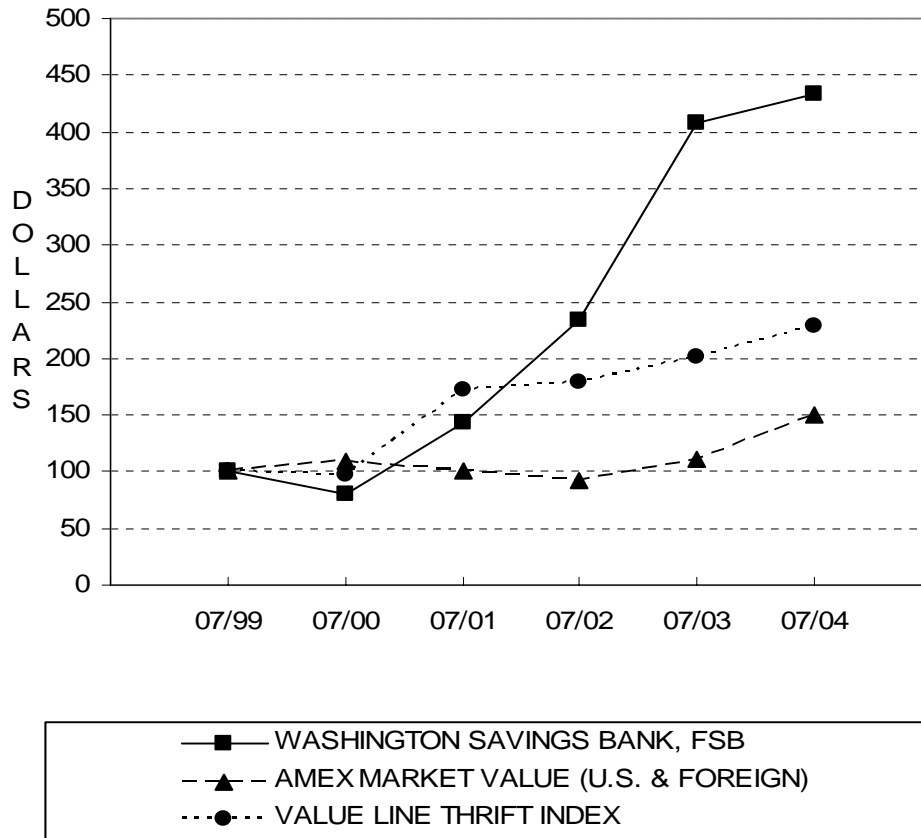
Except as set forth above, WSB has no other agreements, employment contracts, or termination agreements with any of its directors, executive officers, or employees. Options granted to non-employee directors under WSB's Non-Employee Directors' Plan and to key employees under WSB's 1997 Plan, the 1999 Plan and the 2001 Plan provide for the options to become fully exercisable in the event there is a change-in-control of WSB.

Stock Performance Chart

As part of the proxy statement disclosure requirements mandated by the SEC, WSB is required to provide a five-year comparison of the cumulative total shareholder return on its Common Stock with that of a broad equity market index and either a published industry index or a Company-constructed peer group index.

The chart on the following page compares the cumulative total shareholder return on WSB's Common Stock during the five years ended July 31, 2004, with the cumulative total shareholder return on the Amex Market Index and the Value Line Thrift Index. The comparison assumes \$100 was invested on July 31, 1999 in WSB's Common Stock and in each of the foregoing indices and the reinvestment of dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN



	<u>Cumulative Total Shareholder Return</u>					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
The Washington Savings Bank, F.S.B.	\$100	\$81	\$143	\$234	\$407	\$433
Amex Market Index	\$100	\$110	\$101	\$92	\$111	\$150
Value Line Thrift Index	\$100	\$97	\$172	\$179	\$201	\$228

Certain Transactions with Management and Others

Within the guidelines of certain federal regulations, WSB is permitted to make available to officers, directors and family members thereof, construction or permanent mortgages on their primary residences and loans secured by savings accounts at WSB on essentially the same terms and conditions, including interest rates and collateral, as are available to third parties. At July 31, 2004, no loans were outstanding.

During the year ended July 31, 2004, title companies of which Stephen J. Troese, a director of WSB, is a principle, received title examination fees and title insurance commissions aggregating approximately \$170,500 in connection with loans originated by WSB. WSB customers pay such fees and insurance commissions to the title company for their services. These settled loans were unsolicited loan originations.

Independent Auditors

The Audit Committee has appointed Stegman & Company as the certified public accountants, as WSB's registered public accounting firm to audit the books and accounts of WSB and its subsidiaries for the fiscal year ending July 31, 2005. Stegman & Company has served as independent auditors for WSB for the last three fiscal years. Stegman & Company has advised WSB that neither the accounting firm nor any of its members or associates has any direct financial interest in or any connection with WSB or its subsidiaries other than as independent public auditors.

Representatives of Stegman are expected to be present at the Meeting and available to respond to appropriate questions and will also be permitted to make a statement if they so desire.

The following is a summary of the fees billed to WSB by Stegman & Company for professional services rendered for the fiscal years ended July 31, 2004 and July 31, 2003:

<u>Fee Category</u>	<u>Fiscal 2004 Fees</u>	<u>Fiscal 2003 Fees</u>
Audit Fees	\$ 58,500	\$ 63,000
Audit-Related Fees	8,500	4,600
Tax Fees	10,400	7,200
All Other Fees	-	-
Total Fees	<u>\$ 77,400</u>	<u>\$ 74,800</u>

Audit Fees Consist of fees billed for professional services rendered for the audit of the WSB's consolidated financial statements included in the Annual Report on Form 10-K for the years ended July 31, 2004 and 2003 and review of the interim consolidated financial statements included in quarterly reports.

Audit-Related Fees Consist of fees billed for assurance and related services that are reasonable related to the performance of the audit or review of WSB's consolidated financial statements and are not reported under "Audit Fees". The fees shown above were for consulting and research, and for certain compliance reporting.

Tax Fees Consists of fees billed for professional services for tax compliance and advice, tax planning and preparation of tax returns.

All Other Fees There were no fees billed for professional services in fiscal years 2004 and 2003 that are not included in one of the above categories.

Policy on Audit Committee Pre-Approval of Audit Services and Permissible Non-Audit Services of Independent Auditors

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services performed by the independent auditors. These services may include audit services, audit-related services, tax services and other services. For audit services, the independent auditor provides an engagement letter in advance of the Audit Committee meeting, outlining the scope of the audit and related audit fees. If agreed to by the Audit Committee, this engagement letter is formally accepted by the Audit Committee at the Audit Committee meeting. For non-audit services, WSB's senior management will submit from time to time to the Audit Committee for approval non-audit services that they recommend the Audit Committee engage the independent auditor to provide for the fiscal year. WSB's senior management and the independent auditor will each confirm to the Audit Committee that each non-audit service is permissible under all applicable legal requirements. A budget, estimating non-audit service spending for the fiscal year, will be provided to the Audit Committee along with the request. The Audit Committee must approve both permissible non-audit services and the budget for such services. The Audit Committee will be informed routinely as to the non-audit services actually provided by the independent auditor pursuant to this pre-approval process. The Audit Committee may delegate pre-approval authority to its Chairman. The Chairman must report any decisions to the Audit Committee at the next scheduled meeting.

OTHER BUSINESS

At the present time, management knows of no other business to be presented for action at the Meeting. However, if any other business requiring a vote of the stockholders should properly come before the Meeting, the persons designated as proxies will vote or refrain from voting in accordance with their best judgment.

STOCKHOLDER PROPOSALS FOR 2005 ANNUAL MEETING OF STOCKHOLDERS

The 2005 Annual Meeting of Stockholders will be held in November 2005. In order to be eligible for inclusion in WSB's Proxy information distributed to stockholders for the 2005 Meeting, a stockholder must submit a written proposal, in accordance with federal securities laws, to the President of WSB, 4201 Mitchellville Road, Suite 200, Bowie, Maryland 20716, no later than June 24, 2005. If a stockholder notifies the Company after September 7, 2005 of an intent to present a proposal at the 2005 Annual Meeting of Stockholders, the Company will have the right to exercise its discretionary voting authority with respect to such proposal without including information regarding such proposal in its proxy materials.

SOLICITATION OF PROXIES

The cost of solicitation of proxies will be borne by WSB. WSB will reimburse banks, brokers and other custodians, nominees, and fiduciaries for their reasonable expenses incurred in sending proxy material to beneficial owners and obtaining their proxies. In order to assure that a quorum is present at the meeting, proxy solicitation may also be made personally or by telephone or telegram by directors, officers, and employees of WSB and its subsidiaries without added compensation.

October 22, 2004

**The Washington Savings Bank, F.S.B. (“Bank”)
Audit Committee Charter**

I. Overview.

The Audit Committee is appointed by the Board of Directors (the “Board”) to be directly responsible for the appointment, compensation and oversight of the work of any independent firm employed by the Bank and to assist in Board oversight of: (1) the integrity of the financial statements of the Bank; (2) the adequacy of the Bank’s system of internal controls; (3) the compliance by the Bank with legal and regulatory requirements; (4) the qualifications and independence of the Bank’s auditors; and (5) the performance of the Bank’s independent and internal auditors. The Audit Committee shall have the authority to engage, and obtain advice and assistance from, outside legal, accounting and other advisers, and the Bank shall provide appropriate funding therefore as determined by the Audit Committee.

II. Committee Membership.

The Audit Committee of the Board shall consist of a minimum of three directors. Members shall be appointed by the Board and may be removed by the Board in its discretion. The members shall meet the independence, experience and expertise requirements of the applicable provisions of the federal securities laws, banking laws and the AMEX for audit committee members. In addition, if practicable, one member shall be an audit committee “**financial expert**” as that term is defined by applicable Securities and Exchange Commission’s rules and regulations. At least annually, the Board will determine whether all existing and potential candidates for the Audit Committee are independent, as required by applicable laws and regulations, and whether such persons otherwise satisfy the requirements of Part 363 of the FDIC rules and regulations.

III. Committee Powers, Authority, Duties and Responsibilities.

A. Approval of Audit and Non-Audit Services.

- The Audit Committee shall have the sole authority to appoint, approve the compensation of, oversee the work of and discharge or replace the independent auditors. The independent auditors shall report directly to the Audit Committee.
- The Audit Committee shall approve in advance the provision by the independent auditors of all services to the Bank whether or not related to the audit.
- The Bank shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditors and for any expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

B. Independent Auditor Evaluation.

- The Audit Committee shall receive from, and discuss with, the independent auditors, periodic reports, at least annually regarding: the auditors' independence; the auditors' internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and all relationships between the independent auditors and the Bank.
- The Audit Committee shall evaluate the performance of the independent auditors at such times as are appropriate.
- The Audit Committee will oversee Bank hiring policies for former employees of the independent auditors.

C. Planning and Reviewing Auditing Activities.

- The Audit Committee shall meet with the independent auditors prior to the annual audit to review the planning and staffing of the audit and other examinations or reviews of the Bank's quarterly, annual and other financial information.
- The Audit Committee shall also review with management and the independent auditors the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts and the effective use of internal and external audit resources.
- In connection with the annual audit, the Audit Committee shall review with the independent auditors any problems or difficulties the auditors may have encountered and any management letter provided by the auditors and management's response to any such problems or difficulties and to any management letter.
- The Audit Committee shall review major changes to the Bank's auditing and accounting principles and practices suggested by the independent auditors or management.
- The Audit Committee shall inquire of management, internal auditors and the Bank's independent auditors concerning any deficiencies in the Bank's policies and procedures that could adversely affect the adequacy of internal controls and the financial reporting process and review the timeliness and reasonableness of proposed corrective actions.
- The Audit Committee shall review the appointment and replacement of the senior internal auditing executive, if any.

- The Audit Committee shall review any significant reports to management provided by the internal auditing department, if any, and management's responses.

D. Review of Unaudited and Audited Financial Statements, Earnings Releases, and Information Provided to Analysts and Rating Agencies; Preparation of Proxy Disclosure.

- The Audit Committee shall review the annual audited financial statements with management and the independent auditors prior to their filing with the appropriate regulatory agencies in accordance with the applicable laws and regulations, including major issues regarding accounting and auditing principles and practices, the Bank's disclosures under "Management's Discussion and Analysis of Results of Operations and Financial Condition," the adequacy of internal controls that could significantly affect the Bank's financial statements, any material correcting adjustments that have been identified by the independent auditors, any material off-balance sheet transactions, arrangements, obligations and other relationships of the Bank with unconsolidated entities and other matters related to the conduct of the audit which are to be communicated to the Audit Committee under Statement on Auditing Standards No. 61, Communications with Audit Committees.
- The Audit Committee shall determine whether to recommend to the Board that the annual audited financial statements be included in the Bank's annual report on Form 10-K.
- The Audit Committee shall review analyses and reports prepared by management and the independent auditors of significant financial reporting issues and judgments and critical accounting policies and practices in connection with the preparation of the Bank's financial statements and the ramifications of the use of alternative disclosures and treatments, the treatment preferred by the independent auditors, and other material written communications between the independent auditors and management, including any management letter or schedule of unadjusted differences.
- The Audit Committee shall meet periodically with management and the independent auditors to review the Bank's major financial risk exposures and the steps management has taken to monitor and control such exposures. The Audit Committee shall also review and evaluate the Bank's processes for identifying and assessing key financial statement risk areas and for formulating and implementing steps to address such risk areas.
- The Audit Committee shall review with management and the independent auditors the Bank's quarterly financial statements and the Bank's disclosures under "Management's Discussion and Analysis of Results of Operations and Financial Condition" included in the Bank's Form 10-Q's.
- The Audit Committee shall review with management and the independent auditors, as appropriate, earnings press releases and financial information and earnings guidance provided to analysts and to rating agencies.

- The Audit Committee shall prepare the report required by the rules of the Office of Thrift Supervision to be included in the Bank's annual proxy statement and shall receive the information to be provided by the independent auditors for inclusion in the proxy statement, including with regard to fees relating to the audit.

E. Review of Conflicts of Interest.

- The Audit Committee shall review Bank policies and procedures with respect to Bank transactions in which officers or directors have an interest; where appropriate, including when their review is requested by management or the independent auditors, review policies and procedures with regard to officer use of corporate assets and consider the results of any review of these areas by the independent auditors.
- The Audit Committee shall review all related party transactions and similar matters to the extent required by the AMEX to be approved by an audit committee or comparable body.

F. Compliance with Law and the Procedures for Handling Complaints about Accounting Matters.

- The Audit Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Bank regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Bank of concerns regarding questionable accounting or auditing matters.
- The Audit Committee shall review with the Board as necessary in the Audit Committee's judgment the Bank's policies and procedures regarding compliance with applicable laws and regulations and with the Bank's Code of Conduct, if any. The Audit Committee shall obtain reports from management on matters relevant to the Bank's compliance policies and procedures.
- The Audit Committee shall obtain reports from management and the independent auditors that the Bank's subsidiaries, if any, are in conformity with applicable legal requirements.
- The Audit Committee shall discuss with the independent auditors any information brought to its attention by the auditors regarding potential illegal acts and shall handle such information as required by appropriate law.
- The Audit Committee shall review with the Bank's general counsel legal and regulatory matters that may have a material impact on the financial statements, the Bank's compliance policies and any material reports or inquiries received from external counsel, regulators or governmental agencies.
- The Audit Committee shall obtain and review reports from management, the internal auditors and the independent auditors as to the Bank's conformity with applicable legal and regulatory requirements.

- The Audit Committee shall review and discuss with management and the independent auditors the effect of any regulatory and accounting initiative on the Bank's financial statements.

G. Periodic Reports to the Board, Executive Sessions and Annual Review.

- The Audit Committee shall make a report to the Board at the next regularly scheduled meeting following a meeting of the Audit Committee accompanied by any recommendation to the Board.
- The Audit committee shall meet at least quarterly or more frequently, if circumstances dictate. The Audit Committee shall meet at least annually with the chief financial officer, the senior internal auditing executive, if any, the other senior members of management designated by the Audit Committee, and the independent auditors, each in separate executive sessions.
- The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.
- The Audit Committee shall annually review its own performance.

H. Conducting or Authorizing Investigations.

- The Audit Committee shall have the power to conduct or authorize investigations into any matters within the Audit Committee's scope of responsibilities.
- The Audit Committee shall be empowered to retain independent counsel, accountants or others to assist in the conduct of any investigations.
- The Audit Committee may ask members of management or others to attend its meetings and provide pertinent information as necessary.

IV. Responsibilities of Others.

While the Audit Committee has the oversight, supervisory, responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits, to implement internal controls or to determine that the Bank's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. These matters and tasks are the responsibility of management and the independent auditors. Likewise, it is the responsibility of the Bank's management and/or the independent auditors to bring appropriate matters to the attention of the Audit Committee, and to keep the Audit Committee informed of matters which the Bank's management or the independent auditor believe require attention, guidance, resolution or other actions, the bases therefore and other relevant considerations. While it is not the duty of the Audit Committee to conduct investigations or to assure compliance with laws and regulations, the Audit Committee may take such actions with respect to such matters, as it deems necessary or advisable in fulfilling its duties.

As approved by the Board of Directors and made effective on October 20, 2004.