



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

**May 2005**

**TO OUR STOCKHOLDERS:**

WSB's net earnings for the quarter ended April 30, 2005 was \$1,368,000, or \$0.19 per basic share, \$0.17 per diluted share, compared to \$2,660,000, or \$0.37 per basic share, \$0.33 per diluted share for the same period last year. WSB's net earnings for the nine months ended April 30, 2005 was \$6,099,000, or \$0.83 per basic share, \$0.74 per diluted share, compared to \$6,571,000, or \$0.93 per basic share, \$0.82 per diluted share for the same period last year.

Net earnings for the nine months ending April 30, 2005 represent a decrease of \$472,000, or 7% over the same period last year. The decrease is primarily the result of a \$2.8 million charge in the third quarter to the provision for loan losses. The provision for loan losses increased to \$3,980,000 from \$360,000 for the same period last fiscal year. The provision was made due to unfavorable trends including an increase in internally criticized loans and to reflect changes in WSB's lending policies and procedures

Net interest income increased \$5.3 million, or 37%, which partially offset the 31% increase in non-interest expense, compared to the same periods last year. The increase is primarily the result of higher levels of high-yielding loans, including our construction loan portfolio. The increase in non-interest expenses is the result of an increase in salaries and benefits, and professional services. The increase in salaries and benefits is associated with loan production commissions and staffing increases for loan operations support. The increase in professional services is the result of additional expenses associated with preparation for the required Sarbanes-Oxley Act, Section 404 certifications as well as compliance under the Supervisory Agreement.

During the quarter, WSB announced a plan to reduce its concentration in residential construction lending, primarily through a reduction of non-owner occupied residential construction. Also during the quarter, WSB appointed a new Chief Executive Officer, Phillip C. Bowman. Under the new management structure, the Bank is in the midst of a thorough review of its business and operations. Among the changes management is implementing are changes in the Bank's lending practices and lending operations. Much of this review and anticipated changes result from regulatory criticism of the WSB's compliance with the previously announced 2004 supervisory agreement between WSB and the Office of Thrift Supervision.

Phillip C. Bowman, CEO, noted "WSB's April 30, 2005 total assets increased by 13% to \$533,211,000 over last year's April 30th balance, and increased 2% for the nine month period since July 31, 2004. Book value per share increased 13% to \$7.25 over last year's April 30<sup>th</sup> level of \$6.41. While our earnings for the comparative quarter and nine month periods are below what we have become accustomed to in the past years, the results are still strong and we are encouraged as to the future prospects of the Company."

The Board believes that the retention of the approximately \$516,000 that would have been paid this quarter under our historical dividend practice will help the Bank maintain its current "well capitalized" capital levels and pursue its business plan and strategic objectives, which the Board believes is in the stockholders' long term best interests. While not declaring a dividend this quarter, the Board will review the Bank's dividend practice on a quarterly basis.

William J. Harnett  
Chairman of the Board

Phillip C. Bowman  
Chief Executive Officer

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(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,		
	2005	2004	% Change	2005	2004	% Change
Net Interest Income.....	\$ 6,932,960	\$ 5,200,436	+ 33	\$ 19,761,331	\$ 14,387,965	+ 37
Provision for Loan Losses.....	\$ 2,790,000	\$ 180,000	+ 1,450	\$ 3,980,000	\$ 360,000	+ 1,006
Net Interest Income After Provision for Loan Losses.....	\$ 4,142,960	\$ 5,020,436	- 17	\$ 15,781,331	\$ 14,027,965	+ 12
Non-Interest Income.....	\$ 1,811,816	\$ 2,112,570	- 14	\$ 4,819,897	\$ 4,746,111	+ 2
Non-Interest Expenses.....	\$ 3,738,083	\$ 2,822,404	+ 32	\$ 10,698,741	\$ 8,195,266	+ 31
Net Earnings.....	\$ 1,367,593	\$ 2,659,702	- 49	\$ 6,099,187	\$ 6,571,010	- 7
Basic Earnings Per Share.....	\$ 0.19	\$ 0.37	- 49	\$ 0.83	\$ 0.93	- 11
Diluted Earnings Per Share.....	\$ 0.17	\$ 0.33	- 48	\$ 0.74	\$ 0.82	- 10
Average Shares Outstanding.....	7,378,093	7,253,835	+ 2	7,363,338	7,066,102	+ 4
Average Diluted Shares Outstanding.....	8,218,494	8,075,981	+ 2	8,223,811	8,009,467	+ 3

  

	At April 30,		
	2005	2004	% Change
Cash and Cash Equivalents.....	\$ 7,867,175	\$ 2,056,267	+ 283
Mortgage-Backed Securities.....	\$ 1,985,388	\$ 2,149,175	- 8
Loans Receivable - net.....	\$ 494,691,559	\$ 443,551,371	+ 12
Total Assets.....	\$ 533,211,012	\$ 471,344,088	+ 13
Deposits .....	\$ 404,897,134	\$ 349,744,807	+ 16
Borrowings.....	\$ 69,900,000	\$ 70,900,000	- 1
Other Liabilities.....	\$ 4,955,686	\$ 3,869,234	+ 28
Total Stockholders' Equity.....	\$ 53,458,192	\$ 46,830,047	+ 14
Book Value Per Share.....	\$ 7.25	\$ 6.41	+ 13
Return on Average Assets.....	1.49 %	2.08 %	- 28
Return on Average Equity.....	15.79 %	20.55 %	- 23
Efficiency Ratio.....	43.52	42.83	+ 2

The Washington Savings Bank's ("WSB") actual ratios, and the amount over which WSB's ratios exceed regulatory ratios, as of April 30, 2005, are shown below. For regulatory capital calculations, WSB was required to deduct \$579,391 from its assets and \$402,596 from its capital due to its subsidiary's real estate activities. WSB's regulatory capital and regulatory assets below also reflect decreases of \$31,488 and \$47,708 respectively, which represents unrealized gains (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	\$ 21,303,357 4.00%	\$ 53,024,109 9.96%	\$ 31,720,752 5.96%	\$ 53,024,109	Regulatory Capital
				\$ 532,583,913	Regulatory Assets
Tangible	\$ 7,988,759 1.50%	\$ 53,024,109 9.96%	\$ 45,035,350 8.46%	\$ 53,024,109	Regulatory Capital
				\$ 532,583,913	Regulatory Assets
Risk-Based	\$ 36,548,235 8.00%	\$ 58,734,771 12.86%	\$ 22,186,536 4.86%	\$ 58,734,771	Regulatory Capital
				\$ 456,852,937	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 and quarterly reports filed pursuant to Section 12(b) of the Securities Exchange Act of 1934, the Bank's future results and prospects may be dependent upon a number of factors that could cause the Bank's performance to compare unfavorably to prior periods. Among these factors are: (a) the Bank's plans to reduce its concentration in residential construction lending; (b) ongoing review of the Bank's business and operations; (c) implementation of changes in lending practices and lending operations; (d) the Bank's compliance with the 2004 supervisory agreement with the Office of Thrift Supervision and any regulatory actions taken in response thereto; and (e) the Board's review of the Bank's capital management plan.