



**THE WASHINGTON SAVINGS BANK, F.S.B. ("WSB")  
REPORTS THIRD QUARTER AND NINE MONTH RESULTS**

**May 2006**

**TO OUR STOCKHOLDERS:**

WSB reported third quarter net earnings of \$913,000 or \$0.12 per basic share and \$0.11 per diluted share for the quarter ending April 30, 2006, representing a 33% decrease in net earnings of \$1,368,000 for the comparable period of the prior year. WSB reported net earnings for the first nine months of fiscal year 2006 of \$3,859,000 or \$0.52 per basic share and \$0.48 per diluted share for the period ending April 30, 2006, representing a 37% decrease in net earnings of \$6,099,000 for the comparable period of the prior year.

The decrease in quarterly earnings is consistent with management's previously announced plan to reduce the Bank's concentration in higher-yielding, yet higher risk, construction loans, and the implications of the plan as to future earnings. Significant curtailment in the construction loan portfolio has been experienced during the quarter and nine month periods, resulting in a significant reduction in interest income and loan related fees for the comparative periods. As interest rates continue to rise, mortgage loan originations both nationally and for the Bank, have declined. WSB has benefited the past several years from the historically low interest rate environment which had resulted in higher levels of mortgage originations and related earnings from loan fees and gains on loan sales. WSB continues to restructure its mortgage operations and product offering to reflect changes within the market and the Bank's plan to reduce loan concentrations and risk with a diversification of the portfolio.

Consistent with the Bank's reduction in higher risk lending activities, no addition to the allowance for loan losses through provisioning was required during the third quarter of fiscal year 2006. In addition, management continues to see favorable developments in many of its previously internally criticized loans in which many such loans have been refinanced out of the bank or have seen credit enhancements secured from borrowers to better position the bank as to the collateral value securing outstanding loans. While significant progress has been made addressing management's assessment as to the inherent risk within the portfolio, management believes that current real estate market conditions and trends, especially related to custom high-end residential properties merits the existing allowance level.

Management has reinvested excess liquidity as a result of the portfolio runoff primarily in short term investment securities so as to provide liquidity for future loan growth as we continue the restructuring of the existing loan portfolio and transition into a more diversified loan portfolio. The reinvesting of high yielding loan funds into the investment portfolio will result in lower interest income until loan production again outpaces loan runoff and funds invested in our securities portfolio are redirected to loan production.

The reduction of the loan portfolio has resulted in a 28% decrease in net interest income and a 41% decrease in non-interest income, compared to the same nine month period last year. The decrease in non-interest income is the result of a decrease in the amount of loan related fees, primarily in document preparation fees and gains on loan sales. Non-interest expenses remained stable for the nine months ending April 30, 2006, primarily as a result of a decrease in salaries and benefits offsetting increases in and professional services associated with compliance under the Supervisory Agreement between WSB and the OTS, consultant costs associated with the implementation of the internet banking product and the mortgage origination software, the restructuring of the mortgage banking operations, and a write-down of foreclosed property.

WSB's April 30, 2006 total assets decreased by 12% to \$470,101,000 compared to last year's third fiscal quarter ending balance. Book value per share increased 9% to \$7.92 compared to last year's April 30th level of \$7.25.

Management, as a result of a review of products and services offered to retail customers is committed to an expansion of its product and services which will include internet banking, bill paying, and online loan applications, which is expected to be delivered during the first half of 2006. Management also intends to seek more diversity in its loan portfolio and has begun the implementation of software that will streamline the credit process from application to closing utilizing the current loan accounting software. These changes are the result of the ongoing review of the bank's business plan.

William J. Harnett  
Chairman of the Board

Phillip C. Bowman  
Chief Executive Officer

**The Washington Savings Bank, F.S.B., 4201 Mitchellville Road-Suite 200, Bowie, Maryland 20716  
(301) 352-3120 Website: [www.twsb.com](http://www.twsb.com) Amex Symbol: WSB**

**FINANCIAL HIGHLIGHTS**
**The Washington Savings Bank, F.S.B.**

Unaudited	Three Months Ended April 30,				Nine Months Ended April 30,			
	2006	2005	% Change		2006	2005	% Change	
Net Interest Income.....	\$ 4,216,048	\$ 6,932,960	-	39	\$ 14,236,325	\$ 19,761,331	-	28
Provision for Loan Losses.....	\$ 0	\$ 2,790,000	-	100	\$ 200,000	\$ 3,980,000	-	95
Net Interest Income After Provision for Loan Losses.....	\$ 4,216,048	\$ 4,142,960	+	2	\$ 14,036,325	\$ 15,781,331	-	11
Non-Interest Income.....	\$ 535,893	\$ 1,811,816	-	70	\$ 2,844,206	\$ 4,819,897	-	41
Non-Interest Expenses.....	\$ 3,348,112	\$ 3,738,083	-	10	\$ 10,776,790	\$ 10,698,741	+	1
Net Earnings.....	\$ 913,229	\$ 1,367,593	-	33	\$ 3,858,841	\$ 6,099,187	-	37
Basic Earnings Per Share.....	\$ 0.12	\$ 0.19	-	37	\$ 0.52	\$ 0.83	-	37
Diluted Earnings Per Share.....	\$ 0.11	\$ 0.17	-	35	\$ 0.48	\$ 0.74	-	35
Average Shares Outstanding.....	7,417,420	7,378,093	+	1	7,408,289	7,363,338	+	1
Average Diluted Shares Outstanding.....	8,105,301	8,218,494	-	1	8,106,414	8,223,811	-	1

  

	At April 30,			
	2006	2005	% Change	
Cash and Cash Equivalents.....	\$ 42,655,378	\$ 7,867,175	+	442
Mortgage-Backed Securities.....	\$ 48,349,943	\$ 1,985,388	+	2,335
Investment Securities.....	\$ 91,905,610	\$ 5,675,808	+	1,519
Loans Receivable - net.....	\$ 265,359,760	\$ 494,691,559	-	46
Total Assets.....	\$ 470,101,437	\$ 533,211,012	-	12
Deposits.....	\$ 352,844,389	\$ 404,897,134	-	13
Borrowings.....	\$ 55,900,000	\$ 69,900,000	-	20
Other Liabilities.....	\$ 2,603,404	\$ 4,955,686	-	47
Total Stockholders' Equity.....	\$ 58,753,645	\$ 53,458,192	+	10
Book Value Per Share.....	\$ 7.92	\$ 7.25	+	9
Return on Average Assets.....	1.02 %	1.49 %	-	32
Return on Average Equity.....	9.05 %	15.79 %	-	43
Efficiency Ratio.....	63.1	43.52	+	45

The Washington Savings Bank's ("WSB") actual ratios, and the amount over which WSB's ratios exceed regulatory ratios, as of April 30 2006, are shown below.

For regulatory capital calculations, WSB was required to deduct \$534,092 from its assets and \$419,724 from its capital due to its subsidiary's real estate activities. WSB's regulatory capital and regulatory assets below also reflect increases of \$802,266 and \$1,271,923 respectively, which represents unrealized losses (after-tax for capital deductions and pre-tax for asset deductions) on MBS classified as available-for-sale.

Capital Category	Regulatory Ratios Required	WSB's Ratios	WSB's Excess of Requirements	Calculations Based Upon	
Leverage	\$ 18,833,571	\$ 59,136,186	\$ 40,302,615	\$ 59,136,186	Regulatory Capital
	4.00%	12.56%	8.56%	\$ 470,839,269	Regulatory Assets
Tangible	\$ 7,062,589	\$ 59,136,186	\$ 52,073,597	\$ 59,136,186	Regulatory Capital
	1.50%	12.56%	11.06%	\$ 470,839,269	Regulatory Assets
Risk-Based	\$ 23,578,054	\$ 62,820,257	\$ 39,242,203	\$ 62,820,257	Regulatory Capital
	8.00%	21.31%	13.31%	\$ 294,725,673	Risk-Weighted Assets

*This release contains forward-looking statements within the meaning of and pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. A forward-looking statement encompasses any estimate, prediction, opinion or statement of belief contained in this release and the underlying management assumptions. Forward-looking statements are based on current expectations and assessments of potential developments affecting market conditions, interest rates and other economic conditions, and results may ultimately vary from the statements made in this release. In addition to expectations, assessments, and risks described by the Bank in its Annual Report on Form 10-K for the year ended July 31, 2005 ("2005 Form 10-K") and in such other reports filed with the OTS, the Bank's future results and prospects may be dependent upon a number of other factors that could cause the Bank's performance to compare unfavorably to prior periods.*