

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

**November 17, 2005**

**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 17, 2005, 10:00 a.m., Eastern Standard Time, to consider and act upon the following proposals:

- I. Election of Messrs. Bowman and Troese 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, 2005, is enclosed herewith. Stockholders of record at the close of business on October 7, 2005, 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

Phillip C. Bowman  
Chief Executive Officer

October 21, 2005  
4201 Mitchellville Road, Suite 200  
Bowie, Maryland 20716  
(301) 352-3120



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

**November 17, 2005**

**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 17, 2005, 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, 2005 are expected to be sent to stockholders on or about October 21, 2005.

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 7, 2005, will be entitled to vote on all matters presented at the Meeting. On that date there were outstanding 7,401,594 shares of WSB's Common Stock, and 322 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/her 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. For all other matters properly brought before the Meeting, the approval by the affirmative vote of the holders of a majority of the shares present in person, or represented by proxy, and entitled to vote at the Meeting is required for the approval of such matters. Abstentions and broker non-votes will not be considered votes cast for such matters.

#### **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. Bowman and Troese) are nominated herein to be elected to serve until the 2008 Annual Meeting of Stockholders, as set forth below, and until their successors are elected and qualified. Effective March 25, 2005, Mr. John F. Motzer resigned as a Director of WSB, and Mr. Phillip C. Bowman was appointed to the Board of Directors at the time of Mr. Motzer's resignation. The nomination of Mr. Phillip C. Bowman for re-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 7, 2005, 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 2008

Phillip C. Bowman  
Age 58

Principal Occupation, Directorships with Public Companies & Past Experience

Mr. Bowman has served as Chief Executive Officer and as a director of WSB since March 2005. He was a director, President and Chief Executive Officer of American Bank, a federally chartered savings bank located in Silver Spring, Maryland, positions which he has held since August 1994. In addition, Mr. Bowman was also the President and Chief Executive Officer and a director of American Bank Holdings, Inc., the holding company for American Bank from November 2002 until December 2004.

Stephen J. Troese  
Age 66

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 real estate settlement procedures act ("RESPA") issues.

Names and Ages of Continuing  
Directors to Serve Until 2007

William J. Harnett  
Age 74

Mr. Harnett has been a director of WSB since its inception, serving as Chairman of the Board since 1988 and as Chief Executive Officer from 1988 until February 2005 when he retired as Chief Executive Officer. 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 45

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, COO and Director of both 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 31

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 August 2004, he worked in the corporate finance departments of CIENA Corporation from June 2000 to August 2004 and at Northrop Grumman – Electronic Sensors and Systems Sector (ESSS) from January 1997 to June 2000. He also served as an internal auditor of WSB during 1996. In December 1996, he received his Bachelor of Science Degree in Finance and Economics from the University of Maryland.

George Q. Conover  
Age 73

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. Since March 2000, he has served as Product Development Manager for Financial Freedom, a reverse mortgage lender, which is a subsidiary of IndyMac. Prior to that, Mr. Conover was the CEO of International Mortgage Company for 25 years.

Michael J. Sullivan  
Age 49

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.

## Executive Officers

In addition to Mr. Huffman and Mr. Bowman, the following table sets forth the names of our other executive officers, their positions, ages and principal business experience.

Gerald J. Whittaker Age 48	Mr. Whittaker has been Senior Vice President and Corporate Secretary of WSB since November 16, 2000. He previously served as Vice President of WSB since 1986. Prior to that time, he served as Vice President of Bay State Savings and Loan Association, his employer since October 3, 1983. He is a member of the Maryland State Bar Association, and admitted to practice law in Maryland since 1981.
Randall M. Robey Age 48	Mr. Robey has served as Senior Vice President and Chief Financial Officer since November, 2004. Prior to joining WSB, Mr. Robey served as Executive Vice President and Chief Financial Officer of Carrollton Bank and Carrollton Bancorp from November 2000 until September 2004; and as Senior Vice President and Chief Financial Officer from October 1999 through October 2000. Prior to that Mr. Robey was with Mercantile Bankshares in various capacities including Vice President-Financial Services at Mercantile Bank & Trust from July 1998 to October 1999, Senior Vice President and CFO of Annapolis Bank & Trust from March 1991 to July 1998, Vice President and Controller of Annapolis Bank & Trust from March 1989 to March 1991, and as Audit Officer for Mercantile Bank & Trust from June 1983 to March 1989.

## 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 subsequent to a regular scheduled Board meeting. The specified rate during fiscal 2005 was \$1,000 per regular meeting and \$500 per special meeting. Messrs. Conover and Sullivan received approximately \$13,000, Mr. Troese received approximately \$12,000 and Mr. Lodge received approximately \$10,500, for a combined total of \$48,500 in their capacity as directors during the 2005 fiscal year.

Non-employee directors were previously offered, as a part of their "Director" compensation, to participate in the bank's health insurance plan under the same terms and conditions as employees. Prior to this offering being closed for further participants by the carrier, only Mr. Sullivan had elected to participate. The cost of this coverage, which is an expense to the bank, was \$9,025 for fiscal year 2005.

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"). No option grants were made to non-employee directors during fiscal year 2005.

## **Board Meetings and Committees**

During the fiscal year ended July 31, 2005, the Board held 12 regular and 7 special Board meetings. All of the directors attended at least 90% 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").

## **Nominating Committee**

Under WSB's bylaws, the Board of Directors acts as the nominating committee selecting the Company's nominees for election as directors. The Independent Directors recommend nominees to the full Board for election as directors. Although the Board of Directors does not have a written nominating committee charter, the Board has passed resolutions with respect to the nomination process including procedures for stockholders wishing to recommend director nominees to the Board and Board director qualifications. 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 2005 Proxy Statement was first sent to stockholders on October 21, 2005. Thus, in order for any such nomination to be considered by WSB for the 2006 annual meeting, it must be received by WSB no later than June 23, 2006. 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 recommend candidates to the Board who are 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.

## **Compensation Committee- See Proxy Rule Item 7(d)(1)**

WSB does not have a separate Compensation Committee of the Board of Directors.

## **Audit Committee**

The Board of Directors has established an Audit Committee in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee currently consists of Messrs. Sullivan (Chairman), Conover, Troese and Lodge all of whom meet the independence and experience requirements of the AMEX. The functions of the Audit Committee are to (i) review the independence of the independent registered public accounting firm and make decisions regarding engaging and discharging the independent registered public accounting firm, (ii) review the plan, scope, results, and fees of the independent registered public accounting firm and (iii) to review the adequacy of internal audit controls. The Audit Committee meets with the independent registered public accounting firm 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 WSB's 2004 Proxy Statement. The Audit Committee held five meetings during the fiscal year ended July 31, 2005.

## **Annual Meeting Attendance Policy**

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 2004 Annual Meeting of Stockholders.

## **Stockholder Communications with Directors**

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.

## **Code of Ethics**

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 has also adopted a code of ethics for both its directors and employees. WSB maintains a copy of these codes on its internet web site. The address of WSB's internet website is [www.twsb.com](http://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 2005 fiscal year, and all required forms 3, 4, and 5 were filed timely and without deficiencies.

## SECURITIES BENEFICIALLY OWNED

The following table sets forth the following information as of October 7, 2005: the amount and percentage of WSB's outstanding Common Stock beneficially owned by each director and nominee for director, each Named Executive Officer (as defined below), 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	3,661,998 (2) (3) (4)	46.5%
Phillip C. Bowman	5,800 (3)	*
Kevin P. Huffman	705,129 (2) (3)	9.5%
John F. Motzer	936,819 (2) (3)	12.5%
Gerald J. Whittaker	77,000 (3)	1.0%
George Q. Conover	103,160 (5)	1.4%
Michael J. Sullivan	141,846 (5)	1.9%
Stephen J. Troese	111,053 (5)	1.5%
Eric S. Lodge	180 (6)	*
All directors and executive officers as a group (10 persons)	4,393,027 (7)	53.0%
<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	674,979	9.1%
Fidelity Management & Research Co. 82 Devonshire Street Boston, MA 02109	462,150 (8)	6.2%

\* 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 674,979 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, Bowman, Huffman, Motzer and Whittaker includes 478,500 shares, 5,000 shares, 30,000 shares, 142,500 shares, and 77,000 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 49,500 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 674,979 shares of Common Stock owned by WSB's Profit Sharing Plan and a total of 881,500 shares subject to currently exercisable options granted under WSB's option plans.
- (8) Information as provided by 13G filing by Fidelity Management & Research Co. as of June 30, 2005.

## EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the compensation for the last three completed years of those individuals serving as chief executive officer during fiscal 2005, the two mostly highly compensated executive officers whose total annual salary and bonus exceed \$100,000, and one employee of the Company for whom disclosure would have been provided but for the fact that he was not serving as an executive officer of the Company at the end of fiscal 2005 (the "Named Executive Officers"). No other executive officer of WSB received salary and bonus, which in the aggregate was \$100,000 or more during fiscal 2005. Other than as named 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 Payouts			(4) All Other Compensation
		Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options Granted	LTIP Payouts	
William J. Harnett (1) Chairman of the Board	2005	\$ 187,300	\$ 145,000	--	--	--	--	\$ 10,250
	2004	229,000	115,000	--	--	--	--	10,000
	2003	217,000	115,000	--	--	13,500	--	10,000
Philip C. Bowman (2) Chief Executive Officer	2005	\$ 75,000	\$ -	--	--	--	--	--
Kevin P. Huffman President and Chief Operating Officer	2005	\$ 135,900	\$ 40,000	--	--	--	--	\$ 8,796
	2004	107,500	15,000	--	--	--	--	6,128
	2003	87,000	8,000	--	--	3,000	--	--
John F. Motzer (3) Senior Property Manager	2005	\$ 127,700	\$ 60,000	--	--	--	--	\$ 9,384
	2004	112,000	50,000	--	--	--	--	8,093
	2003	100,000	40,000	--	--	7,500	--	6,989
Gerald J. Whittaker Senior Vice President and Secretary	2005	\$ 110,300	\$ 30,000	--	--	--	--	\$ 7,015
	2004	105,600	28,000	--	--	--	--	6,682
	2003	96,000	25,000	--	--	3,000	--	6,028

- (1) Mr. William J. Harnett resigned during fiscal year 2005 as Chief Executive Officer but remains a non-executive employee of WSB. Mr. Harnett continues to serve as Chairman of the Board, for which he receives no additional compensation.
- (2) Mr. Phillip C. Bowman was appointed Chief Executive Officer in March 2005.
- (3) Mr. John M. Motzer resigned during fiscal year 2005 as Sr. Vice President and Director of WSB, but remains employed in a non-executive officer capacity with WSB as the Senior Property Manager and President of the Bank's Building subsidiary, WSB, Inc.
- (4) "All Other Compensation" includes employer contribution to the Profit Sharing Plan.

## Options Granted in Last Fiscal Year

There were no options granted during the fiscal year ended July 31, 2005.

## 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 2005 for the Named Executive Officers 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, 2005.

**Fiscal Year-End Option Values Table**

Name	Number of Shares		Number of Securities Underlying Unexercised Options at July 31, 2005		Value of Unexercised "In-the-Money" Options at July 31, 2005 (1)	
	Aquired on Exercise	Value Realized	Exercisable / Unexercisable	Exercisable / Unexercisable	Exercisable / Unexercisable	Exercisable / Unexercisable
William J. Harnett	-	\$ -	478,500 / 0		\$3,441,395 / \$0	
Phillip C. Bowman	-	\$ -	0 / 0		\$0 / \$0	
Kevin P. Huffman	-	\$ -	30,000 / 0		\$193,799 / \$0	
John F. Motzer	-	\$ -	142,500 / 0		\$1,030,684 / \$0	
Gerald J. Whittaker	-	\$ -	77,000 / 0		\$544,762 / \$0	

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, 2005, 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 112 participants at July 31, 2005.

For the 2005 fiscal year, the contribution made by WSB to the PSP was \$368,997 or 5% of the total eligible compensation paid to its 112 participants. Aggregate amounts accrued under the PSP during the 2005 fiscal year to Messrs. Harnett, Bowman, Huffman, Motzer and Whittaker, were \$10,250, \$0, \$8,796, \$9,384, \$7,015, totaling \$35,445, respectively.

### **Compensation Committee Interlocks and Insider Participation**

WSB does not have a separate Compensation Committee of the Board of Directors. Messrs. Harnett, Bowman, and Huffman are executive officers and served on WSB's Board of Directors during fiscal 2005. However, only outside "Independent Directors" participate in the deliberation, evaluation, and setting of executive compensation. 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.

### **Report of the Board of Directors on Executive Compensation**

#### **Introduction**

WSB does not have a separate Compensation Committee of the Board of Directors. Decisions regarding the compensation of WSB's executive officers are made by the Independent Directors of the Board, which we refer to in this report as the Committee. Each member of the Committee is an independent director under Amex Listing Standards. The Committee administers the WSB cash incentive programs and the WSB stock-based incentive plans.

The Committee believes that the actions of each executive officer have the potential to impact the short-term and long-term profitability of WSB. Consequently, the Committee places considerable importance on its oversight of the design and administration of an executive compensation program. In order to achieve the overall goals and objectives of WSB, and recognizing the interest of stockholders in that achievement, the Committee, over a number of years, has developed and maintained an executive compensation program based on a philosophy that links executive compensation to individual and corporate performance and return to stockholders. This philosophy was intended to enable us to attract and retain highly-motivated executive personnel of outstanding ability and initiative and to align the interests of executives and stockholders. The executive compensation program consists of base salary, the opportunity for annual incentive cash compensation based on corporate performance, and continuing stock-based incentive compensation.

During the past fiscal year, the Committee utilized a nationally-known bank executive compensation and benefits reporting service in its review of the Company's executive compensation program. The Committee's decisions with respect to the executive compensation program for fiscal year 2005 reflected the compensation levels and trends made in that service report. The service reported peer groups of both \$250 million to \$500 million, as well as \$500 million to \$1 billion in

asset size institutions suitable for use in evaluating executive compensation, evaluating the competitiveness of WSB's executive compensation arrangements and assessing the implications of WSB's performance results for its executive compensation program. When compared to these peer groups, WSB's overall level of executive compensation is appropriate based on the peer groups considered in total compensation (salary, annual incentive and long-term incentive).

The Committee takes various factors into consideration when establishing and reviewing executive compensation. Set forth below is an explanation of general principles governing the Committee's approach to the three primary components of the executive compensation program and the factors considered in establishing compensation for the Company's executive officers, including the Chief Executive Officer, for fiscal year 2005.

### **Base Salary**

Base salary is designed to provide competitive levels of compensation to executives based upon their experience, duties and scope of responsibility. Salaries for executive officers are reviewed annually.

### **Cash Incentive Plans**

In addition to base salary, the Committee also approves annual cash incentive compensation. Annual incentive compensation is based on corporate performance and profitability. The annual incentive program is intended to be the principal mechanism for cash bonus incentives for key executive employees, and non-commission based employees.

The Committee chooses participants in the plan annually. Bonuses are evaluated as to appropriateness based on WSB's quantifiable performance measures, including earnings per share, net operating income, loan growth, deposit growth, as well as credit quality, cost control, and compliance performance or a combination thereof.

Payment of awards made under the incentive program are made in cash. Each of the Named Executive Officers (with the exception of Mr. Bowman and Mr. Robey) participated in the annual incentive program in fiscal year 2005. Incentive cash awards paid under the incentive program to the Named Executive Officers are reflected in the Summary Compensation Table under the caption "Bonus." Such awards were based on the prior fiscal year performances.

### **Stock-Based Incentive Plan**

The WSB stock option plans, which include the 1997 Omnibus Stock Plan ("1997 Plan"), the Non-Employee Director's Plan, the 1999 Plan, and the 2001 Plan which were approved by the stockholders are designed to align the interests of key employees and stockholders, encouraging participants to maintain and increase their ownership of our common stock with the opportunity to benefit from our long-term performance. A detailed description of the individual plans is found in the annual report of WSB under the heading of "Benefit Plans" in the notes to the financial statements. During the 2005 fiscal year no options were granted. Under Mr. Bowman's employment contract, the Board granted an option to purchase 5,000 shares of Common Stock to Mr. Bowman with a grant date of September 30, 2005. The terms and conditions of the option grant to Mr. Bowman are similar to all other option grants issued under the plans except for vesting and option term. Mr. Bowman's options granted under the terms of the employment contract will fully vest at granting, which is different from the plan standard two year vesting period in which 50% vest at the

first anniversary of the grant, with the remaining vesting at the second anniversary date of the grant; and have a option term of 5 years versus the standard 10 years. See Chief Executive Officer Compensation below.

## **Section 162(m)**

Section 162(m) of the Internal Revenue Code provides for non-deductibility, in certain cases, of compensation paid to certain executives in excess of \$1 million per year. WSB does not have a policy limiting compensation to amounts deductible under Section 162(m). The various stock plans have been approved by the stockholders and are designed so that qualified performance-based awards issued under those plans would not be subject to Section 162(m) limits. Section 162(m) limits would apply to salary, bonuses in excess of bonuses under the annual incentive compensation plan, and certain amounts included under "Other Annual Compensation" and "All Other Compensation" in the Summary Compensation Table.

## **Executive Officer Compensation**

The Committee, in determining the calendar year 2005 compensation of the Executive Officers of WSB, including both the current and former Chief Executive Officer(s), reviewed total compensation for WSB's CEO and four other executive officers for fiscal years 2001, 2002, 2003 and 2004, and compared that to the total compensation for executives serving in comparable positions of banks for 2003 (together with certain financial performance information with respect to WSB and such peer group). The Committee has analyzed total compensation for fiscal year 2005, including the effect incentive stock plans, change in control agreements, and other items, and determined to be appropriate in relation to peer banks.

The Committee further reviewed profitability and capital strength ratios (return on assets, net interest margin, efficiency ratio, equity/assets and return on equity) and loan loss performance ratios (period-end non-performing assets to loans and OREO, net charge-offs to average loans, and period-end allowance to non-performing loans) as compared to comparable information for similar banking companies.

The Committee concluded that WSB's profitability and capital strength ratios and performance ratios continued to be strong in the current rate and economic environment for WSB, and that the loan loss performance ratios were acceptable, both standing alone and based on the comparisons to similar banking companies. The Committee felt that WSB had and was taking significant steps towards resolving the regulatory criticism surrounding the 2004 Supervisory Agreement between WSB and the OTS.

## **Chief Executive Officer Compensation**

The Board of Directors engaged Mr. Bowman as Chief Executive Officer of WSB, effective March 21, 2005. In determining Mr. Bowman's initial compensation arrangements in its negotiations with Mr. Bowman, the members of the Committee took into account publicly available data about Bank officer compensation as well as the informal advice of an executive employment adviser. The material terms of Mr. Bowman's compensation package approved by the Committee and included: (a) a three year employment term providing for annual salary initially of \$225,000; (b) a cash bonus in respect of fiscal year 2005 performance of \$50,000 and thereafter in the discretion of the Board; (c) a grant of options to purchase 5,000 shares of WSB common stock as of September 30, 2005; (d) a change in control severance payment equal to 2.99 times average annual

compensation over a specified period; (e) severance upon a termination without cause equal to the greater of remaining salary payable over the term of the initial employment contract or 12 months' salary.

Mr. Harnett was Chief Executive Officer through February 2005, the executive compensation policies and philosophy described above were applied in setting his compensation for that period. Based on its review and its evaluation of Mr. Harnett's qualifications, experience and responsibilities, as well as the performance information noted above, the Committee recommended to the Board that Mr. Harnett receive salary at an annual rate of \$250,000 through the date of his retirement as Chief Executive Officer. Subsequent to Mr. Harnett's succession by Mr. Bowman as Chief Executive Officer, Mr. Harnett's base compensation as a consultant employee under an understanding with the Committee was set at \$100,000 with a continuation of all existing terms and conditions of his employment. No stock compensation was awarded to Mr. Harnett during 2005.

### **Summary**

The Committee believes that this mix of salaries, potentially significant variable cash incentives for short-term performance and the potential for longer-term equity ownership in the Company represents a balance that will motivate the executive management team to produce strong returns. The Committee further believes this program strikes an appropriate balance between the interests and needs of WSB in operating its business and appropriate rewards based on the creation of stockholder value.

The Independent Directors

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

## **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) and they voluntarily terminate within 18 months of such change-in-control as defined by OTS. The change in control severance payments for Messrs. Harnett, Huffman, Motzer, Whittaker, Robey and all other eligible officers as a group (10 persons, excluding Mr. Bowman) were \$500,000, \$150,000, \$200,000, \$125,000, \$100,000 and \$1,375,000, respectively. The change in control severance payments for Mr. Bowman are described above under "Compensation Committee Report".

The terms of Mr. Bowman's employment arrangements are described above under "Compensation Committee Report".

On March 25, 2005, WSB entered into a Letter Agreement with Mr. John Motzer with an effective date of February 16, 2005. Pursuant to the terms of the Letter Agreement, Mr. Motzer will be senior property manager of WSB and report to WSB's President. Mr. Motzer's annual salary during his employment with WSB will be \$135,000, and he will continue to be eligible for any "change-in-control" type severance payment on the same terms and conditions available to him as described above. The term of employment under the Letter Agreement is two years, which may be terminated earlier as set forth in the Letter Agreement.

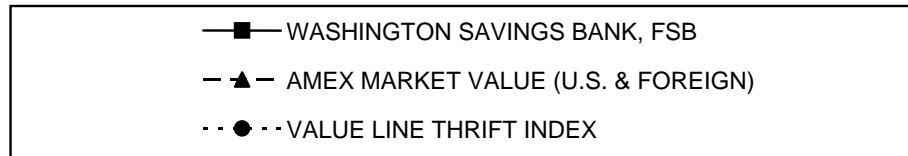
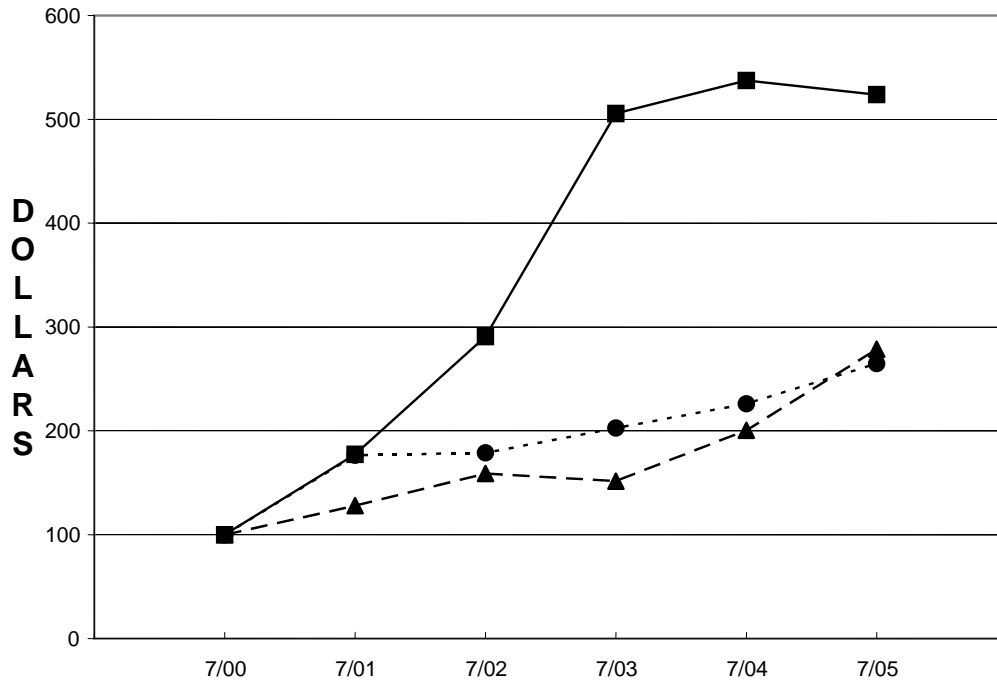
Certain options granted to the Named Executive Officers under WSB's 1997 Plan, the 1999 Plan and the 2001 Plan provide for the options to become fully exercisable in the event there is a change-in-control of WSB. Except as set forth above, WSB has no other agreements, employment contracts, or termination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

## **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, 2005, 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, 2000 in WSB's Common Stock and in each of the foregoing indices and the reinvestment of dividends.

## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN



	Cumulative Total Shareholder Return					
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
The Washington Savings Bank, F.S.B.	\$100	\$177	\$291	\$505	\$537	\$524
Amex Market Value (U.S. & Foreign)	\$100	\$128	\$159	\$152	\$200	\$279
Value Line Thrift Index	\$100	\$177	\$179	\$203	\$226	\$265

## **Certain Transactions with Management and Others**

During the fiscal year ended July 31, 2005, title companies of which Stephen J. Troese, a director of WSB, is a principle, received title examination fees and title insurance commissions aggregating approximately \$89,800 in connection with loans originated by WSB. WSB customers select and pay such fees and insurance commissions to the title company for their services. These settled loans were unsolicited loan originations.

On July 29, 2005, WSB was notified of suit in *John Sullivan v. The Washington Savings Bank, F.S.B., Stephen J. Troese, Randall Robey and the Office of Thrift Supervision* (U.S. District Court for the District of Maryland, Case No. L05-CV2083). WSB has undertaken to advance expenses for its co-defendants, Stephen Troese, a director of WSB, and Randall Robey, an officer of WSB with respect to the suit. For further information with respect to the suit, please refer to the legal proceedings section of WSB's Annual Report on 10-K for the fiscal year ending July 31, 2005.

## **Audit Committee Report**

The Audit Committee of the Board of Directors in fiscal 2005 consisted of Messrs. Sullivan (Chairman), Conover, Troese and Lodge, all of whom meet the independence and financial sophistication requirements of AMEX listing standards. The Audit Committee's responsibilities are as described in a written Charter adopted by the Board of Directors, which was attached as Exhibit A to the 2004 Proxy Statement.

The Audit Committee has reviewed and discussed WSB's audited financial statements for the fiscal year ended July 31, 2005 with management and with WSB's independent registered public accounting firm, 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, 2005 be included in WSB's Annual Report on Form 10-K for the fiscal year ended July 31, 2005.

Submitted by the members of the Audit Committee:

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

## Independent Registered Public Accounting Firm

The Audit Committee has appointed Stegman & Company as WSB's independent registered public accounting firm to audit the books and accounts of WSB and its subsidiaries for the fiscal year ending July 31, 2006. Stegman & Company has served as independent auditors for WSB for the last six 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 registered public accountants.

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, 2005 and July 31, 2004:

<u>Fee Category</u>	<u>Fiscal 2005 Fees</u>	<u>Fiscal 2004 Fees</u>
Audit Fees	\$ 63,186	\$ 58,500
Audit-Related Fees	13,394	8,500
Tax Fees	<u>19,725</u>	<u>10,400</u>
Total Fees	<u>\$ 96,305</u>	<u>\$ 77,400</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, 2005 and 2004 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. Also, included are fees for professional services for attestation regarding Management's responsibilities for establishing and maintaining adequate internal controls and procedures and the effectiveness of such controls and procedures over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act and FDICIA testing.

*Tax Fees* Consist 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 other professional services in fiscal year 2005 that were not included in one of the above categories.

## Policy on Audit Committee Pre-Approval of Audit Services and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services performed by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. For audit services, the independent registered public accounting firm 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 registered public accounting firm to provide for the fiscal year. WSB's senior management and the independent registered public accounting firm 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 registered public accounting firm 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.

## **ANNUAL REPORT ON FORM 10-K**

A copy of WSB's Annual Report to Stockholders for the fiscal year ended July 31, 2005 has been mailed concurrently with this Proxy Statement to all stockholders entitled to notice of and to vote at the Annual Meeting. The Annual Report is not incorporated into this Proxy Statement and is not considered proxy-soliciting material.

WSB filed its Annual Report on Form 10-K with the Office of Thrift Supervision on October 21, 2005. WSB will mail without charge, to any stockholders, upon written request, a copy of its Annual Report on Form 10-K for the fiscal year ended July 31, 2005, excluding exhibits. Please send a written request to Investor Relations, The Washington Savings Bank, F.S.B., 4201 Mitchellville Road, Suite 200, Bowie, Maryland 20716.

## **STOCKHOLDER PROPOSALS FOR 2006 ANNUAL MEETING OF STOCKHOLDERS**

The 2006 Annual Meeting of Stockholders will be held in November 2006. In order to be eligible for inclusion in WSB's Proxy information distributed to stockholders for the 2006 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 23, 2006. If a stockholder notifies the Company after September 6, 2006 of intent to present a proposal at the 2006 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 21, 2005