

OFFICE OF THRIFT SUPERVISION
Washington, D.C. 20552

FORM 10-Q

(x) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended: **April 30, 2007**

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to

Docket Number 8173

THE WASHINGTON SAVINGS BANK, F. S. B.
(Exact name of Registrant as specified in its Charter)

UNITED STATES
(State or other jurisdiction of
incorporation or organization)

52-1271169
(I.R.S. Employer
Identification No.)

4201 Mitchellville Road, Suite 200, Bowie, Maryland 20716
(Address of Principal Executive Offices)

(301) 352-3120
(Registrant's Telephone Number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

There were 7,585,135 shares of Common Stock (\$1.00 Par Value) outstanding as of June 1, 2007.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
FORM 10-Q
INDEX

	<u>Page Number</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Statements of Financial Condition at April 30, 2007 (Unaudited) and July 31, 2006 (Audited)	2
Consolidated Statements of Operations - Three Months and Nine Months ended April 30, 2007 and 2006 (Unaudited)	3
Consolidated Statements of Changes in Stockholders' Equity For the Nine Months ended April 30, 2007 and 2006 (Unaudited)	4
Consolidated Statements of Cash Flows - Nine Months ended April 31, 2007 and 2006 (Unaudited)	5
Notes to Consolidated Financial Statements (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosures about Market Risk	21
Item 4. Controls and Procedures	22
PART II.	
Item 1. Legal Proceedings	22
Item 1A. Risk Factors	23
Item 6. Exhibits	23
Signatures	24

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

	April 30, 2007 <u>(Unaudited)</u>	July 31, 2006 <u>(Audited)</u>
ASSETS		
Cash	\$ 4,753,261	\$ 3,706,470
Federal funds sold and interest bearing deposits at FHLB - Atlanta	3,703,000	1,064,000
Time deposits with other banks	-	9,000,000
Total cash and cash equivalents	<u>8,456,261</u>	<u>13,770,470</u>
Loans receivable - net:		
Held for sale	2,334,711	8,638,971
Held for investment (net of allowance for loan losses of \$4,466,137 and \$5,346,525 respectively)	206,288,079	242,445,933
Total loans receivable - net	<u>208,622,790</u>	<u>251,084,904</u>
Mortgage-backed securities - available for sale at fair value	48,792,503	46,489,371
Investment securities - available for sale at fair value	134,939,356	110,835,295
Investment in Federal Home Loan Bank stock, at cost	4,103,900	3,398,000
Accrued interest receivable on loans	1,448,443	1,730,544
Accrued interest receivable on investments	1,483,329	1,274,671
Real estate acquired in settlement of loans	690,692	1,583,540
Bank owned life insurance	10,174,960	-
Premises and equipment - net	6,091,367	6,090,425
Deferred income taxes	3,351,507	4,161,415
Income taxes receivable	534,514	1,867,803
Other assets	1,347,744	1,836,948
TOTAL ASSETS	<u>\$ 430,037,366</u>	<u>\$ 444,123,386</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 7,217,361	\$ 8,046,873
Interest bearing	284,559,590	315,687,043
Total deposits	<u>291,776,951</u>	<u>323,733,916</u>
Federal Home Loan Bank and other borrowings	73,000,000	58,000,000
Advances from borrowers for taxes and insurance	704,078	793,941
Accounts payable, accrued expenses and other liabilities	1,420,804	1,648,749
TOTAL LIABILITIES	<u>366,901,833</u>	<u>384,176,606</u>
STOCKHOLDERS' EQUITY:		
Preferred stock, no stated par value; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$1 par value; 20,000,000 shares authorized; 8,195,816 and 8,036,025 issued and outstanding	8,195,816	8,036,025
Additional paid-in capital	2,679,199	2,143,567
Treasury Stock - 610,681 and 610,681 shares at cost	(645,124)	(645,124)
Retained earnings - substantially restricted	52,903,644	51,282,613
Accumulated other comprehensive income (loss)	1,998	(870,301)
TOTAL STOCKHOLDERS' EQUITY	<u>63,135,533</u>	<u>59,946,780</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 430,037,366</u>	<u>\$ 444,123,386</u>

See notes to consolidated financial statements.

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

	Three Months ended April 30,		Nine Months ended April 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
INTEREST INCOME:				
Interest and fees on loans	\$ 4,145,921	\$ 5,704,318	13,282,140	\$ 21,101,474
Interest on mortgage-backed securities	698,184	521,258	2,031,642	717,557
Interest and dividends on investments	<u>1,966,649</u>	<u>1,683,179</u>	<u>5,816,675</u>	<u>4,180,906</u>
Total interest income	<u>6,810,754</u>	<u>7,908,755</u>	<u>21,130,457</u>	<u>25,999,937</u>
INTEREST EXPENSE:				
Interest on deposits	2,611,957	2,940,508	8,032,699	9,484,732
Interest on other borrowings	<u>951,704</u>	<u>752,199</u>	<u>2,791,294</u>	<u>2,278,880</u>
Total interest expense	<u>3,563,661</u>	<u>3,692,707</u>	<u>10,823,993</u>	<u>11,763,612</u>
NET INTEREST INCOME	3,247,093	4,216,048	10,306,464	14,236,325
(Recovery of) provision for loan losses	<u>-</u>	<u>-</u>	<u>(300,000)</u>	<u>200,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>3,247,093</u>	<u>4,216,048</u>	<u>10,606,464</u>	<u>14,036,325</u>
NON-INTEREST INCOME:				
Loan related fees	162,652	207,351	597,847	807,731
Gain on sale of loans	233,535	20,649	789,085	978,373
Loss on sale of investment securities	(20,736)	-	(67,577)	-
Gain on sale of real estate acquired in settlement of loans	179,067	93,306	484,158	285,602
(Loss)Gain on disposal of premises and equipment	(2,160)	(56,586)	1,387	(65,240)
Service charges on deposits	15,425	17,347	54,763	69,461
Rental Income	125,842	144,828	403,585	441,961
Gain on sale of building lots and homes	17,577	-	17,577	7,681
Other income	<u>167,517</u>	<u>52,412</u>	<u>372,295</u>	<u>253,397</u>
Total non-interest income	<u>878,719</u>	<u>479,307</u>	<u>2,653,120</u>	<u>2,778,966</u>
NON-INTEREST EXPENSE:				
Salaries and benefits	1,740,571	1,475,046	5,407,220	5,140,843
Occupancy expense	213,607	227,252	626,834	635,885
Depreciation	191,539	172,590	543,510	501,512
Advertising	48,661	39,099	97,595	97,576
Service bureau charges	147,537	144,409	417,473	424,733
Service charges from banks	28,672	26,102	74,441	82,957
Stationary, printing and supplies	51,289	69,121	153,657	198,438
Professional services	72,550	256,412	595,136	798,439
SAIF/FDIC Insurance	35,859	239,776	354,984	732,444
Other taxes	36,826	38,042	111,479	110,126
Provision for losses on real estate acquired in settlement of loans	-	-	-	146,374
Other	<u>521,116</u>	<u>603,677</u>	<u>1,575,403</u>	<u>1,842,222</u>
Total non-interest expense	<u>3,088,227</u>	<u>3,291,526</u>	<u>9,957,732</u>	<u>10,711,549</u>
EARNINGS BEFORE PROVISION FOR INCOME TAXES	1,037,585	1,403,829	3,301,852	6,103,742
PROVISION FOR INCOME TAXES	<u>331,700</u>	<u>490,600</u>	<u>1,079,300</u>	<u>2,244,900</u>
NET INCOME	<u>\$ 705,885</u>	<u>\$ 913,229</u>	<u>\$ 2,222,552</u>	<u>\$ 3,858,842</u>
BASIC INCOME PER COMMON SHARE	<u>\$ 0.09</u>	<u>\$ 0.12</u>	<u>\$ 0.30</u>	<u>\$ 0.52</u>
DILUTED INCOME PER COMMON SHARE	<u>\$ 0.09</u>	<u>\$ 0.11</u>	<u>\$ 0.27</u>	<u>\$ 0.48</u>
CASH DIVIDENDS PAID	<u>\$ 0.04</u>	<u>\$ -</u>	<u>\$ 0.08</u>	<u>\$ -</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	<u>7,557,760</u>	<u>7,417,420</u>	<u>7,484,197</u>	<u>7,408,289</u>
WEIGHTED AVERAGE DILUTED COMMON SHARES OUTSTANDING	<u>8,124,655</u>	<u>8,105,301</u>	<u>8,125,552</u>	<u>8,106,414</u>

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED April 30, 2007 AND 2006 (Unaudited)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
BALANCE, AUGUST 1, 2005	\$ 8,009,775	\$ 2,010,622	\$ (645,124)	\$ 46,220,169	\$ (8,146)	\$ 55,587,296
Exercise of Stock Options	23,500	78,127	-	-	-	101,627
Comprehensive Income:						
Net income	-	-	-	3,858,842	-	3,858,842
Net changes in unrealized gain (loss) on available for sale securities Net of taxes of \$(469,657)	-	-	-	-	(794,120)	(794,120)
Total comprehensive income						3,064,722
BALANCE, APRIL 30, 2006	<u>\$ 8,033,275</u>	<u>\$ 2,088,749</u>	<u>\$ (645,124)</u>	<u>\$ 50,079,011</u>	<u>\$ (802,266)</u>	<u>\$ 58,753,645</u>
BALANCE, AUGUST 1, 2006	\$ 8,036,025	\$ 2,143,567	\$ (645,124)	\$ 51,282,613	\$ (870,301)	\$ 59,946,780
Exercise of Stock Options	159,791	29,674	-	-	-	189,465
Stock-based compensation	-	586	-	-	-	586
Tax benefits from Stock-Based Compensation	-	505,372	-	-	-	505,372
Comprehensive Income:						
Net income	-	-	-	2,222,552	-	2,222,552
Other comprehensive income: Reclassification adjustment for losses net of taxes of \$(26,099)					41,478	41,478
Net changes in unrealized gain (loss) on available for sale securities Net of taxes of \$535,417	-	-	-	-	830,821	830,821
Total comprehensive income						3,094,851
Cash dividend (\$0.08 per common share)	-	-	-	(601,521)	-	(601,521)
BALANCE, April 30, 2007	<u>\$ 8,195,816</u>	<u>\$ 2,679,199</u>	<u>\$ (645,124)</u>	<u>\$ 52,903,644</u>	<u>\$ 1,998</u>	<u>\$ 63,135,533</u>

See notes to consolidated financial statements

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

	Nine months ended April 30,	
	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES:		
Net income	\$ 2,222,552	\$ 3,858,842
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	(300,000)	200,000
Stock-based compensation	586	11,314
Depreciation	542,123	501,514
Amortization	(159,727)	211,679
Loss on sale of investment securities	67,577	-
Gain on sale of other real estate owned	(484,158)	(285,602)
Excess tax benefits from stock based compensation	505,372	-
Deferred income taxes	296,314	-
Gain on sale of loans	(789,085)	(978,373)
Gain on sale of building lots and homes	(17,577)	(7,681)
Origination of loans - held for sale	(77,969,008)	(158,149,885)
Proceeds from sale of loans held for sale	85,062,354	173,946,340
(Gain) Loss on disposal of premises and equipment	(1,387)	65,240
Increase in cash surrender value of bank owned life insurance	(174,960)	-
Decrease in other assets	489,204	719,580
Decrease(increase) in accrued interest receivable	73,443	(16,697)
(Decrease) in net deferred loan fees	(93,953)	(587,290)
Decrease(increase) in income taxes receivable	1,838,661	(1,117,907)
(Decrease) in accrued interest payable	(59,961)	(113,373)
(Decrease) in accounts payable, accrued expenses and other liabilities	(227,944)	(789,272)
Net cash provided by operating activities	<u>10,820,426</u>	<u>17,468,429</u>
INVESTING ACTIVITIES:		
Net decrease in loans	35,714,405	159,224,824
Purchase of mortgage-backed securities - available for sale	(7,520,409)	(49,276,674)
Proceeds from principal payments and sales of mortgage-backed securities	5,795,220	447,658
Redemption/Purchase of Federal Home Loan Bank Stock	(705,900)	113,600
Purchase of Bank owned life insurance	(10,000,000)	-
Purchase of investment securities - available for sale	(95,540,615)	(82,456,215)
Proceeds from maturities and sales of investment securities - available for sale	72,336,650	-
Purchase of premises and equipment	(541,678)	(468,965)
Land development costs incurred	-	(163,712)
Proceeds from the Sale of Land Held-for-Development	17,577	7,681
Development of real estate acquired in settlement of loans	(182,844)	(60,637)
Proceeds from sale of real estate acquired in settlement of loans	<u>2,397,250</u>	<u>2,015,944</u>
Net cash provided by investing activities	<u>1,769,656</u>	<u>29,383,504</u>
FINANCING ACTIVITIES:		
Net decrease in demand deposits, NOW accounts and savings accounts	(12,476,016)	(9,819,751)
Proceeds from issuance of certificates of deposit	3,055,799	2,699,943
Payments for maturing certificates of deposit	(22,476,783)	(53,201,042)
Net decrease in advance payments by borrowers for taxes and insurance	(89,863)	(554,582)
Cash dividend paid	(601,521)	-
Increase in advance from the Federal Home Loan Bank	20,000,000	-
Decrease in other borrowings	(5,000,000)	-
Proceeds from exercise of stock options	189,465	90,313
Excess tax benefits from stock based compensation	(505,372)	(4,369)
Net cash used by financing activities	<u>(17,904,291)</u>	<u>(60,789,488)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,314,209)	(13,937,555)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>13,770,470</u>	<u>56,592,933</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 8,456,261</u>	<u>\$ 42,655,378</u>
CASH PAID DURING THE PERIOD FOR:		
Income taxes	<u>\$ 375,980</u>	<u>\$ 3,201,569</u>
Interest	<u>\$ 10,809,598</u>	<u>\$ 11,868,888</u>
Non-cash transactions:		
Transfer from loans to foreclosed real estate	\$ 837,400	\$ 722,028

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED April 30, 2007 AND 2006
(unaudited)

1. Financial Statements

The Consolidated Financial Statements for the three and nine months ended April 30, 2007 and 2006 have been prepared by The Washington Savings Bank, F.S.B. ("WSB") without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at April 30, 2007, and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission and the Office of Thrift Supervision ("OTS"). Management believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and notes thereto included in WSB's Annual Report on Form 10-K for the year ended July 31, 2006 (the "2006 Annual Report"). There have been no significant changes to WSB's Accounting Policies as disclosed in the 2006 Annual Report. The results of operations for the period ended April 30, 2007, are not necessarily indicative of the operating results for the full year or any other period.

Certain prior year's amounts have been reclassified to conform with the current year's presentation.

2. Earnings Per Common Share

The following is the reconciliation of the numerators and denominators of the basic and diluted Earnings Per Common Share ("EPS") computation for all periods presented in the Consolidated Statements of Operations.

	<u>Three Months Ended April 30,</u>					
	<u>2007</u>			<u>2006</u>		
	<u>Net Income</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per Share</u> <u>Amount</u>	<u>Net Income</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per Share</u> <u>Amount</u>
Basic EPS						
Net income available to Common Stockholders	\$ <u>705,885</u>	7,557,760	\$ <u>0.09</u>	\$ <u>913,229</u>	7,417,420	\$ <u>0.12</u>
Effect of Dilutive Options						
Incremental Shares		<u>566,895</u>			<u>687,881</u>	
Diluted EPS						
Net income available to Common Stockholders	\$ <u>705,885</u>	<u>8,124,655</u>	\$ <u>0.09</u>	\$ <u>913,229</u>	<u>8,105,301</u>	\$ <u>0.11</u>

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED April 30, 2007 AND 2006
(Continued)

	<u>Nine Months Ended April 30,</u>					
	<u>2007</u>			<u>2006</u>		
	<u>Net Income</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per Share</u> <u>Amount</u>	<u>Net Income</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per Share</u> <u>Amount</u>
Basic EPS						
Net income available to Common Stockholders	\$ <u>2,222,552</u>	7,484,197	\$ <u>0.30</u>	\$ <u>3,858,842</u>	7,408,289	\$ <u>0.52</u>
Effect of Dilutive Options Incremental Shares		<u>641,355</u>			<u>698,125</u>	
Diluted EPS						
Net income available to Common Stockholders	\$ <u>2,222,552</u>	<u>8,125,552</u>	\$ <u>0.27</u>	\$ <u>3,858,842</u>	<u>8,106,414</u>	\$ <u>0.48</u>

Options to purchase 5,000 shares of common stock at \$9.11 per share were outstanding at April 30, 2007 and 2006, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common stock for the nine months ended April 30, 2007 and 2006.

All other options were included in the computation of diluted EPS because the options' exercise prices were lower than the average market price of the common stock for the nine months ended April 30, 2007.

3. Stock-Based Compensation

WSB has incentive compensation plans that permit the granting of incentive and non-qualified awards in the form of stock options. Generally, the terms of these plans stipulate that the exercise price of options may not be less than the fair market value of WSB's common stock on the date the options are granted. Options predominantly vest over a two year period from the date of grant, and expire not later than ten years from date of grant.

In April 2007, WSB awarded 5,000 shares under the 1997 Plan to its Chief Executive Officer, which have a ten-year contractual term and vest over a two year period. Total pre-tax stock-based compensation of \$586 and tax related benefits of \$226 was recognized in the Statement of Operations for the nine months ending April 30, 2007. Total pre-tax stock-based compensation of \$11,300 and tax related benefits of \$4,400 was recognized in the Statement of Operations for the nine months ending April 30, 2006. The fair value of the options awarded is estimated on the date of grant using the Black-Scholes option pricing model with volatility calculated based on historical fiscal-year end close prices and a risk free rate is based on the five year treasury rate as of the grant date closing price.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED April 30, 2007 AND 2006

Stock Option Plans - WSB has five stock option plans, which reserve shares of common stock for issuance to certain key employees and non-employee directors. The combination of these plans reserves 2,310,000 shares under option, of which 1,880,125 options have been granted and 429,875 options remain available for grant. Options granted generally expire ten years after grant date and are exercisable at 50% one year after the date of grant and the remaining 50% two years after the date of grant, with the exceptions of (1) the Non-Employee Directors' Plan, which options are exercisable at 25% on the first and second anniversary dates and the remaining 50% three years after the date of grant and (2) the 5,000 option grant to Phillip C. Bowman in September 2005, which were fully vested at time of grant and expire 5 years after the date of grant. The exercise price of the options granted pursuant to these plans is in each case the fair market value of the shares on the date of grant.

The following table summarizes stock option activity for the period ended April 30, 2007:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at July 31, 2006	1,032,425	\$2.91	
Exercised	204,600	2.85	
Granted	5,000	8.65	
Forfeited	2,250	4.04	
Outstanding at April 30, 2007	830,575	\$2.95	\$4,648,061
Exercisable at April 30, 2007	825,575	\$2.92	\$4,648,561

New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109, which provides guidance on the measurement, recognition, and disclosure of tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, and disclosure. FIN 48 prescribes that a tax position should only be recognized if it is more-likely-than-not that the position will be sustained upon examination by the appropriate taxing authority. A tax position that meets this threshold is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The cumulative effect of applying FIN 48 is to be reported as an adjustment to the beginning balance of retained earnings in the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. WSB is currently assessing the impact, if any, that the adoption may have on its financial statements.

THE WASHINGTON SAVINGS BANK, F.S.B. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED APRIL 30, 2007 AND 2006

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

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

In September 2006, the SEC's Office of Chief Accountant and Divisions of Corporation Finance and Investment Management released Staff Accounting Bulletin ("SAB") No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB No. 108"), that provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. The pronouncement is effective for fiscal years ending after November 15, 2006. The adoption of SAB No. 108 did not have a material impact on WSB's financial position, results of operations, or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. Statement 159 is effective for fiscal years beginning after November 15, 2007, and early application is allowed under certain circumstances. WSB is evaluating the impact of this new standard, but currently believes that adoption will not have a material impact on its financial positions, results of operations, or cash flows.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Washington Savings Bank, F.S.B. and subsidiaries' ("WSB") results of operations are primarily determined by the difference between the interest income and fees earned on loans, investments and other interest-earning assets and the interest expense paid on deposits and other interest-bearing liabilities. The difference between the average yield earned on interest-earning assets, and the average cost of interest-bearing liabilities is known as net interest-rate spread. The principal expense to WSB is the interest it pays on deposits and other borrowings. The difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities is referred to as net interest income. Net interest income is significantly affected by general economic conditions and by policies of state and federal regulatory authorities and the monetary policies of the Federal Reserve Board. WSB's net income is also affected by the level of its non-interest income, including loan related fees, deposit-based fees, rental income, operations of its service corporation subsidiary, gain on sale of real estate acquired in settlement of loans ("REO"), and gain on sale of loans, as well as its operating and tax expenses.

Both basic and diluted EPS amounts are shown on the Consolidated Statements of Operations. However, "basic" earnings per share is utilized in this report's narrative when per share amounts are listed, unless otherwise stated.

This report contains forward-looking statements within the meaning of and pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. A forward-looking statement encompasses any estimate, prediction, opinion or statement of belief contained in this report and the underlying management assumptions, including those identified by terminology such as "may," "will," "believe," "expect," "estimate," "anticipate," "continue," or similar expressions. Forward-looking statements are based on current expectations and assessments of potential developments affecting market conditions, interest rates and other economic conditions and assumptions and results may ultimately vary from the statements made in this report. WSB's future results and prospects may be dependent upon a number of factors that could cause WSB's performance to compare unfavorably to prior periods. Among these factors are: (a) ongoing review of WSB's business and operations; (b) implementation of changes in lending practices and lending operations; (c) the Board of Directors ongoing review of WSB's capital management plan; (d) changes in accounting principles; (e) government legislation and regulation; (f) changes in interest rates; (g) changes in the economy; (h) credit or other risks of lending activity; (i) the impact of any legal or regulatory proceedings; and (j) other expectations, assessments and risks that are specifically mentioned in this report, in our Annual Report on Form 10-K for the year ended July 31, 2006 ("2006 Form 10-K") and in such other reports filed with the OTS. WSB wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including those described above, could affect WSB's financial performance and could cause WSB's actual results or circumstances for future periods to differ materially from those anticipated or projected. Unless required by law, WSB does not undertake, and specifically disclaims any obligations to publicly release the result of any revisions that may be made to any forward-looking statements to reflect statements to the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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

Critical Accounting Policies

The preparation of consolidated financial statements requires management to make judgments in the application of certain of its accounting policies that involve significant estimates and assumptions about the effect of matters that are inherently uncertain. These estimates and assumptions are based on information available as of the date of the financial statements, and may materially impact the reported amounts of certain assets, liabilities, revenues and expenses as the information changes over time. Accordingly, different amounts could be reported as a result of the use of revised estimates and assumptions in the application of these accounting policies.

Accounting policies considered relatively more critical due to either the subjectivity involved in the estimate and/or the potential impact that changes in the estimates can have on the reported financial results include the accounting for the allowance for loan losses. Information concerning this policy is included in the "Critical Accounting Policies" section of Management's Discussion and Analysis in WSB's 2006 Form 10-K. There were no significant changes in this accounting policy during the first nine months of fiscal 2007.

Recent Developments

WSB has evaluated its capital management plan including its dividend policy and believes that the current capital levels are appropriate to resume paying quarterly dividends effective with the first quarter of fiscal 2007. This development is a result of the progress made in our strategic plan for delivering long term shareholder value.

On May 18, 2007, the Board of Directors declared a cash dividend of four cents per share to be paid on June 15, 2007, to stockholders of record as of June 1, 2007. The Board will continue to review WSB's dividend practice on a quarterly basis. WSB continues to remain "Well Capitalized" by regulatory standards.

Consolidated Results of Operations

Net earnings for the three and nine months ended April 30, 2007 were \$706,000, or \$0.09 per basic share and \$0.09 per diluted share, and \$2,223,000, or \$0.30 per basic share and \$0.27 per diluted share, respectively, compared to net earnings of \$913,000, or \$0.12 per basic share and \$0.11 per diluted share, and \$3,859,000, or \$0.52 per basic share and \$0.48 per diluted share for the corresponding fiscal 2006 periods. Net earnings for the three and nine months period ended April 30, 2007, represent decreases of \$207,000, or 23%, and \$1,636,000, or 42% over the same respective periods last year.

The decrease in net income for the nine month period reflects the general slowdown of the residential real estate market and the related decline in mortgage loan originations in the Bank's primary market area and the continuing reduction in the Bank's concentration in higher-yielding construction loans. WSB has reduced its construction loan portfolio by approximately 52% at April 30, 2007, compared to April 30, 2006. Management continues to seek more diversity in its loan portfolio and established commercial business and commercial real estate lending departments staffed with experienced lenders in an effort to significantly expand its nonresidential loan portfolio which has resulted in an increase in the portfolios of commercial business, commercial real estate, and residential land development to commercial borrowers by \$28 million from \$5 million at July 31, 2006 to \$33 million at April 30, 2007. WSB does not expect to see the results of its investment in loans to commercial business, commercial real estate, and residential land development to commercial borrowers until fiscal 2008. However, management expects that this will eventually provide the Bank and its shareholders greater profitability and shareholder value.

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

Due to the general slowdown of the residential real estate market and related decline in mortgage originations, WSB's loan production, has experienced a 28% decrease in net interest income and a 5% decrease in non-interest income, compared to same nine month period last year. The decrease in non-interest income is primarily the result of a decrease in loan related fees and gain on loan sales for loans sold in the secondary market which offset the increase on the gain on sale of real estate acquired in settlement of loans. WSB has benefited the past several years from the historically low interest rate environment and strong demand for housing which had resulted in higher levels of mortgage originations and related earnings from loan fees and gains on loan sales.

In an effort to minimize reinvestment risk while improving portfolio yield, investment securities were sold which resulted in a pre-tax loss of \$21,000 (approximately \$13,000 after tax) for the current period and \$68,000 (approximately \$42,000 after tax) for the nine months ended April 30, 2007. The funds were reinvested in higher yielding assets and it is anticipated that the transaction will result in higher income in subsequent periods. The resulting pre-tax loss on the sale of short term investments, compared to no gains or losses for the same three and nine month periods last year.

During the second quarter of this fiscal year, a settlement of the litigation involving a former employee against the Bank was reached. Management and the Board believe the settlement of the litigation was in the best interest of the Bank and its shareholders and will allow the Bank to better focus it's financial and human resources and devote its attention to the Bank's business interests rather than protracted legal proceedings. Under the terms of the monetary settlement, a payment to the plaintiff was made, which after payment from insurance on the settlement and defense cost resulted in a one time increase in expenses of \$81,000.

Interest Income/Expense

Total interest income decreased \$1.1 million, or 13.9%, for the third quarter of fiscal 2007, and decreased \$4.9 million, or 18.7% for the nine month period ending April 30, 2007, compared to the corresponding periods last year, due primarily to a decrease in the average volume of interest-earning assets.

The average nine-month balance of interest-earning assets decreased to \$413.6 million from \$490.4 million, due primarily to a decrease in the loans held-for-investment portfolio. The decrease in average yield on interest-earning assets to 6.81% from 7.07% is the result of the reinvestment of the loan portfolio runoff in short term investment securities. Investment in short term securities is being used to maintain liquidity for future loan growth as we restructure the existing loan portfolio under the business plan with a transition into a more diversified loan portfolio with lower credit risk.

Total interest expense decreased \$129,000, or 3.5% and \$940,000 or 8.0% for the three and nine month periods ended April 30, 2007, compared to the same period in the prior year. The decrease for the three and nine month period was attributable to a decrease in WSB's interest-bearing liabilities.

For the nine month period ended April 30, 2007, WSB's average interest-bearing liabilities were \$376.6 million with an average rate of 3.84%, compared to \$444.6 million with an average rate of 3.54%, for the corresponding period last fiscal year.

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

Net interest income decreased \$969,000, or 23.0%, and \$3.9 million, or 27.6%, respectively, for the three and nine month periods ended April 30, 2007, compared to the same periods in the prior fiscal year. Due to a lower average return on WSB's interest-earning assets, and a higher average cost of WSB's interest-bearing liabilities, WSB's net interest rate spread decreased to 2.97% for the nine month period ended April 30, 2007 from 3.53% for the same period in the prior fiscal year. The ratio of WSB's interest-bearing assets to interest-bearing liabilities decreased to 109.83% from 110.31%.

Management continues to reinvest excess liquidity as a result of the loan portfolio runoff primarily in short term investment securities so as to provide liquidity for future loan growth. 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.

Provisions for Loan and REO Losses

WSB's loan portfolio is subject to varying degrees of credit risk. Credit risk is mitigated through portfolio diversification, and limiting exposure to any single customer or industry. WSB maintains an allowance for loan losses (the "allowance") to absorb losses inherent in the loan portfolio. The allowance is based on careful, continuous review and evaluation of the loan portfolio, along with ongoing assessments of the probable losses inherent in that portfolio. The methodology for assessing the appropriateness of the allowance includes: (1) a formula allowance reflecting historical losses by credit category, (2) the specific allowance for risk rated credits on an individual or portfolio basis, and (3) a nonspecific allowance which considers risk factors not taken into factor by the other two components of the methodology. The amount of the allowance is reviewed monthly by WSB's Loan Committee, and reviewed and approved monthly by the Board of Directors.

The allowance is increased by provisions for loan losses, which are charged to expense. Charge-offs of loan amounts determined by management to be uncollectible or impaired decrease the allowance, while recoveries of loans previously charged-off are added back to the allowance. WSB makes provisions for loan losses in amounts necessary to maintain the allowance at an appropriate level, as established by use of the allowance methodology. Under the methodology, WSB considers trends in credit risk against broad categories of homogenous loans, as well as a loan by loan review of loans criticized or classified by management. Classified loans exceeding \$300,000 are evaluated individually as part of the calculation of the adequacy of the allowance.

Management continues to see favorable developments in many of its previously internally criticized loans in which many such loans have been refinanced out of the bank or have seen credit enhancements secured from borrowers to better position the bank as to the collateral value securing outstanding loans. A recovery of prior provisioning of \$300,000 was made from the allowance for loan losses during the first quarter of fiscal year 2007. No addition to the allowance for loan losses through provisioning was made during the second or third quarters of fiscal year 2007. The reserve for loans losses is very subjective in nature, relying significantly on historical loss experience, collateral valuations available to management on specific loans, and economic factors deemed to exist at quarter end affecting the inherent loss within the portfolio. Management believes the current reserve level is appropriate, and that the recapture of prior provisioning brings the subsequent reserve position to justified levels.

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

While significant progress has been made addressing management's assessment as to the inherent risk within the portfolio, the slowing real estate market, especially as it pertains to custom high-end residential properties merits the existing allowance level, and management cautions the reader not to rely on the possibility of further recaptures of prior loan loss provisioning.

During the nine months ended April 30, 2007, the allowance decreased in net by \$880,000, or 16.5%, to \$4.5 million from \$5.3 million at July 31, 2006, as a result of net charge-offs of \$580,000 and the reversal of prior provisioning of \$300,000. At April 30, 2007, the allowance was 2.12% of total loans held-for-investment, versus 2.16% of total loans held-for-investment, at July 31, 2006.

WSB has experienced a reduction in its loan portfolio as well as payoffs and/or credit enhancements of previously internally criticized loans, which has resulted in a lower level of inherent probable loss. Assets subject to WSB's Loan Committee criticism includes loans which meet the sub-standard criteria due to collateral deficiencies that may reflect possible losses. Based on the review of the individual loans involved, management estimates probable losses. Management has continued to assess the probable losses as new and relevant data is obtained.

Management believes that the allowance reflects its best estimate of the losses existing in the \$210.8 million loans-held for investment portfolio as of April 30, 2007. The \$2.3 million loan held-for-sale portfolio has already been committed to be purchased by investors at April 30, 2007 and will be settled subsequent to that date. Analysis of WSB's history of sold loans indicates that minimal credit losses have been realized after the sale of loans.

WSB's determination of the adequacy of the allowance requires significant judgment, and estimates of probable losses inherent in the loans held-for-investment portfolio can vary significantly from the amounts actually observed. See Critical Accounting Policies in the 2006 Form 10-K. While management uses available information to recognize probable losses, future additions to the allowance may be necessary based on changes in the credits comprising the portfolios, changes in the financial condition of borrowers, such as may result from changes in economic conditions, or other considerations determined by management to be appropriate. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the loan portfolio and the allowance. Such review may result in additional provisions based upon their judgments of information available at the time of each examination.

Management has developed a comprehensive review process to monitor the adequacy of the allowance for loan losses. The review process and guidelines were developed utilizing guidance from federal banking regulatory agencies and relies on relevant observable data. The observable data considered in the determination of the allowance is modified as more relevant data becomes available. The results of this review process support management's view that the allowance reflects probable losses within the loan portfolio as of April 30, 2007. Please refer to WSB's 2006 Form 10-K under the caption "Significant Accounting Policies" for an overview of the underlying methodology management employs on a monthly basis to maintain the allowance.

Changes in the estimation methods may take place based on the status of the economy and the estimate of the value of the property securing loans and as a result, the allowance may increase or decrease. Future adjustments could substantially affect the amount of the allowance.

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

The following occurred during the first nine months of fiscal 2007:

- WSB's continued reduction in the loans held for investment portfolio.
- WSB has experienced defaults primarily in construction residential loans and land lot loans. Such defaults on custom built properties and land lots carry additional risk of loss and are more susceptible to price increases during the construction process.
- As a result of an analysis of its current portfolio, WSB has recognized a decrease of the loss allocation percentages to internally classified loans. This decrease is due to a significant runoff that has been experienced in internally classified loans. A result of this runoff has been a corresponding reduction in the specific allocations for loss exposure.

Management believes its evaluation as to the adequacy of the allowance as of April 30, 2007 is appropriate, and cautions the reader that the provisioning for this quarter is not necessarily indicative of future quarters provisioning. Subjective judgment is significant in the determination of the provision and allowance for loan losses, manifested in the valuation of collateral, a borrower's prospects of repayment, and in establishing allowance factors and components for the formula allowance for homogeneous loans. The establishment of allowance factors is a continuing exercise, based on management's assessment of the factors and their impact on the portfolio, and that allowance factors may change from period to period, resulting in an increase or decrease in the amount of the provision or allowance, based upon the same volume and classification of loans. A time lag between the recognition of loss exposure in the evaluation of the adequacy of the allowance and a loan's ultimate resolution and or charge-off is normal and to be expected. A discussion of some of the factors that have had a significant impact during the quarter in the evaluation of the adequacy of WSB's allowance for loan losses is discussed above.

WSB has experienced noticeable change in its loan portfolio during the quarter, which was observed in management's analysis of the adequacy of the allowance for loan loss during the quarter, and at quarter end. Management reviews monthly the adequacy of the allowance for loan losses, provisioning accordingly to meet the deemed losses within the portfolio. For a better understanding of the allowance and the evaluation process refer to WSB's 2006 Form 10-K for a more complete description.

WSB, as shown below in tabular format, has seen a decrease of charge-offs during the current quarter but experienced a significant increase during the first quarter of fiscal 2006. While there has been a decrease in loan charge-offs, we believe there is additional, yet unidentified, losses within the portfolio, which may be reflected as charge-offs against the allowance in future quarters, as these losses manifest themselves and loan collection efforts continue.

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

Fiscal year	2007			2006			
	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Provision for loan losses	\$ 0	\$ 0	\$ (300,000)	\$ 0	\$ 0	\$ 0	\$ 200,000
Loan charge-offs	\$ 67,823	\$ 157,866	\$ 400,659	\$ 575,177	\$ 280,564	\$ 51,024	\$ 1,548,218
Loan recoveries	22,792	8,354	14,814	186,237	79,359	9,830	400
Net Charge-offs	\$ 45,031	\$ 149,512	\$ 385,845	\$ 388,940	\$ 201,205	\$ 41,194	\$ 1,547,818
Allowance for loan losses at period end	\$ 4,466,137	\$ 4,511,168	\$ 4,660,680	\$ 5,346,525	\$ 5,735,465	\$ 5,936,670	\$ 5,977,864
Total loans held for investment at period end	210,754,216	204,596,274	215,099,302	247,792,458	266,349,126	305,525,989	367,610,162
Allowance to total loans held for investment at period end	2.12%	2.20%	2.17%	2.16%	2.15%	1.94%	1.63%

At April 30, 2007, total non-performing loans were \$11.3 million, which included non-accrual loans of \$9.4 million and \$1.9 million in accruing loans which were contractually past due more than four months but with current payments, or 5.35% of total loans held-for-investment at April 30, 2007, compared to \$10.8 million of which included non-accrual loans of \$9.7 million and \$1.1 million in accruing loans which were contractually past due more than four months but with current payments, or 4.35% of total loans held-for-investment, at July 31, 2006. The allowance is approximately 47.4% of non-accrual loans, versus 49.6% at July 31, 2006. Significant variation in this ratio may occur from period to period because the amount of non-performing loans depends largely on the condition of a small number of individual credits and borrowers relative to the total loan and lease portfolio. Most of the \$1.9 million in loans that are contractually past due have current payments, request for extensions need to be formally filed on their current contract to extend the maturity date to bring the loan to current status.

While there has been a slight decrease in non-accruals since July 31, 2006, there is not a direct relationship between the discontinuation of interest accrual and the level of inherent risk of loss associated with those loans or the portfolio.

Based upon management's analysis of Real Estate Owned ("REO"), WSB had no provision for loss/write-down for the three and nine month periods ending April 30, 2007. REO held at April 30, 2007 and July 31, 2006, was \$691,000 and \$1.6 million, respectively, which was net of \$0 reserves for REO losses at April 30, 2007 and July 31, 2006.

Non-Interest Income

Total non-interest income for the three month period ending April 20, 2007, increased \$399,000, or 83.3%, and decreased \$126,000, or 4.5% for nine month period ended April 30, 2007, respectively, compared to the same periods in the prior year. The increase for the three month period was attributable to gain on sale of loans and gain on sale of real estate acquired in settlement of loans. The decrease for the nine month period is attributable to the decrease in the gain on sale of loans, loan related fees and the loss on sale of investment securities which offset in part, the increase on the gain on sale of real estate acquired in settlement of loans and other income.

Gain on the sale of loans increased \$213,000 for the three month period ending April 30, 2007 but decreased \$189,000 for the nine month period ending April 30, 2007. The increase for the current quarter is primarily the

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

result of an increase in the premiums paid to WSB on loans sold in the secondary market. WSB's ability to realize gains in future periods depends largely on interest rates and the demand for mortgage loans.

Gain on the sale of real estate acquired in settlement of loans increased by \$199,000 due to the sale of twenty-one properties in the nine month period ending April 30, 2007, compared to eighteen properties for the same period last fiscal year.

Loan-related fees decreased \$45,000, or 22.0% and \$210,000, or 26.0% for the three and nine month periods ending April 30, 2007 due to a reduction in WSB's loan settlements. Real estate loans closed for the three and nine month periods ended April 30, 2007, were approximately \$62.2 million and \$144.1 million, compared to approximately \$32.9 million and \$180.8 for the same periods last year. The increase on real estate loans closed for the three month period ending April 30, 2007 was primarily the result of the newly established commercial business and commercial real estate lending departments. The decrease in real estate loans closed for the nine month period reflects the general slowdown of the residential real estate market and the related decline in mortgage loan originations and the continuing reduction in the Bank's concentration in higher-yielding construction loans.

The loss on sale of investment securities of \$68,000 pretax, \$42,000 net of tax, was taken in restructuring \$39 million of short term investments within the Bank's portfolio in an effort to minimize reinvestment risk while improving portfolio yield. The funds were reinvested in higher yielding assets and it is anticipated that the transaction will result in higher income in subsequent periods. The resulting pre-tax loss on the sale of investments, compared to no gains or losses for the same three and nine month periods last year.

Other income increased \$115,000 and \$119,000 for the three and nine month periods ending April 30, 2007 primarily as a result of income received from Bank Owned Life Insurance.

Non-Interest Expenses

Non-interest expenses decreased \$203,000, or 6.2% and \$754,000, or 7.0% for the three and nine month periods ending April 30, 2007, respectively, as compared to the corresponding prior fiscal year periods.

The decrease in non-interest expenses for the three month period ended April 30, 2007 compared to the same period last year was primarily due to decreases of \$204,000 in deposit insurance premiums and assessments, \$184,000 in professional services and \$83,000 in other expenses which consisted primarily of repairs and installation and foreclosure costs, which offset increases of \$266,000 in salaries and benefits. The increase in salaries and benefits is primarily the result of the increase in staff for the newly established commercial loan departments.

The decrease in non-interest expense for the nine month period ended April 30, 2007 compared to the same period last year was primarily due to decreases of \$377,000 in deposit insurance premiums and assessment, \$267,000 in other expense, which consisted primarily of repairs and installation and other operating expenses and \$146,000 in provision for losses on real estate acquired in settlement of loans.

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

The increase in salaries and benefits is primarily the result of the increase staff for the newly established commercial loan departments and the result of the full and final settlement of the litigation involving a former employee against the Bank. Under the terms of the monetary settlement, a payment to the plaintiff was made, which after payment from insurance on the settlement and defense cost resulted in a one time increase in expenses of \$81,000.

A decrease in deposit insurance premiums and assessments is the result of the Federal Deposit Insurance Corporation ("FDIC") ruling, pursuant to the Federal Deposit Insurance Reform Act of 2005, to assess deposit insurance premiums against all depository institutions based on their current condition and nature of their activities and on the revenue needs, as determined by the FDIC for the Deposit Insurance Fund. Many insured depository institutions, including WSB, are entitled to a credit against these premiums based on the premiums they paid on or before December 31, 1996. Under the FDIC's current risk-based deposit insurance assessment system, the assessment rate for an insured depository institution depends on the assessment risk classification assigned to the institution by the FDIC which is determined by the institution's capital level and supervisory evaluations.

Income Taxes

The effective income tax rate for the nine months ended April 30, 2007 was 32.7% compared to 36.8% for the same period last year. The decrease compared to last year is the result of higher percentage of income attributable to WSB's Investments portfolio of which a significant portion is not subject to Maryland state taxes as well as income resulting from Bank Owned Life Insurance which is not subject to Federal Income taxes.

Liquidity and Capital Resources

Total assets were \$430.0 million and \$444.1 million at April 30, 2007 and July 31, 2006, respectively. The 3.2% decrease in assets at April 30, 2007, compared to July 31, 2006, was primarily attributable to a decrease in the loan portfolio, partially offset by increases in the investment and mortgage-backed securities portfolios.

Deposits were \$291.8 million at April 30, 2007, compared to \$323.7 million at July 31, 2006. The decrease in deposits at April 30, 2007, compared to July 31, 2006, was primarily due to decreases in certificates of deposits. Management anticipates to continue to utilize excess funding liquidity to offset a runoff of higher costing certificate of deposits which were previously originated to fund loan production.

Total borrowings, which consisted of Federal Home Loan Bank ("FHLB") advances, were \$73.0 million and \$58.0 million at April 30, 2007 and July 31, 2006. WSB maintains funding activities with correspondent banks and the Federal Home Loan Bank of Atlanta, which are cancelable by the lender and subject to lender discretion. To the extent WSB does not or can not use FHLB borrowings, it would rely on alternative funding sources including its depositor base and correspondent bank lines of credit.

WSB continually seeks to increase its core deposits and advertises its lower-cost NOW accounts, no fee checking incentives, an overdraft protection program, variable money fund savings account priced to current interest rates, and the advantages of customer access to ATM networks. WSB has expanded its products and services to its retail customers to include internet banking, bill paying, and online loan applications.

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

As a member of the FHLB system, and in order to maintain insurance with the FDIC, WSB must maintain average daily balances of long-term liquid assets of not less than 4% of the average daily balance of its liquidity base (net withdrawable savings accounts and borrowings during the preceding calendar month which are payable within one year). Liquid assets are defined as cash, Federal Reserve deposits, time and savings deposits in certain institutions, obligations of states and political subdivisions thereof, highly rated corporate debt, mortgage loans and mortgage-backed securities ("MBS"), and accrued interest receivable and principal on certain qualified unpledged assets, payable within five years. Internal sources of liquidity used by WSB are various short-term investments, mortgage-backed securities, and short-term borrowings. During April 2007, WSB's long-term average daily balances of liquid assets were \$193.8 million, which exceeded the \$11.8 million required.

Current regulations require subsidiaries of an institution to be separately capitalized and require investments in and extensions of credit to any subsidiary engaged in activities not permissible for a bank to be deducted in the computation of an institution's regulatory capital. These regulations have affected WSB through its service corporation subsidiary, which is engaged in real estate development and construction activities. At April 30, 2007, WSB's investment in its service corporation subsidiary was \$523,000, and the subsidiary's assets totaled \$696,000. Therefore, for regulatory capital calculations, WSB was required to deduct \$523,000 from its capital and \$696,000 from its assets. WSB's regulatory capital and regulatory assets below also reflect decreases of \$2,000 and \$3,000, respectively, which represents unrealized gains (after-tax for capital deductions and pre-tax for asset deductions, respectively) on MBS and investment securities classified as available for sale. In addition, WSB's risk-based capital reflects an increase of \$3.1 million in the general loan loss reserve. The loan loss reserve factor represents 1.25% of WSB's risk weighted assets. Regulatory thrift capital ratios required, WSB's actual ratios, and the amount over which WSB's ratios exceed regulatory ratios required, as of April 30, 2007, are shown as follows.

<u>Capital Category</u>	<u>Regulatory Ratios Required</u>	<u>WSB's Ratio</u>	<u>WSB's Excess of Requirements</u>	<u>Calculations</u>	<u>Based Upon</u>
Leverage	\$ 17,201,364 4.00%	\$ 62,610,870 14.56%	\$ 45,409,506 10.56%	\$ 62,610,870 \$ 430,034,111	Regulatory Capital Regulatory Assets
Tangible	\$ 6,450,512 1.50%	\$ 62,610,870 14.56%	\$ 56,160,358 13.06%	\$ 62,610,870 \$ 430,034,111	Regulatory Capital Regulatory Assets
Risk-Based	\$ 20,552,168 8.00%	\$ 65,695,007 25.57%	\$ 45,142,839 17.57%	\$ 65,695,007 \$ 256,902,094	Regulatory Capital Risk-Weighted Assets

WSB's management believes that, under current regulations, WSB will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of WSB, such as a shift in interest rates or a downturn in the economy in areas where WSB extends credit, could adversely affect future earnings and, consequently, the ability of WSB to meet its future minimum capital requirements.

Cash dividends are subject to determination and declaration by the Board of Directors, which takes into account WSB's financial condition, results of operations, tax considerations, industry standards, economic conditions, and other factors, including regulatory restrictions. However, the ability of WSB to pay quarterly cash dividends will be dependent on earnings, financial condition and business of WSB, as well as other factors, such as regulatory requirements. Cash dividends that are declared are paid in a subsequent quarter.

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

The Qualified Thrift Lender ("QTL") Test currently requires that "qualified thrift investments" be at least 65% of portfolio assets as defined by the OTS. At April 30, 2007, WSB's ratio was approximately 82% of defined portfolio assets.

Off Balance Sheet Transactions

WSB is a party to financial instruments with off-balance sheet risk including commitments to extend credit under existing lines of credit and commitments to sell loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated Statement of Financial Condition.

Off-balance sheet financial instruments whose contract amounts represent credit and interest rate risk are summarized as follows:

Commitments to originate new loans	\$	2,580,600
Unfunded commitments to extend credit under existing construction, equity line and commercial lines of credit		46,286,215
Standby letters of credit		1,355,901
Commitments to sell loans held-for-sale		2,334,711

WSB does not have any unconsolidated special purpose entities or other similar forms of off-balance sheet financing arrangements.

Commitments to originate new loans or to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally expire within 90 days. Most equity line commitments for the unfunded portion of equity lines are for a term of 12 months, and commercial lines of credit are generally renewable on an annual basis. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. WSB evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by WSB upon extension of credit, is based on management's credit evaluation of the borrower.

Commitments to sell loans held-for-sale are agreements to sell loans to third parties at an agreed upon price.

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

Contractual Obligations

The following chart list WSB's contractual obligations as of April 30, 2007:

	Total	Payments due by period (dollars in thousands)			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Long-term debt	\$ 73,000	\$ 25,000	\$ 10,000	\$ 38,000	\$ -
Operating leases	1,008	94	641	273	-
Time Deposits	<u>242,778</u>	<u>86,255</u>	<u>147,206</u>	<u>9,317</u>	<u>-</u>
Total	<u>\$ 316,786</u>	<u>\$ 111,349</u>	<u>\$ 157,847</u>	<u>\$ 47,590</u>	<u>\$ -</u>

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Management of WSB considers interest rate risk ("IRR") and credit risk as the two most significant factors impacting WSB's financial performance. WSB currently utilizes no derivatives to mitigate its credit risk, relying instead on loan review and an adequate loan loss allowance. WSB's exposure to IRR is reviewed on at least a quarterly basis by the Board of Directors and management, and is measured in accordance with OTS Thrift Bulletin No. 13a using interest rate risk sensitivity analysis, including Net Portfolio Value ("NPV") and net interest income under various rate scenarios.

The OTS provides all institutions that file the Consolidated Maturity Rate Schedule ("CMR") as part of their quarterly thrift financial report with an interest rate sensitivity report of NPV on a calendar quarter basis. The NPV is defined as the netting of the present value of expected cash flows related to existing assets and liabilities and off-balance sheet contracts. In addition to the discounted cash flow analysis, the OTS simulator model also employs an option-based pricing approach to measuring the interest rate sensitivity of the NPV. Per the OTS interest rate risk exposure report, WSB's sensitivity measure, or decline in the NPV ratio, at March 31, 2007 was a minimal 215 basis points, compared to 190 basis points at March 31, 2006. WSB relies on the OTS model and does not prepare its own model.

The following table compares the calculated estimates of change in NPV and net interest income as of March 31, 2007 (the most recent data available) to current limits established by management and approved by the Board of Directors.

	Percentage Change In			
	Net Interest Income		Net Portfolio Value as a % of PV of Assets	
Basis Point Change In Market Rates	Board Limits	Projected Change	Minimum Board Limits	OTS Projections
+200	-30%	+18%	6%	14%
- 100	-30%	- 9%	10%	16%

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

Item 4. Controls and Procedures

WSB's management, under the supervision and with the participation of WSB's Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of the design and operation of WSB's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d – 15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, WSB's Principal Executive Officer and Principal Financial Officer concluded that WSB's disclosure controls and procedures are effective in timely alerting them to material information which is required to be included in the periodic reporting that WSB must file with the OTS.

During the quarterly period covered by the report, there were no changes (including corrective actions with regard to significant or material weaknesses) in the WSB's internal controls over financial reporting that has materially affected, or are reasonably likely to materially affect WSB's internal controls over financial reporting.

PART II.

Item 1. Legal Proceedings

As previously disclosed, 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). The complaint arises out of the termination of Mr. Sullivan's employment by WSB, alleges a range of federal and state statutory and common law claims, and purports to claim compensatory damages in the amount of \$1 million and, in connection with certain tort claims, \$5 million in punitive damages, plus all costs, interests, and attorney's fees.

On January 24, 2007, The Washington Savings Bank, F.S.B (the "Company"), along with Randy Robey, an officer of the Company, and Stephen J. Troese, a director of the Company, entered into a Settlement Agreement with John Sullivan, in full and final settlement of pending litigation and arbitration between the parties. The parties also agreed to mutually release each other against all claims. Under the terms of the monetary settlement, a payment to the plaintiff was made, which after payment from insurance on the settlement and defense cost resulted in a one time increase in expenses of \$81,000. On February 4, 2007, the parties filed a stipulation of dismissal with prejudice with the U.S. District Court for the District of Maryland and a notice of settlement and dismissal with prejudice with the Judicial Arbitration and Mediation Services (JAMS). On February 6, 2007, the U.S. District Court for the District of Maryland entered an order dismissing the federal litigation with prejudice.

On April 6, 2006, the Internal Revenue Service issued a notice attributable to the disallowance of a conservation easement charitable donation. On May 8, 2006, WSB filed a timely Protest appealing an Internal Revenue Service proposed adjustment on the valuation of the conservation easement donated to the Maryland Environmental Trust. The bank maintains that it complied with the statutory requirements of 26 U.S.C. §170(h). Based the relevant statutory provisions, regulations and case law on point, WSB believes the Bank will be successful in establishing that it complied with and satisfied the applicable rules and regulations and therefore, is entitled to a charitable conservation easement donation. The courts have traditionally resolved valuation disputes by reaching a middle ground between the competing values as proposed by the Internal Revenue Service and the taxpayer. Therefore, at this time, we are unable to determine whether or to what extent WSB's valuation of the conservation easement will be sustained.

Item 1A. Risk Factors

During the quarter, no material changes in risk factors have occurred since the July 31, 2006 year end. See page 16 of WSB's 2006 Form 10K for a complete discussion and analysis of risk factors.

Item 6. Exhibits

- 3.1 Amended and Restated Federal Stock Charter of WSB. (Incorporated by reference from WSB's Quarterly Report on Form 10-Q for the quarter ended January 31, 1997.)
- 3.2 Amended and Restated By-Laws of WSB. (Incorporated by reference from WSB's Form 8-K, as filed on May 16, 2007.)
- 3.3 Certificate of Amendment to Federal Stock Charter of WSB. (Incorporated by reference from WSB's Definitive Proxy Statement filing for the year ended July 31, 2001, as filed on October 22, 2001.)
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
- 31.2 Certification of Principal Financial Officer pursuant Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith).
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith).
- 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith).

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf, by the undersigned, thereunto duly authorized.

THE WASHINGTON SAVINGS BANK, F.S.B.

By: /s/ Phillip C. Bowman
Phillip C. Bowman
Chief Executive Officer

By: /s/ Randall M. Robey
Randall M. Robey
Senior Vice President and Chief Financial Officer

Date: June 13, 2007

EXHIBIT 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Phillip C. Bowman, Chief Executive Officer of The Washington Savings Bank, F.S.B. ("WSB"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of WSB;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of WSB as of, and for, the periods presented in this quarterly report;
4. WSB's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to WSB, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of WSB's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. WSB's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to WSB's auditors and the audit committee of WSB's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect WSB's ability to record, process, summarize and report financial data; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in WSB's internal control over financial reporting.

Date: June 13, 2007

By: /s/ Phillip C. Bowman
Phillip C. Bowman
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Randall M. Robey, Sr. Vice-President and Chief Financial Officer of The Washington Savings Bank, F.S.B. ("WSB"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of WSB;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of WSB as of, and for, the periods presented in this quarterly report;
4. WSB's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to WSB, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of WSB's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. WSB's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to WSB's auditors and the audit committee of WSB's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect WSB's ability to record, process, summarize and report financial data; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in WSB's internal control over financial reporting.

Date: June 13, 2007

By: /s/ Randall M. Robey
Randall M. Robey
Sr. Vice President
and Chief Financial Officer

EXHIBIT 32.1

Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge and on the date hereof, that the accompanying Quarterly Report on Form 10-Q of The Washington Savings Bank, F.S.B. ("WSB") for the quarterly period ended April 30, 2007, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and that the information contained in this Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of WSB.

By: /s/ Phillip C. Bowman
Phillip C. Bowman
Chief Executive Officer

June 13, 2007

EXHIBIT 32.2

Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350

I hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge on the date hereof, that the accompanying Quarterly Report on Form 10-Q of The Washington Savings Bank, F.S.B. (“WSB”) for the quarterly period ended April 30, 2007, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and that the information contained in this Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of WSB.

By: /s/ Randall M. Robey
Randall M. Robey
Sr. Vice President
and Chief Financial Officer

June 13, 2007