

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended **December 31, 2009**

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

For transition period from _____ to _____

Commission File No. 000-53003

WSB HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

United States

26-1219088

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

4201 Mitchellville Road, Suite 200, Bowie, Maryland

20716

(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code: (301) 352-3120

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, par value \$.0001 per share

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes No

The aggregate market value of the voting common equity held by non-affiliates of the registrant was \$9,957,169 as of June 30, 2009.

Number of shares of Common Stock outstanding on March 17, 2010, was 7,855,732.

Documents Incorporated by Reference:

Part III - Proxy Statement for 2010 Annual Meeting of Stockholders

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PART I

Item 1. Business

WSB Holdings, Inc. ("WSB" or the "Company") became the holding company of The Washington Savings Bank, F.S.B. (the "Bank") as of January 3, 2008. The Bank continues to be managed by its board of directors and officers in place before the reorganization into the holding company structure. The Bank's current directors also serve as the directors of WSB.

The Bank is a federally chartered, federally insured, stock savings bank which was organized in 1982 as a Maryland-chartered, privately insured savings and loan association. It received federal insurance in 1985 and a federal savings bank charter in 1986. The Bank is a member of the Federal Home Loan Bank ("FHLB") system and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the maximum amount provided by law. We are subject to supervision and regulation by the Office of Thrift Supervision ("OTS").

We have five savings branches in Maryland. They are located in Bowie, Waldorf, Crofton, Millersville and Odenton, all of which are adjacent to the Baltimore-Washington corridor. Also located in our corporate headquarters are our Commercial Lending Group, Wholesale Mortgage Group and our Retail Mortgage Group.

We are engaged primarily in the business of attracting deposit accounts from the general public and using such funds, together with other borrowed funds, to make first and second mortgage loans, land acquisition and development loans, commercial loans, construction loans, consumer loans, and non-residential mortgage loans, with an emphasis on residential mortgage, commercial and construction lending.

Market Area and Target Market

We consider our current primary market area to consist of the suburban Maryland (Washington, D.C. suburbs) counties of Prince Georges, Anne Arundel and Charles. We generally target middle income individuals and small and middle income businesses.

Lending Activities

General. Lending by the Bank has historically focused on residential mortgage loans and construction loans on residential projects. The following table sets forth information concerning our loan portfolio net of deferred fees at the dates indicated:

	December 31, 2009		December 31, 2008	
	Amount	Percent	Amount	Percent
(dollars in thousands)				
Held for Sale:				
Single-family	\$8,304	3.22%	\$5,787	2.34%
Held for Investment:				
Permanent mortgage loans:				
Single-family(1)	82,773	32.14%	78,502	31.69%
Non-residential	42,586	16.54%	9,527	3.85%
Land	14,031	5.45%	17,395	7.02%
Construction loans:				
Single-family	5,403	2.10%	14,725	5.94%
Other property	1,883	0.73%	3,913	1.58%
Other:				
Consumer installment loans	328	0.13%	196	0.08%
Account loans	157	0.06%	169	0.07%
Commercial loans	102,075	39.63%	117,513	47.44%
	249,236	96.78%	241,940	97.66%
Total loans receivable	\$257,540	100.00%	\$247,727	100.00%

(1) Includes \$1.2 million and \$1.5 million of second mortgage loans at December 31, 2009 and 2008, respectively.

Contractual Maturities. The following table reflects the approximate schedule of contractual principal repayments of the held-for-investment loan portfolio at December 31, 2009. With respect to adjustable rate loans, the following table reflects the approximate schedule of contractual maturities:

Approximate Principal Repayments Contractually Due	Real estate		Real Estate		Consumer Installment and		Commercial Loans		Total
	Mortgage Loans		Construction Loans		Account Loans				
	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	
(dollars in thousands)									
Within one year	\$ 19,273	\$ --	\$ 7,286	\$ --	\$ 166	\$ --	\$ 35,430	\$ --	\$ 62,155
After one year through five years	44,922	19	--	--	305	--	33,254	--	78,500
After five years	74,662	514	--	--	14	--	32,285	1,106	108,581
Total	\$ 138,857	\$ 533	\$ 7,286	\$ --	\$ 485	\$ --	\$ 100,969	\$ 1,106	\$ 249,236

Prepayment Experience. Contractual principal repayment terms do not necessarily reflect the actual repayment experience within the loan portfolio. The average lives of mortgage loans are expected to be substantially less than their contractual terms due to loan prepayments and refinancings. The following table presents estimated maturities of our loan portfolio based upon our historic prepayment experience and prepayment experience statistics as provided by the OTS. With respect to adjustable rate loans, the following table reflects the approximate schedule of contractual maturities:

Estimated Prepayments	Real estate		Real Estate		Consumer Installment and		Commercial Loans		Total
	<u>Mortgage Loans</u>		<u>Construction Loans</u>		<u>Account Loans</u>				
	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	
	(dollars in thousands)								
Within one year	\$ 27,878	\$ --	\$ 7,286	\$ --	\$ 166	\$ --	\$ 35,430	\$ --	\$ 70,760
After one year through five years	69,676	19	--	--	305	--	33,254	--	103,254
After five years	41,303	514	--	--	14	--	32,285	1,106	75,222
Total	<u>\$ 138,857</u>	<u>\$ 533</u>	<u>\$ 7,286</u>	<u>\$ --</u>	<u>\$ 485</u>	<u>\$ --</u>	<u>\$ 100,969</u>	<u>\$ 1,106</u>	<u>\$ 249,236</u>

Origination, Purchase and Sale of Loans. As a federal savings bank, the Bank has authority to originate and purchase loans secured by real estate located throughout the United States. Generally, we make loans in and around our market area, which primarily is the Baltimore-Washington corridor. Historically, we have not engaged in the purchasing of loans.

In addition to accepting loan requests from our customer base, we employ eleven mortgage loan originators compensated primarily on an incentive basis and five commercial loan originators compensated primarily on a salary basis. The loan originators and other members of our management maintain contacts with local builders, developers and realtors, which provide us with additional potential customers. The Bank also enhances its business contacts within the communities it serves by participating in local civic organizations.

The Bank originates residential loans for its portfolio and for sale in the secondary market. Our general practice has been to sell loans on an individual basis to various lenders throughout the country, without retaining loan servicing rights (commonly referred to as "servicing released"). In general, higher interest rate loans, such as commercial loans, second mortgages, construction loans, and construction/permanent loans, are held in the Bank's portfolio, while conforming first mortgages are sold at or shortly after origination. Our management continues to seek more diversity in the Bank's loan portfolio and we have established commercial business and commercial real estate lending departments staffed with experienced lenders in an effort to significantly expand the Bank's nonresidential loan portfolio. This has resulted in an increase in the portfolios of commercial business, commercial real estate, and residential land development loans to commercial borrowers. We also use available funds to retain certain higher-yielding fixed rate residential mortgage loans in our portfolio in order to improve interest income. During the past two fiscal years, we originated 1,063 loans with a principal value of approximately \$325.8 million. The proceeds from loan sales are used to fund loans held for investment, mortgage-backed securities ("MBS") and investment securities. We also have approval to sell loans to Fannie Mae ("FNMA") and Freddie Mac ("FHLMC"), which enhances our ability to sell our mortgage loans and to convert pools of loans into marketable Ginnie Mae ("GNMA"), FNMA and FHLMC participation certificates. See "Business, Item 1, Mortgage-Backed Securities."

Loan Underwriting Policies. Under our loan approval policy, all loans approved must comply with federal regulations. Generally, we will make residential mortgage loans in amounts up to the limits established from time to time by FNMA and FHLMC for secondary market resale purposes. This amount for single-family residential loans currently varies from \$417,000 up to a maximum of \$729,750 for certain high-cost designated areas. The Washington, D.C. and Baltimore areas are both considered high-cost designated areas. We will, however, make loans in excess of this amount, if we believe we can sell the loans in the secondary market or that the loans should be held in our portfolio.

We obtain detailed loan applications to determine a borrower's ability to repay and verify the more significant items on these applications through credit reports, financial statements and confirmations. We also require appraisals of collateral and title insurance on secured real estate loans. Most borrowers must establish a mortgage escrow account for items such as real estate taxes, governmental charges and hazard and private mortgage insurance premiums.

Our lending policy generally requires private mortgage insurance when the loan-to-value ratio exceeds 80%. We generally do not lend in excess of 90% of the appraised value of single-family residential dwellings even when private mortgage insurance is obtained, except for Federal Housing Administration ("FHA"), Veterans Administration ("VA") and Farmers Home Administration ("FmHA") loans, which permit higher loan-to-value ratios. Underwriting policies on other types of loans are described below.

Under federal law, the aggregate amount of loans that we may make to any one borrower and related entities is generally limited to 15% of the Bank's unimpaired capital and unimpaired surplus. Our general lending limit at December 31, 2009 was approximately \$7.5 million. We have not made any loans aggregated in excess of this limit.

Single-Family Residential Real Estate Lending. At December 31, 2009, we had a total of \$354.6 million in loans receivable and MBS. Loans secured by first or second mortgages on single-family properties, excluding construction loans, were \$82.7 million or 23.32% of total loans receivable and MBS. MBS were \$105.4 million or 29.72% of total loans receivable and MBS.

Our single-family residential loans have historically consisted of fixed interest rates for terms of up to 30 years. We originate conventional mortgage loans, FHA loans, VA loans, and loans in excess of the FNMA and FHLMC ceilings both for sale in the secondary market and for our own portfolio. We also offer adjustable-rate mortgages, with rates adjusting to external indices in one to ten years. We have also made loans which fully amortize in 15 years and, on investment properties, loans which are due and payable in five years, subject to extension in some circumstances.

Non-Residential Real Estate Lending. We make permanent mortgage loans on various non-residential properties, including office buildings and warehouses. Non-residential loans are made on properties located in or around our market area. Non-residential real estate lending may entail significant additional risks as compared to single-family residential property lending. At December 31, 2009, non-residential real estate loans represented \$42.6 million, or 12.01% of total loans receivable and MBS, and lot and land loans represented \$14.0 million, or 3.95%, of our total loans receivable and MBS. This increase is primarily due to a reclassification of loans secured by other properties previously reported as commercial loans.

Acquisition, Development and Construction Lending. We provide construction loans for single-family and multi-family residences and for non-residential properties. These loans usually include funding for the acquisition and development of unimproved properties to be used for residential or non-residential construction. We may provide permanent financing on the same projects for which we have provided the construction financing.

Acquisition, development and construction lending, while providing higher yields, may also have greater risks of loss than long-term residential mortgage loans on improved, owner-occupied properties. At December 31, 2009, acquisition, development and construction loans represented \$7.3 million, or 2.06%, of our total loans receivable and MBS.

The Bank generally makes land acquisition loans with terms of up to three years and loan-to-value ratios of up to 65%, land development loans with terms of up to two years and loan-to-value ratios of up to 75%, and construction loans with original terms of generally up to one year and loan-to-value ratios of up to 80%.

Commercial Lending. Federal laws and regulations permit thrift institutions to lend up to 20% of total assets in commercial loans on an unsecured basis or secured by collateral other than real estate, provided that amounts in excess of 10% of total assets may be used only for small business loans. Prior to 2008, commercial lending was a minor component of our lending portfolio and operations. Consistent with our current strategic plan, however, we have taken steps to expand this part of our lending business and are continuing to promote the origination of commercial and commercial real estate lending. At December 31, 2009, commercial loans represented \$102.1 million, or 28.80%, of total loans receivable and MBS, which was significantly below the limit permitted by the regulations. In addition, we have issued a limited number of standby letters of credit, generally to development loan customers in connection with development work financed by the Bank.

Consumer Lending. Federal laws and regulations permit a federally chartered thrift institution to make secured and unsecured consumer loans in an aggregate amount up to 35% of the institution's total assets. The 35% limitation does not include home equity loans (loans secured by the equity in the borrower's residence, but not necessarily for the purpose of improvement), home improvement loans or loans secured by deposits. We have not actively promoted these kinds of loans. Consumer loans, including loans secured by deposits, represented \$485,000, or 0.14%, of total loans receivable and MBS at December 31, 2009.

Loan Fees and Service Charges. In addition to interest earned on loans, we receive income through servicing of loans and certain loan fees in connection with loan originations, loan modifications, loan commitments, late payments, changes of property ownership inspection fees and other services related to our outstanding loans. Income from these activities varies from period to period with the volume and types of loans made and repaid. We charge loan origination fees, which are calculated as a percentage of the amount loaned. The fees received in connection with the origination of construction and mortgage loans have generally been from one to four points (one point being equivalent to 1% of the principal amount of the loan) and are dependent upon market conditions and other factors. Loan origination fees, net of certain costs, are deferred and recognized as a yield adjustment over the lives of the loans primarily utilizing the interest method.

Mortgage-Backed Securities (MBS)

In addition to short-term investments, when management believes favorable interest rate spreads are available, we may invest excess funds in MBS. GNMA participation certificates represent interests in pools of loans which are either insured by the FHA or guaranteed by the VA. FHLMC participation certificates are guaranteed by the FHLMC and FNMA participation certificates are guaranteed by the FNMA. The United States is not obligated to fund either FHLMC's obligations or FNMA's obligations. MBS may also be used as collateral for short-term and long-term borrowings, which we may make from time to time. We do not generally employ hedging strategies in connection with a MBS portfolio.

The primary risk of holding these securities is the fluctuation of principal value corresponding to changes in interest rates. Although MBS do not alter the overall maturity of our assets as compared to holding a comparable portfolio of whole loans, they are more liquid than whole mortgage loans. At

December 31, 2009, we had \$105.4 million MBS in our portfolio. The following table sets forth the book value and estimated market value of the MBS portfolio at the dates indicated.

	Years ending	
	December 31, 2009	December 31, 2008
	(dollars in thousands)	
Mortgage-backed securities:		
Amortized cost.....	\$111,090	\$132,971
Estimated fair value.....	\$105,409	\$118,210

There were no sales of mortgage-backed securities for the year ending December 31, 2009, compared to sales of \$5.9 million MBS classified as available-for-sale for year ending December 31, 2008 of which we experienced \$124,000 pre-tax gains, or approximately \$75,000 after tax gain.

Other Investment Activities

In addition to investment in MBS, excess short-term funds have generally been invested in federal funds, agency callable paper, zero coupon bonds, a certificate of deposit and preferred trust coupon bonds. Our portfolio of investment securities provides a source of liquidity when loan demand exceeds funding capability, provides funding for unexpected savings and certificate of deposit ("CD") withdrawals, provides funds for CD maturities, serves as a vehicle for interest rate risk management, and provides a source of income. We are required to maintain certain liquidity ratios and generally do so by investing in securities that qualify as liquid assets under federal regulations. We are also required to hold FHLB stock in specified amounts and to maintain certain reserves with the Federal Reserve Bank of Richmond. See "Business-Supervision and Regulation".

The following table sets forth certain information regarding our investment securities (excluding MBS), at carrying value and other interest earning assets for the periods indicated.

	December 31, December 31,	
	2009	2008
	(dollars in thousands)	
Other Investments:		
Federal Home Loan Bank stock.....	\$ 5,911	\$ 6,086
FHLB Agencies.....	28,694	45,975
Municipal Bonds	2,359	2,265
Total Other Investments.....	<u>\$ 36,964</u>	<u>\$ 54,326</u>

The following table sets forth our scheduled maturities on other investments:

as of December 31, 2009

	<u>Up to One Year</u>		<u>One to Five Years</u>		<u>Five to Ten years</u>		<u>More than Ten Years</u>		<u>Total Investment Securities</u>	
	<u>Carrying Value</u>	<u>Average Yield</u>	<u>Carrying Value</u>	<u>Average Yield</u>	<u>Carrying Value</u>	<u>Average Yield</u>	<u>Carrying Value</u>	<u>Average Yield</u>	<u>Carrying Value</u>	<u>Average Yield</u>
Other Investments:										
FHLB Agencies	\$ -	- %	\$ -	- %	\$ 28,694	5.12%	\$ -	- %	\$ 28,694	5.12%
Municipal Bonds	-	- %	-	- %	-	- %	2,359	4.20%	2,359	4.20%
Total Other Investments	<u>\$ -</u>	<u>- %</u>	<u>\$ -</u>	<u>- %</u>	<u>\$ 28,694</u>	<u>5.12%</u>	<u>\$ 2,359</u>	<u>4.20%</u>	<u>\$ 31,053</u>	<u>5.04%</u>

Prepayments and calls on the FHLB Agencies shorten the actual maturity. FHLB stock has been excluded from this table as it has no stated maturity.

Sources of Funds

General. Deposits are the primary source of the Bank's funds for use in lending and for other general business purposes. In addition to deposits, we obtain funds from loan amortizations and prepayments and sales of loans, MBS and investment securities. We maintain funding facilities with correspondent banks and the Federal Home Loan Bank of Atlanta, which are cancelable by the lender and subject to lender discretion. Management has begun investing excess cash liquidity in investment grade securities which offer a ready source of collateral for secured borrowings under existing credit facilities. At December 31, 2009, we had borrowings of \$99.0 million in the form of advances from the FHLB of Atlanta and \$30.0 million in structured repurchase agreements ("repos"). Repos are financial transactions in which an organization borrows money by selling securities and simultaneously agreeing to buy the securities back later at a higher price, and they function similarly to a secured loan with the securities serving as collateral.

Deposits. Deposits are the primary source of our funds for use in lending and for other general business purposes. We compete with other financial institutions for deposits. Competition for deposits remains high. The receipt and disbursement of deposits are significantly influenced by economic conditions, interest rates, money market conditions and other factors. Our consumer deposits and commercial deposits are attracted from within our primary market areas through the offering of a broad selection of deposit instruments including consumer, small business and commercial demand deposit accounts, interest-bearing checking accounts, money market accounts, regular savings accounts, certificates of deposit and retirement savings plans. These accounts are a source of low-interest cost funds and provide fee income to the bank.

Information concerning our deposits is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Financial Condition Analysis – Deposits" and in Note 8 of Notes to Consolidated Financial Statements.

The change in the mix of our deposits during 2009, as discussed further in the table below, reflects our emphasis on the growth of core deposits, savings and NOW/checking accounts, and less emphasis on longer-term CDs. We advertise for CDs from time to time generally when we have the need for deposits of specific maturities. We have received deposits through brokers on an occasional basis in a manner consistent with federal regulations for our current funding obligations, however, we

have consciously reduced our reliance on brokered deposits and have focused growth through the branches.

The following table shows the distribution of our deposits by type of deposit, including accrued interest, for the periods indicated.

	December 31, 2009			December 31, 2008		
	<u>Amount</u>	<u>Percent</u>	<u>Weighted Average Interest Rate</u> (dollars in thousands)	<u>Amount</u>	<u>Percent</u>	<u>Weighted Average Interest Rate</u>
Savings accounts	\$ 60,211	23.71%	1.34%	\$ 38,166	15.19%	1.87%
NOW accounts - interest bearing	20,504	8.08	0.79	18,737	7.46	0.77
Checking accounts - non-interest bearing	9,633	3.80	-	4,986	1.99	-
Time deposits	<u>163,473</u>	<u>64.41</u>	2.64	<u>189,266</u>	<u>75.36</u>	4.00
Total deposits at end of period	<u>\$ 253,821</u>	<u>100.00%</u>	<u>2.09%</u>	<u>\$ 251,155</u>	<u>100.00%</u>	<u>3.34%</u>

Our deposits are insured by the FDIC. The FDIC has temporarily raised its coverage amounts through December 31, 2013 from \$100,000 to \$250,000 per insured depositor (as defined by law and regulation) and up to \$250,000 for deposits held by individual retirement accounts.

The following table presents, by various interest rate categories, the amounts of time deposit accounts, excluding accrued interest payable of \$42,911 at December 31, 2009, which will mature during the periods indicated.

<u>Time Deposit Accounts by Interest Rate</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 and After</u>	<u>Total Time Deposits</u>
	(dollars in thousands)					
Balance \$100,000 or less						
4.00% or less	\$ 51,422	\$ 39,454	\$ 11,768	\$ 2,516	\$ 8,728	\$ 113,888
4.01% to 6.00%	<u>15,396</u>	<u>616</u>	<u>4,034</u>	<u>487</u>	<u>-</u>	<u>20,533</u>
Total	<u>\$ 66,818</u>	<u>\$ 40,070</u>	<u>\$ 15,802</u>	<u>\$ 3,003</u>	<u>\$ 8,728</u>	<u>\$ 134,421</u>
Balance greater than \$100,000						
4.00% or less	\$ 15,792	\$ 3,554	\$ 520	\$ 150	\$ 3,569	\$ 23,585
4.01% to 6.00%	<u>4,088</u>	<u>-</u>	<u>1,212</u>	<u>124</u>	<u>-</u>	<u>5,424</u>
Total	<u>\$ 19,880</u>	<u>\$ 3,554</u>	<u>\$ 1,732</u>	<u>\$ 274</u>	<u>\$ 3,569</u>	<u>\$ 29,009</u>
Grand Total	<u>\$ 86,698</u>	<u>\$ 43,624</u>	<u>\$ 17,534</u>	<u>\$ 3,277</u>	<u>\$ 12,297</u>	<u>\$ 163,430</u>

The following table contains information pertaining to approximately 228 certificates of deposit accounts held in excess of \$100,000 as of December 31, 2009.

<u>Time Remaining Until Maturity</u>	<u>Certificate of Deposits</u> (dollars in thousands)
Less than three months	\$ 3,592
3 months to 6 months	4,088
6 months to 12 months	12,200
Greater than 12 months	<u>9,129</u>
Total	<u>\$ 29,009</u>

Borrowings. At December 31, 2008, total borrowings consisted of \$117.1 million in FHLB advances and \$30.0 million in reverse repurchase agreements. During January 2009, we repaid the daily rate credit of \$13.1 million and a FHLB advance of \$5.0 million matured in October 2009, bringing the balance of our FHLB borrowings to \$99.0 million and total borrowings to \$129.0 million at December 31, 2009.

Subsidiaries

WSB, Inc.

The Bank established a wholly owned service corporation subsidiary, WSB, Inc., in 1985. WSB Inc. became a subsidiary of WSB in the holding company reorganization. WSB, Inc. purchases land to develop into single-family building lots that are offered for sale to third parties. It also builds homes on certain lots on a contract basis. During the year ended December 31, 2009, WSB, Inc. did not develop any lots. During the year ending December 31, 2008, WSB Inc. sold an undeveloped lot for a gross profit of \$43,000. See Note 5 of Notes to Consolidated Financial Statements.

WSB Investments, Inc.

During 2000, we established a wholly-owned operating subsidiary of the Bank, WSB Investments, Inc., which was incorporated under the laws of the State of Delaware for the purpose of maintaining and managing a portfolio of our investment securities, which allowed us to decrease taxes due in connection with these investments. Due to the inactivity in the subsidiary, WSB Holdings made the decision to close the subsidiary and transfer the remaining assets of WSB Investments, Inc. to the Bank effective December 31, 2009. Total assets transferred were approximately \$3 million.

WSB Realty, LLC

The Bank established a wholly-owned operating subsidiary in January 2009 for the purpose of directly or indirectly, acquiring, owning, holding, leasing, developing, managing, operating, investing in or otherwise dealing with various real and personal property. Management is authorized to take assignment of the right to acquire title to certain properties purchased at foreclosure sales. Management is authorized to take usual and customary activities toward the acquisition, rehabilitation, sale, rental and disposition of these properties. At December 31, 2009, WSB Realty, LLC had assets of approximately \$2.5 million consisting primarily of other real estate owned. WSB Realty, LLC reports a net loss of approximately \$195,400 for year ending December 31, 2009.

Employees

We had 90 full-time and 19 part-time employees at December 31, 2009. We provide health and life insurance benefits and an employer matching 401(k) plan, which merged on July 31, 2006 with the Bank's profit sharing plan. None of the employees are represented by a collective bargaining union. We believe that we enjoy good relations with our employees.

Available Information

WSB's internet address is www.twsb.com. There we make available, free of charge, our annual report on Form 10-K, proxy statements, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports as soon as practicable after we file or furnish them with the Securities and Exchange Commission ("SEC"), as well as copies of required Forms 3, 4, and 5 filings for insider security holdings and transactions and copies of our Code of Ethics for our officers, directors and employees. Our SEC reports can be accessed through the financial highlights information section of our website. The information on our website is not a part of this or any other report we file with or furnish to the SEC.

Supervision and Regulation

General

As the holding company of a savings bank, we are subject to extensive regulation and periodic examination by the OTS. Our status as a bank holding company does not, however, exempt us from certain federal and state laws applicable to Delaware corporations generally, including, without limitation, certain provisions of the federal securities laws. The lending activities and other investments of the Bank must comply with various federal regulatory requirements and the Bank must periodically file reports with the OTS describing its activities and financial condition. The Bank's deposits are insured by the FDIC through its Deposit Insurance Fund ("DIF"). The Bank is also subject to regulation for certain matters by the FDIC and for certain other matters by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). This supervision and regulation is intended primarily for the protection of depositors. Certain of these regulatory requirements are referred to below or appear elsewhere herein.

The following is a summary of certain laws and regulations that are applicable to the Bank. This summary is not a complete description of such laws and regulations, nor does it encompass all such laws and regulations. Any change in the laws and regulations governing the Bank or in the policies of the various regulatory authorities could have a material impact on the Bank, its operations and its stockholders.

Liquidity Requirements. As a thrift, the Bank derives its lending and investment authority from the Home Owners' Loan Act, as amended, and regulations of the OTS thereunder. Those laws and regulations limit the ability of the Bank to invest in certain types of assets and to make certain types of loans. For example, the OTS requires thrifts to maintain sufficient liquidity to ensure their safe and sound operation. Liquid assets are defined to include cash, deposits maintained pursuant to Federal Reserve Board reserve requirements, time deposits in certain institutions and certain savings deposits, obligations of the United States and certain of its agencies and qualifying obligations of the states and political subdivisions thereof, highly rated corporate debt, mutual funds that are restricted by their investment policies to investing only in liquid assets, certain mortgage loans and mortgage-related securities and bankers acceptances. As of December 31, 2009, the Bank had \$9.1 million of cash and

cash equivalents. Further, the Company had \$51.6 million of unpledged investment securities. However, the unpledged securities consist of approximately \$29.9 million private label mortgage-backed securities with limited marketability for purposes of liquidity.

Internal sources of operational liquidity used by the Bank are cash, various short-term investments, mortgage-backed securities and loans and investments classified as available-for-sale. Additionally, we may borrow funds from commercial banks or from the FHLB of Atlanta or the Federal Reserve Bank "discount window" after exhausting FHLB sources. We also have utilized short term borrowings in the form of reverse repurchase agreements from a commercial bank to meet short-term liquidity needs. At December 31, 2009, we had approximately \$32.7 million of availability on our FHLB line, \$5.0 million of availability on our unsecured line of credit with correspondent banks, and \$14.0 million of availability on our secured line of credits with correspondent banks.

Qualified Thrift Lender Test. The Bank must either qualify as a domestic building and loan association under the Internal Revenue Code, or maintain an appropriate level of certain investments, called "Qualified Thrift Investments" ("QTIs"), to remain as a "Qualified Thrift Lender" ("QTL"). QTIs must represent 65% or more of portfolio assets on a monthly average basis during 9 out of every 12 months on a continuous basis. Failure by the Bank to maintain its status as a QTL will result in the following restrictions on operations: (i) we would not be able to engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment was permissible for both national banks and thrift institutions; (ii) the branching powers of the Bank would be restricted to those of a national bank; and (iii) payment of dividends by WSB would be subject to the rules regarding payment of dividends by a national bank. Additional restrictions would apply three years after we ceased to be a QTL, including requirements to dispose of certain assets not permissible for national banks and to cease engaging in activities not permissible for national banks. A thrift institution that fails to maintain its QTL status will be permitted to re-qualify once, and if it fails the QTL test a second time, it will become immediately subject to all restrictions described above as if all time periods prior to such restrictions becoming effective had expired. At December 31, 2009, our QTL ratio was 81%, which exceeded the requirement.

Capital Standards. We are subject to capital standards imposed by the OTS. These standards call for a minimum "leverage ratio" of core capital to adjusted total assets of 4% (3% for savings institutions receiving the highest composite CAMELS rating for safety and soundness), a minimum ratio of tangible capital to adjusted total assets of 1.5%, and a minimum ratio of risk-based capital to risk-weighted assets of 8%. The regulations define both core capital and tangible capital as including common stock (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority equity interests in consolidated subsidiaries, and certain non-withdrawable accounts, less intangible assets and certain servicing assets, interest-only strips receivable and investments in subsidiaries. Core capital also includes certain unamortized goodwill and purchased mortgage servicing rights. In addition, purchased credit card relationships may be included among core capital up to an amount equal to the lesser of 90% of the fair market value, or 100% of remaining unamortized book value. At December 31, 2009, the Bank's ratios exceeded all regulatory capital requirements for well capitalized institutions. See Note 12 of Notes to Consolidated Financial Statements.

The OTS's regulations also give the agency broad authority to establish minimum capital requirements for specific institutions at levels greater than the regulatory minimums discussed above upon a determination that an institution's capital is or may become inadequate in view of the circumstances. These circumstances may include an institution receiving special supervisory attention, experiencing losses, experiencing poor liquidity or cash flows, and facing other risks identified by the

regulators. The OTS also has broad authority to issue capital directives requiring its institutions to achieve compliance or take a variety of other actions intended to achieve capital compliance, including reducing asset or liability growth and restricting payments of dividends. OTS regulations generally require that subsidiaries of a thrift institution be separately capitalized and that investments in, and extensions of credit to, any subsidiary engaged in activities not permissible for a national bank be deducted from the computation of a thrift institution's capital. The OTS has not advised us that the Bank is subject to any special capital requirements.

Prompt Corrective Action. The federal banking agencies have established by regulation, for each capital measure, the levels at which an insured institution is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. The federal banking agencies are required to take prompt corrective action with respect to insured institutions that fall below the adequately capitalized level. Any insured depository institution that falls below the adequately capitalized level must submit a capital restoration plan, and, if its capital levels further decline or do not increase, will face increased scrutiny and more stringent supervisory action. As of December 31, 2009, we were deemed to be well capitalized.

Interest Rate Risk. The OTS has issued guidelines regarding the management of interest rate risk. The OTS requires thrift institutions to establish and maintain Board of Directors' approved limits on ratios between the net present value of the institution's assets, liabilities and off-balance sheet contracts (referred to as net portfolio value or "NPV"), and the value of these assets and liabilities under sudden interest rate shocks of plus or minus 100, 200 and 300 basis points. As part of our regular examination and rating by OTS examiners, our level of interest rate risk is evaluated based primarily upon the interest rate sensitivity of our NPV in the event of an interest rate shock of 200 basis points downward and 300 basis points upward.

The OTS also requires management to assess the risks and returns associated with complex securities and financial derivatives. For significant transactions, management must assess the incremental effect of the proposed transaction on the interest rate risk profile of the institution, including the expected change in the institution's NPV as a result of parallel shifts of plus or minus 100, 200 and 300 basis points in the yield curve. Complex securities and financial derivative transactions may require analysis of an even wider range of scenarios.

Deposit Insurance. The Bank is a member of the Deposit Insurance Fund ("DIF") maintained by the FDIC. Substantially all of our deposits are insured by the FDIC. The FDIC has temporarily raised its coverage amounts through December 31, 2013 from \$100,000 to \$250,000 per insured depositor (as defined by law and regulation). On January 1, 2014, the standard insurance amount will return to \$100,000 per depositor for all account categories except for individual retirement accounts, which will remain at \$250,000 per depositor.

Deposit Insurance Assessments.

Through the DIF, the FDIC insures the deposits of the Bank up to prescribed limits for each depositor, as indicated in the preceding paragraph. To maintain the DIF, member institutions are assessed deposit insurance premiums based on their current condition and the nature of their activities, and the revenue needs of the DIF, as determined by the FDIC. For institutions that do not have long-term public debt rating, the risk assessment is based on certain measurements of its financial condition and its supervisory ratings.

Recent failures have resulted in a decline in the reserve ratio to below 1.15%. Under the Act the FDIC is required to establish and implement a restoration plan to restore the reserve ratio to 1.15% within five years of the establishment of the plan. The FDIC adopted a final rule effective January 1, 2009, raising current rates uniformly by 7 basis points per \$100 of domestic deposits for the first quarter of 2009 only. Rates for the first quarter 2009 ranged from a minimum of 12 basis points per \$100 of deposits for well-managed, well-capitalized banks with the highest credit ratings, to 50 basis points for institutions posing the most risk to the DIF. Effective April 1, 2009, the FDIC adopted a final rule modifying the risk-based assessment system, which set initial base assessment rates that range from a minimum initial assessment rate of 12 basis points per \$100 of deposits to a maximum of 45 basis points per \$100 of deposits. Risk-based adjustments to the initial assessment rate may lower or raise a depository institution's rate to 7 basis points per \$100 of deposits for well-managed, well-capitalized banks with the highest credit ratings to 77.5 basis points for institutions posing the most risk to the DIF.

In addition to the increase in deposit insurance premiums, on May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution's insurance assets minus Tier 1 capital (core capital) as of June 30, 2009, not to exceed 10 basis points of the institution's domestic deposits. This special assessment was collected on September 30, 2009.

On November 12, 2009, the FDIC adopted a final rule requiring insured institutions to prepay slightly over three years of estimated insurance assessments. The pre-payment allowed the FDIC to strengthen the cash position of the DIF immediately without impacting earnings of the industry. We paid the prepaid assessments, along with our regular third quarter assessment, on December 30, 2009.

All FDIC-insured depository institutions must also pay an annual assessment to interest payments on bonds issued by the Financing Corporation, a federal corporation chartered under the authority of the Federal Housing Finance Board. The bonds (commonly referred to as FICO bonds) were issued to capitalize the Federal Savings and Loan Insurance Corporation. FDIC-insured depository institutions paid approximately 1.10 to 1.14 basis points per \$100 of assessable deposits in 2009.

Additionally, under the FDIC's Temporary Liquidity Guarantee Program ("TLPG"), in 2009 participating depository institutions will pay a premium of 10 basis points per \$100 to fully insure noninterest-bearing transaction accounts. The unlimited coverage applies to all personal and business checking and deposit accounts that do not earn interest. A 10-basis point surcharge was added to a participating institution's current insurance assessment through December 31, 2009. However, the FDIC extended the TLPG program through June 30, 2010 and increased the deposit insurance surcharge from 10 to 27 basis points. We have elected to participate in the TLPG program.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Our management is not aware of any existing circumstances which would result in termination of our deposit insurance.

Restrictions on Capital Distributions. Thrift institutions are subject to limitations on their ability to make capital distributions such as dividends, stock redemptions or repurchases, cash-out mergers, and other transactions charged to the capital account of a thrift institution. In general, an application to the OTS for prior approval to pay a dividend is required when that dividend, combined with all distributions made during the calendar year, would exceed a thrift institution's net income year-to-date plus retained net income for the proceeding two years, or that would cause the thrift institution to be less than adequately capitalized. We are currently in compliance with this requirement. Refer to "Market Price of WSB's Capital Stock and Dividends" for WSB's current dividend position.

Federal Reserve System. Pursuant to regulations of the Federal Reserve Board, a thrift institution must maintain non-interest-bearing reserves at the Federal Reserve Bank or in a pass-through account at a correspondent institution, calculated daily, equal to 3% on its "low reserve tranche" currently the first \$55.2 million of transaction accounts (less a \$10.7 million exclusion), up from \$44.4 million of transactions accounts (less a \$10.3 million exclusion) for 2009. The reserves requirement for transaction account deposits in excess of the low reserve tranche may be adjusted by the Federal Reserve Board to a level between 0 and 14%. We have consistently met the reserve requirements.

The Federal Reserve Board, through its "discount window," provides credit to help depository institutions meet temporary liquidity needs. The Federal Reserve Board extends credit, for very short terms generally at approximately one percentage point above the target federal funds rate, as a backup facility for financial institutions that are in generally sound financial condition. A secondary credit program is available for depository institutions that do not qualify for primary credit, at a higher interest rate level. On March 16, 2008, the Federal Reserve Board temporarily changed its discount window policy to narrow the spread between the discount rate and the federal funds rate to 25 basis points and to allow such financing to remain in place for up to 90 days, renewable by the borrower. These changes were made to restore market liquidity and will remain in place until the Federal Reserve Board determines that market liquidity has improved materially. In an effort to return its lending facilities to more normalized levels, the Federal Reserve Board raised its discount rate from 50 basis points to 75 basis points on February 18, 2010, which increased the spread between the discount rate and federal funds rate to 50 basis points.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank ("FHLB") of Atlanta, which is one of 12 regional Federal Home Loan Banks. FHLB banks provide a central credit facility primarily for member institutions. At December 31, 2009 and 2008, we had advances of \$99.0 million and \$117.1 million, respectively, from the FHLB of Atlanta. The FHLB borrowings are collateralized by a blanket collateral loan agreement under which we must maintain minimum eligible collateral for the outstanding advances.

As a member, we are required to acquire and hold shares of capital stock in the FHLB of Atlanta in an amount at least equal to the sum of a "membership" stock component (Subclass B1 shares) and an "activity-based" stock component (Subclass B2 shares). A member's membership stock requirement is a percentage of the member's total assets, subject to a dollar cap. A member's activity-based stock requirement is the sum of:

- a percentage of the member's outstanding principal balance of advances; plus
- a percentage (which may be zero percent) of any outstanding balance of any acquired member asset sold by the member to the FHLB pursuant to a master commitment executed on or after December 17, 2004; plus

- a percentage of any outstanding targeted debt/equity investment sold by the member to the FHLB on or after December 17, 2004.

We were compliant with this requirement with an investment in FHLB of Atlanta stock at December 31, 2009 of \$5.9 million.

Safety and Soundness Standards. We are subject to certain standards designed to maintain the safety and soundness of individual banks and the banking system. The OTS has prescribed safety and soundness guidelines relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate exposure; (v) asset growth, concentration, and quality; (vi) earnings; and (vii) compensation and benefit standards for officers, directors, employees and principal stockholders. A savings institution not meeting one or more of the safety and soundness guidelines may be required to file a compliance plan with the OTS.

Community Reinvestment Act. In 1977, Congress enacted the Community Reinvestment Act to encourage depository institutions, including thrifts, to help meet the credit needs of their entire communities, including low- and moderate-income areas, consistent with safe and sound banking practices. In implementing the Act, the OTS has subjected “intermediate small” thrift institutions, those with more than \$258 million in assets, but less than \$1.033 billion in assets as of the end of either of the two previous years, to somewhat streamlined examinations and reduced data collection and regulatory reporting requirements under the Community Reinvestment Act, relative to large retail thrift institutions. As a result, the Bank qualifies for the intermediate small institution Community Reinvestment Act examinations, based on its present asset size. Standard Community Reinvestment Act examinations evaluate depository institutions under lending, investment and community service tests. Intermediate small institutions’ examinations, however, focus mainly on the lending activities of depository institutions, and also evaluate community development activities of the institution, such as community development loans, investments, and services.

The Bank received an “outstanding” Community Reinvestment Act rating in its most recent federal examination.

Loans-to-One-Borrower Limitations. Generally, a federal savings bank may not make a loan or extend credit to a single borrower or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2009, we were in compliance with loans-to-one-borrower limitations.

Affiliate Transactions. Under Sections 23A and 23B of the Federal Reserve Act, which are applicable to savings banks, extensions of credit and certain asset purchases between a savings bank and its affiliates are restricted. An affiliate of the Bank is a company that controls or is under common control with us, except, in most instances, subsidiaries of the Bank itself. The general purpose of these restrictions is to prevent a savings bank from subsidizing its affiliates that are not insured by the FDIC through transactions that are excessive in amount, on preferential terms, or otherwise unsafe and unsound. Under Section 23A, we are not able to engage in “covered transactions” with any single affiliate if the aggregate amount of our covered transactions with that affiliate exceeds 10% of our capital and surplus, or with all of our affiliates collectively if the aggregate amount of our covered transactions with all affiliates exceeds 20% of our capital and surplus. A transaction with a third party is deemed to be a covered transaction to the extent that the proceeds of the transaction are used for the benefit of or transferred to an affiliate. Covered transactions are extensions of credit and other transactions that are the economic equivalent thereof, such as a purchase of assets from an affiliate or

the issuance of a guarantee or letter of credit on behalf of an affiliate. Dividends and fees paid by us are not defined as covered transactions and are not subject to section 23A and 23B restrictions, but are subject to the capital distribution restrictions noted above. Covered transactions also are subject to collateral requirements for 100% to 130% of the value of the covered transaction, depending on the nature of the collateral.

Certain transactions with affiliates are prohibited altogether. For example, we may not purchase or invest in securities issued by any of our affiliates. Other transactions are subject to full or partial exemptions. For example, purchases of loans and other assets that have a readily identifiable and publicly available market price are exempt.

Section 23B covers a larger range of transactions, such as the sale of assets or securities by the Bank to its affiliates and the furnishing of services to or by affiliates. Under Section 23B, covered transactions must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to us as those prevailing at the time for comparable transactions with nonaffiliated companies.

Other Regulations. Our operations are subject to, among others, the following regulations:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern electronic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the "USA PATRIOT Act"), which significantly expanded the responsibilities of financial institutions in preventing the use of the U.S. financial system to fund terrorist activities. Among other provisions, the USA PATRIOT Act and the related regulations of the OTS and the United States Department of Treasury require savings banks operating in the United States to supplement and enhance the anti-money laundering compliance programs, due diligence policies and controls required by the Bank Secrecy Act and Office of Foreign Assets Control Regulations to ensure the detection and reporting of money laundering; and
- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties. In addition, the Fair and Accurate Credit Transactions Act regulates credit

reporting and permits our customers to opt out of information sharing among affiliated companies for marketing purposes.

Control Share Acquisition of WSB

Under the federal Change in Bank Control Act, a notice must be submitted to the OTS if any person or group acting in concert, seeks to acquire control of WSB, as “control” is defined in the OTS’s regulations. In reviewing a notice, the OTS is required to take into consideration certain statutory factors, including the financial and managerial resources of the acquirer, the competitive effects of the proposed acquisition and any adverse effect on the DIF. If a company, an individual who owns or controls more than 25% of the voting shares of a savings and loan holding company or a director or officer of a savings and loan holding company seeks to acquire control of us, an application for approval must be submitted to the OTS instead of the notice described above. In reviewing an application, the OTS is required to take into consideration certain statutory factors in addition to those considered under the Change in Bank Control Act, including the convenience and needs of the community to be served, the adequacy of available information.

Proposed Legislation and Regulatory Actions

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations, and competitive relationships of the nation’s financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board’s monetary policies have had, and are likely to continue to have, an important impact on the operating results of financial institutions through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

Item 1A. Risk Factors

You should consider carefully the following risks, along with the other information contained in and incorporated into this annual report. The risks and uncertainties described below are not the only ones that may affect us. Additional risks and uncertainties also may adversely affect our business and operations. If any of the following events actually occur, our business and financial results could be materially adversely affected.

If economic conditions continue to deteriorate, our results of operations and financial condition could be adversely affected as borrowers’ ability to repay loans declines and the value of the collateral securing our loans decreases.

There has been significant disruption and volatility in the financial and capital markets since 2007. The financial markets and the financial services industry in particular suffered unprecedented disruption, causing a number of institutions to fail or require government intervention to avoid failure. Our financial results may be adversely affected by changes in prevailing economic conditions, including decreases in real estate values, changes in interest rates which may cause a decrease in interest rate spreads, adverse employment conditions, the monetary and fiscal policies of the federal government and other significant external events. Further, because a significant portion of our loan portfolio is comprised of real estate related loans, continued decreases in real estate values could adversely affect the value of property used as collateral for loans in our portfolio.

As discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report, we have recently experienced increased losses in our loan portfolio, largely related to the dramatic declines in the housing and financial and capital markets over the past three years, with falling home prices, increasing foreclosures and higher unemployment. For the year ended December 31, 2009, we had \$6.2 million in net loan charge-offs, or 2.5% of total loans held for investment. The loan loss provision for the Bank was \$9.5 million for the year ended December 31, 2009, compared to a provision of \$2.2 million for the year ended December 31, 2008. Impaired loans, which includes loans that are 90 days past due, nonaccrual loans and troubled debt restructurings (TDR) renegotiated loans, were \$30.1 million or 12.1% of loans held for investment at December 31, 2009 and \$18.3 million or 7.58% of loans held for investment at December 31, 2008. Impaired loans at December 31, 2009 consisted of approximately \$27.0 million in non-accrual loans and approximately \$3.1 million restructured loans. All of the non-performing loans were non-accrual at December 31, 2008. Although there have been some indications of improvement in the economy, it remains unclear when economic conditions will improve to the extent that will impact our borrowers' ability to repay their loans, and therefore when these negative trends in our loan portfolio will reverse. Continued declines in real estate values, home sales volumes, and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects on the Company and others in the financial institutions industry. As a result, our future earnings continue to be susceptible to further deteriorating economic conditions which may continue to negatively affect our revenues, net income and liquidity.

If U.S. credit markets and economic conditions continue to deteriorate, our liquidity could be adversely affected.

Our liquidity may be adversely affected by the current environment of economic uncertainty reducing business activity as a result of, among other factors, disruptions in the financial system in the recent past. Dramatic declines in the housing market during the past year, with falling real estate prices and increased foreclosures and unemployment, have resulted in significant asset value write-downs by financial institutions, including government-sponsored entities and investment banks. These investment write-downs have caused financial institutions to seek additional capital.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the OTS, our chartering authority, and by the FDIC, as insurer of our deposits. Such regulation and supervision govern the activities in which a financial institution may engage and are intended primarily for the protection of the insurance fund and depositors and are not intended for the protection of holders of our common

stock. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Further, regulatory requirements affect our lending practices, capital structure, investment practices, dividend policy and many other aspects of our business. These requirements may constrain our rate of growth.

We further anticipate that additional laws and regulations may be enacted in response to the ongoing financial crisis that could have an impact on our operations. Any changes in regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, may have a material adverse impact on our operations, and we cannot currently predict the impact of any such potential changes. The cost of compliance with regulatory requirements could increase our costs, limit our ability to pursue certain business opportunities, increase compliance challenges, and otherwise adversely affect our ability to operate profitably. In addition, the burden imposed by these federal and state regulations may place banks in general, and the Bank specifically, at a competitive disadvantage compared to less regulated competitors.

Our focus on commercial and real estate loans may increase the risk of credit losses.

We offer a variety of loans including commercial business loans, commercial real estate loans, construction loans, home equity loans and consumer loans. We secure many of our loans with real estate (both residential and commercial) in the Maryland suburbs of Washington, D.C. While we believe our credit underwriting adequately considers the underlying collateral in the evaluation process, further weakness in the real estate market could adversely affect our customers, which in turn could adversely impact us. Further, commercial lending, generally carries a higher degree of credit risk than do residential mortgage loans because of several factors including larger loan balances, dependence on the successful operation of a business or a project for repayment, or loan terms with a balloon payment rather than full amortization over the loan term.

We face strong competition in our market area, which could hurt our profits and slow growth.

We face strong competition in our market area from many other banks, savings institutions, and other financial organizations, as well as many other companies now offering a broad array of financial services. Many of these competitors have greater financial resources, name recognition, market presence and operating experience than we do and are able to offer services that we cannot. If the Bank cannot attract deposits and make loans at a sufficient level, our operating results will suffer, as will our opportunities for growth.

Because the Bank serves a limited market area in Maryland, an economic downturn in our market area could more adversely affect us than it affects our larger competitors that are more geographically diverse.

Our success is largely dependent on the general economic conditions of our targeted market area of the Baltimore-Washington corridor. Broad geographic diversification is not currently part of our community bank focus. As a result, if our market area continues to suffer an economic downturn, it may more severely affect our business and financial condition than it affects our larger bank competitors. Our larger competitors serve more geographically diverse market areas, parts of which may not be affected by the same economic conditions that may exist in our market area. Further, unexpected changes in the national and local economy may adversely affect our ability to attract

deposits and to make loans. Such risks are beyond our control and may have a material adverse effect on our financial condition and results of operations and, in turn, the value of our securities.

Our operations are susceptible to adverse effects of changes in interest rates.

Our operations are substantially dependent on our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense paid on our interest-bearing liabilities. As with most depository institutions, our earnings are affected by changes in market interest rates and other economic factors beyond our control. If our interest-earning assets have longer effective maturities than our interest-bearing liabilities, the yield on our interest-earning assets generally will adjust more slowly than the cost of our interest-bearing liabilities, and, as a result, our net interest income generally will be adversely affected by material and prolonged increases in interest rates and positively affected by comparable declines in interest rates. Conversely, if liabilities reprice more slowly than assets, net interest income would be adversely affected by declining interest rates, and positively affected by increasing interest rates. Currently our average interest rate on interest-earning assets has decreased which has impacted our results of operations. At any time, it is likely that our assets and liabilities will reflect interest rate risk of some degree, and changes in interest rates may therefore have a material adverse affect on our results of operations.

In addition to affecting interest income and expense, changes in interest rates also can affect the value of our interest-earning assets, comprising fixed- and adjustable-rate instruments, as well as the ability to realize gains from the sale of such assets. Generally, the value of fixed-rate instruments fluctuates inversely with changes in interest rates.

Our allowance for loan losses may not be sufficient to cover loan losses and any increase in our allowance for loan losses would adversely affect earnings.

We believe we have established an allowance for loan losses to prudently cover the eventuality of losses inherent in our loan portfolio. However, even under normal economic conditions we cannot predict loan losses with certainty. The unprecedented volatility experienced in the financial and capital markets during the last two to three years makes this determination even more difficult as processes we use to estimate allowance for loan losses and reserves may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation. As a result, we cannot assure you that charge offs in future periods will not exceed the allowance for loan losses. In addition, regulatory agencies, as an integral part of their examination process, review our allowance for loan losses and may require additions to the allowance based on their judgment about information available to them at the time of their examination. An increase in our allowance for loan losses could reduce our earnings.

We depend on the services of key personnel. The loss of any of these personnel could disrupt our operations and hurt our business.

Our success depends, in large part, on our ability to attract and retain key people, including Phillip Bowman, our CEO and Kevin Huffman, our President. Competition for the best people in most activities engaged in by us can be intense and we may not be able to hire people or to retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We face limits on our ability to lend.

We are limited in the amount we can loan to a single borrower by the amount of our capital. Generally, under current law, we may lend up to 15% of our unimpaired capital and surplus to any one borrower. As of December 31, 2009, we were able to lend approximately \$7.5 million to any one borrower. This amount is significantly less than that of many of our competitors and may discourage potential borrowers who have credit needs in excess of our legal lending limit from doing business with us. We try to accommodate larger loans by selling participations in those loans to other financial institutions, but this strategy is not always available. We may not be able to attract or maintain customers seeking larger loans and we may not be able to sell participations in such loans on terms we consider favorable.

Our deposit insurance premiums have increased and could increase further in the future, which could have a material adverse impact on our future earnings and financial condition.

The FDIC insures deposits at FDIC-insured financial institutions, including the Bank. The FDIC charges insured financial institutions premiums to maintain the DIF at a specific level. The Bank's FDIC insurance premiums increased substantially in 2009, and we expect to pay significantly higher premiums in the future. Current economic conditions have increased bank failures and additional failures are expected, all of which decrease the DIF. In order to restore the DIF to its statutorily mandated minimum of 1.15 percent over a period of several years, the FDIC increased deposit insurance premium rates at the beginning of 2009 and imposed a special assessment on June 30, 2009. The FDIC may increase the assessment rates or impose additional special assessments in the future to keep the DIF at the statutory target level. Any increase in our FDIC premiums, whether as a result of an increase in the risk category for the Bank or in the general assessment rates or as a result of special assessments, could have an adverse effect on the Bank's profits and financial condition.

Our information systems may experience an interruption or breach in security, which could damage our reputation and negatively impact our financial condition.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of any failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

Our ability to compete effectively and operate profitably may depend on our ability to keep up with technological changes.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands and to create additional efficiencies in our operations. Many of our competitors have substantially

greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.

Severe weather and natural disasters, both of which may exacerbated by global climate change, acts of war or terrorism and other adverse external events cannot be predicted and could have a significant impact on our ability to conduct business. Such events could also affect the stability of our deposit base, impair the ability of our borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At December 31, 2009, we operated five savings branch locations in Bowie, Crofton, Millersville, Odenton, and Waldorf, Maryland. Space for three of our branches, Millersville, Odenton and Waldorf, are under long-term leases with third parties. Our corporate, administrative, and accounting offices are located in a five-story building in Bowie owned by WSB. At December 31, 2009, 62% of the Bowie building's residual space was tenant occupied. Also located in WSB's corporate headquarters are our Commercial Lending Group, our Wholesale Mortgage Group and our Retail Mortgage Group.

Item 3. Legal Proceedings

From time to time we may be involved in ordinary routine litigation incidental to our business. At December 31, 2009, other than as discussed below, we were not involved in any legal proceedings the outcome of which, in management's opinion, would be material to our financial condition or results operations.

During 2003 we donated land we had foreclosed upon to the Maryland Environmental Trust and took a tax deduction for a conservation easement charitable donation. We valued the donation at \$2,008,000 based on an independent appraisal of the land, and the deduction netted us a tax benefit of \$745,000. The Internal Revenue Service ("IRS") disagreed that the conservation easement satisfied the statutory legal requirements under 26 U.S.C. §170(h) and, in the alternative, determined that the appraised value was too high. On April 6, 2006, the IRS disallowed the deduction in its entirety and asserted substantial overvaluation penalties of \$212,000 under 26 U.S.C. § 6662. On May 8, 2006, we filed a timely Protest appealing the proposed adjustments and, when the IRS refused to agree with a valuation we would accept, we filed a Petition in the U.S. Tax Court challenging the determination. We were scheduled to begin trial on this matter on February 1, 2010. After exchanging expert reports and filing an extensive pretrial memorandum, the IRS conceded all of the

legal issues in the case and agreed to a valuation of the easement in the amount of \$1,300,000 (no penalties will be imposed). We are waiting for the IRS to provide final Decision documents setting forth the amount of tax due. Upon receipt, the proposed Decision will be signed and filed with the court. As previously noted, we recorded a liability of approximately \$405,574, as a result of this pending issue. Based on the preliminary information we received in connection with this matter, we believe this amount will cover any resulting liability.

Item 4. (Removed and Reserved)

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

WSB's common stock is traded on the NASDAQ Global Market under the symbol "WSB." The following table reflects the high and low closing sale prices for, as well as dividends declared during, the periods presented. Quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not represent actual transactions.

Fiscal Period	Price per Share				Cash Dividends	
	2009		2008		Paid per Share	
	High	Low	High	Low	2009	2008
1st Quarter	\$3.75	\$1.80	\$6.08	\$5.25	\$0.04	\$0.04
2nd Quarter	3.70	2.17	5.92	5.26	0.04	0.06
3rd Quarter	2.48	2.07	5.50	4.50	0.02	0.04
4th Quarter	3.09	2.15	4.95	2.65	0.02	0.04

As of March 17, 2010, WSB had 233 record holders of our common stock.

Cash dividends are subject to determination and declaration by the Board of Directors, which takes into account our financial condition, results of operations, tax considerations, industry standards, economic conditions, and other factors, including regulatory restrictions. Cash dividends are declared and paid in the same calendar quarter. For a discussion of the regulatory restrictions on the declaration and payment of dividends, see "Business—Supervision and Regulation—Restrictions on Capital Distributions." The Board of Directors had declared quarterly dividends effective with the first quarter of 2007. Due to our losses during 2009, the continued economic uncertainty and after review of our capital management plan, including our dividend policy, however, the Board determined to suspend dividends for the foreseeable future beginning with the first quarter of 2010 in order to preserve funds to ensure the continuation of a strong balance sheet. No assurance can be given that dividends will be declared in the future, or if declared, what the amount of dividends will be, or whether such dividends will continue. The Board will continue to review WSB's dividend practice on a quarterly basis.

Unregistered Sales of Equity Securities and Use of Proceeds

In April 2008, the Board of Directors gave the authority to management to repurchase up to \$1.0 million of the outstanding shares of the Company's stock. There is no stated expiration date for the plan. We did not repurchase any of our securities during the year ending December 31, 2009.

Item 6. Selected Financial Data

Not applicable

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

WSB became the holding company of the Bank as of January 3, 2008, and reports financial results on a calendar year basis (unlike the Bank's previous fiscal year). Accordingly, results of operations and other financial data for periods prior to January 3, 2008 are for the Bank, and thereafter are for WSB on a consolidated basis.

We operate a general commercial banking business, attracting deposit customers from the general public and using such funds, together with other borrowed funds, to make loans, with an emphasis on residential mortgage, commercial and construction lending. Our 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, and gain on sale of loans, as well as its non-interest and tax expenses.

Our 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, borrowings and other interest-bearing liabilities, which is referred to as "net interest income". 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. Our principal expense is the interest we pay on deposits and borrowings. 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. Our net income is also affected by the level of our other income, including loan related fees, gain on sale of loans, deposit-based fees, rental income, operations of the Bank's service corporation subsidiary, gains on sales of REO, gains on sales of loans and investment securities as well as operating and tax expenses.

During this period of economic slowdown, the effects of which, including declining real estate values resulting in asset impairment and tightening liquidity, has particularly impacted the banking industry in general, management continues to stress credit quality within both our loan and investment portfolios. However, given the current state of the residential housing market as well as our previous reliance on residential construction and mortgage loans, we have been diversifying the loan portfolio. Management continues efforts to broaden the Bank's lending emphasis to include commercial real estate and commercial and industrial loans (more commonly referred to as business lending) as opposed to focusing primarily on residential lending. To expand its commercial customer deposit base, the Bank offers remote deposit capture services for commercial customers. This service compliments the Bank's PC Banking platform and provides us a commercially viable means to serve the depository needs of businesses beyond our branch network. We believe that our continued efforts to expand our commercial base is important to ensure future profitability as commercial customers provide lower cost deposit funding, with commercial loan borrowings structures that re-price to interest rate changes under terms that are favorable to the Bank. Management believes that interest rates and general economic conditions nationally and in our market area are most likely to have a significant impact on our results of operations. We carefully evaluate all loan applications in an attempt to minimize our credit risk exposure by obtaining a thorough application with enhanced approval procedures; however, there is no assurance that this process can reduce lending risks. Management reviews models and has established benchmark rates and assures that we remain within the limits. If the limits exceed the established benchmark rate, management develops a plan to bring interest rate risk back within the limits.

Our management considers return on average assets and equity as a measure of our earnings performance. Return on average assets measures the ability to utilize our assets to generate income. However, current economic conditions such as unemployment or declining real estate values may have a significant impact on our ability to utilize those assets. Return on average assets and equity was (1.26)% and (10.58)% and .05% and .39%, during the years ended December 31, 2009 and 2008, respectively. Our dividend payout ratio was 16.48% and 579.22% for the years ending December 31, 2009 and 2008, respectively. Our equity- to-asset ratio was 12.07% and 11.82% for the years ending December 31, 2009 and 2008, respectively.

We are continually seeking to increase our core deposits and advertise our lower-cost NOW accounts, no fee checking incentives, overdraft protection program and variable money fund savings account priced to current interest rates, as well as the advantages of customer access to ATM networks. During 2009, our interest rates on money fund and checking accounts were slightly higher than our competitors, but lower CD rates negatively affected renewals for CDs as management has focused on lowering deposit costs through lower CD rates and reduced brokered deposits. Our money fund and checking accounts increased approximately \$29.3 million and our CDs decreased \$25.7 million during 2009, which increased our overall total deposits to \$253.8 million at December 31, 2009, a 1.1% increase in total deposits as compared to \$251.1 million at December 31, 2008. This resulted in a decrease of our interest expense on deposits by approximately \$2.0 million for 2009 compared to 2008.

Both basic and diluted earnings per share amounts are shown on the Consolidated Statements of Earnings. Per-share references in this report are to "basic earnings per share" unless otherwise stated.

Forward Looking Statements

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. The statements presented herein with respect to, among other things, our expectations regarding increasing our commercial loan portfolio, the impact of current and expected economic changes and conditions, the allowance for loan losses, settlement of loans committed to be purchased and the potential for losses in connection therewith, expected impact on expenses of recent staffing reductions, expected terms of loans, prepayments and re-financings, use of brokered deposits going forward, the Bank’s continuing to meet its capital requirements, future sources of liquidity, future profitability and the expected outcome of legal proceedings are forward-looking.

Forward-looking statements are based on the Company’s 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. Our future results and prospects may be dependent upon a number of factors that could cause our performance to differ from the performance anticipated or projected in these forward-looking statements or to compare unfavorably to prior periods. Among these factors are: (a) ongoing review of our business and operations; (b) implementation of changes in lending practices and lending operations; (c) the Board of Directors ongoing review of our capital management plan; (d) changes in accounting principles; (e) government legislation and regulation; (f) changes in interest rates; (g) further deterioration of economic conditions; (h) credit or other risks of lending activity, such as changes in real estate values and changes in the quality or composition of our loan portfolio; (i) the impact of any legal or regulatory proceedings; and (j) other expectations, assessments and risks that are specifically mentioned in this report and in such other reports we have filed with the Securities and Exchange Commission. We wish 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 our financial performance and could cause our actual results or circumstances for future periods to differ materially from those anticipated or projected. Unless required by law, we do not undertake, and specifically disclaim any obligations, to publicly update or revise any forward- looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. We use historical loss factors as one factor in determining an inherent loss that may be present in our loan portfolio. Actual losses could differ significantly from the historical factors that we use. In addition,

GAAP itself may change from one previously acceptable method to another. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

Allowance for Loan Losses. The allowance for loan and lease losses has two basic components: a general reserve reflecting historical losses by loan category, as adjusted by several factors, the effects of which are not reflected in historical loss ratios, and specific allowances for separately identified loans. Each of these components, and the systematic allowance methodology used to establish them, are described in detail in Note 1 of the Notes to the Consolidated Financial Statements included in this report. The amount of the allowance is reviewed monthly by the Executive Committee of the board of directors and formally approved quarterly by the full Board of Directors.

The general reserve portion of the allowance that is based upon historical loss factors, as adjusted, establishes allowances for the major loan categories based upon adjusted historical loss experience over the prior eight quarters, weighted so that losses realized in the most recent quarters have the greatest effect. The use of these historical loss factors is intended to reduce the differences between estimated losses inherent in the loan and lease portfolio and actual losses. The factors used to adjust the historical loss ratios address changes in the risk characteristics of our loan and lease portfolio that are related to (1) trends in delinquencies and other non-performing loans, (2) changes in the risk level of the loan portfolio related to large loans, (3) changes in the categories of loans comprising the loan portfolio, (4) concentrations of loans to specific industry segments, (5) changes in economic conditions on both a local and national level, (6) changes in our credit administration and loan and lease portfolio management processes, and (7) quality of our credit risk identification processes. This component comprised 48.3% of the total allowance at December 31, 2009 and 83.2% at December 31, 2008.

The specific allowance is used primarily to establish allowances for risk-rated credits on an individual basis, primarily our impaired loans, and accounted for 51.7% of the total allowance at December 31, 2009 and 16.8% December 31, 2008. The actual occurrence and severity of losses involving risk-rated credits can differ substantially from estimates, and some risk-rated credits may not be identified.

Other-Than-Temporary Impairment of Securities. We review all investment securities with significant declines in fair value for potential other-than-temporary impairment on a periodic basis. We record an impairment charge when we believe an investment has experienced a decline in value that is other than temporary. Generally changes in market interest rates that result in a decline in value of an investment security are considered to be temporary, since the value of such investment can recover in the foreseeable future as market interest rates return to their original levels. However, such declines in value that are due to the underlying credit quality of the issuer or other adverse conditions that cannot be expected to improve in the foreseeable future, may be considered to be other than temporary. Management believes this is a critical accounting policy because this evaluation of the underlying credit or analysis of other conditions contributing to the decline in the value involves a high degree of complexity and requires us to make subjective judgments that often require assumptions or estimates about various matters.

Results of Operations

General. Net loss for the year ended December 31, 2009 was \$5.7 million, or \$(0.73) per basic share, compared to net income of \$236,000, or \$0.03 per basic share, for the year ended December 31, 2008.

The decrease in net income for the year ended December 31, 2009, as compared to the year ended December 31, 2008, was primarily the result of the Bank allocating \$9.5 million to its allowance for loan losses during the year, primarily due to increased loan delinquencies and a decrease in the value of real estate collateral securing loans. The decrease in net income was also impacted by a decrease of approximately \$1.3 million in non-interest income. The decrease in non-interest income is primarily the result of the other-than-temporary impairment of \$693,000 on one of our mortgage-backed securities and approximately \$561,000 decrease on the gain on sale of MBS and investment securities.

In addition, net-interest income decreased \$485,000 during 2009 due to a decrease in interest income that was not fully offset by a corresponding decrease in interest expense. This reflects an interest rate compression as the interest rate on our interest-earning assets decreased while the interest rate on our interest-bearing liabilities decreased during the period at a slower rate.

In the past, though less so recently, a significant factor affecting earnings has been gain on sale of loans. Gain on sale of loans was \$823,000 for the year ended December 31, 2009 compared to \$660,000 for the year ended December 31, 2008, an increase of \$163,000 or 25%. The increase for 2009 is primarily the result of an increase in our loan originations sold in the secondary market.

Average Balances, Interest and Yields. The following table sets forth, for the periods indicated, information regarding: (i) the total dollar amounts of interest income from interest-earning assets and the resulting average yields; (ii) the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs; (iii) net interest income; (iv) interest rate spread; (v) average interest-earning assets and the total yield earned on average interest-earning assets; (vi) average interest-bearing liabilities, the amount of interest paid on such liabilities and the average interest rate paid on interest-bearing liabilities; and (vii) the ratio of total interest-earning assets to total interest-bearing liabilities. Average balances, yields, and costs are calculated on the basis of month-end averages (except deposits, which are on the basis of daily averages) for all periods through December 31, 2009.

Weighted average yields and costs at December 31, 2009 are also indicated. Non-accrual loans are included in total loan balances, lowering the effective yield for the loan portfolio in the aggregate.

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	Average Balance	Interest(1)	Yield/ Cost	Average Balance	Interest(1)	Yield/ Cost
Interest-earning assets:						
Loans	\$249,998	\$ 15,725	6.29 %	\$234,066	\$ 16,383	7.00 %
Mortgage-backed securities	127,422	7,110	5.58	123,793	6,877	5.56
Investment securities (excluding MBS)	39,593	1,783	4.50	65,449	3,664	5.60
Other interest-earning assets	8,946	14	0.15	7,113	139	1.96
Total interest-earning assets (2)	<u>\$425,959</u>	<u>24,632</u>	5.78 %	<u>\$430,421</u>	<u>27,063</u>	6.29 %
Interest-bearing liabilities:						
Deposits	254,338	7,722	3.04	257,510	9,756	3.79
Other borrowings	135,315	5,870	4.34	130,625	5,782	4.43
Total interest-bearing Liabilities (2)	<u>\$389,653</u>	<u>13,592</u>	3.49 %	<u>\$388,135</u>	<u>15,538</u>	4.00 %
Net interest income/interest rate spread (3)		<u>\$ 11,040</u>	<u>2.29</u> %	<u>\$ 11,525</u>	<u>2.29</u> %	
Net yield on interest-earning assets (4)			<u>2.59</u> %			<u>2.68</u> %
Ratio of interest-earning assets to interest-bearing liabilities			<u>109.32</u> %			<u>110.9</u> %

- (1) There are no tax equivalency adjustments.
- (2) This is a weighted average yield.
- (3) Interest-rate spread is the arithmetic difference between the average yield on interest-earning assets (expressed as a percentage) and the average cost of interest-bearing liabilities (expressed as a percentage).
- (4) Net yield on interest-earning assets is the ratio of net interest income to average interest-earning assets.

Rate/Volume Analysis. The following table shows, for the periods indicated, the changes in interest income and interest expense attributable to: (i) changes in volume (change in volume multiplied by prior period rate); and (ii) changes in rate (change in rate multiplied by current period volume).

	Years Ended December 2009 v. 2008			Years Ended December 31, 2008 v. July 31, 2007		
	Increase (Decrease)			Increase (Decrease)		
	Due to Volume	Due to Rate	Rate/ Volume	Due to Volume	Due to Rate	Rate/ Volume
(dollars in thousands)						
Interest Income:						
Loans(1)	\$ 1,115	\$ (1,773)	\$ (658)	\$ 1,423	\$ (2,642)	\$ (1,219)
Mortgage-backed	201	32	233	4,117	(55)	4,062
Investment securities	(1,448)	(433)	(1,881)	(4,109)	264	(3,845)
Other interest-earning	36	(161)	(125)	115	(232)	(117)
Total interest	<u>(95)</u>	<u>(2,336)</u>	<u>(2,431)</u>	<u>1,546</u>	<u>(2,665)</u>	<u>(1,119)</u>
Interest Expense:						
Deposits	(120)	(1,914)	(2,034)	(1,442)	396	(1,046)
Other	208	(120)	88	3,067	(1,103)	1,964
Total interest	<u>88</u>	<u>(2,034)</u>	<u>(1,946)</u>	<u>1,625</u>	<u>(707)</u>	<u>918</u>
Decrease in net interest income	<u>\$ (183)</u>	<u>\$ (302)</u>	<u>\$ (485)</u>	<u>\$ (79)</u>	<u>\$ (1,958)</u>	<u>\$ (2,037)</u>

- (1) Includes approximately \$152,000, \$274,000 and \$764,000 of loan fees earned for calendar 2009 and 2008 and fiscal 2007, respectively.

Net Interest Income. During 2009, net interest income before the provision for loan losses decreased \$485,000, or 4.2%, to \$11.0 million from \$11.5 million for 2008. The decrease is due to a \$2.4 million decrease in interest income offset by a \$1.9 million decrease in interest expense.

The decrease in interest income during 2009 is due primarily to a decrease in the average rates paid on, and to a lesser extent in the average balance of, our interest-earning assets in 2009 as compared to the 2008 period. For the year ended December 31, 2009, the average yield on our interest-earning assets decreased to 5.78% from 6.29% for the year ended December 31, 2008, while the average balance of our total interest-earning assets decreased to \$426.0 million from \$430.4 million for the year ended December 31, 2008. This decrease is primarily the result of lower interest rates on our loan portfolio compared to the prior year. The decrease in the average balance is primarily the result of a decrease in the available for sale investment portfolio, offsetting an increase in our held-for-investment loan portfolio. The increase in the loan held-for-investment portfolio is primarily due to increased originations in our loans secured by other properties, which consists primarily of non-residential commercial real estate loans. The decrease in the available-for-sale investment securities is due to the fact that during 2008 we sold MBS and investment securities at a premium and then reinvested the proceeds, while during 2009 any MBS or investment securities that did not remain in our portfolio were called or matured at par.

Interest expense decreased during 2009 primarily as a result of a decrease in the average rate paid on our interest-bearing liabilities, primarily due to the reduction of interest rates on our CDs. The average cost of interest-bearing liabilities decreased to 3.49% for the year ended December 31, 2009 from 4.00% for the year ended December 31, 2008. In addition, the average balance of interest-bearing liabilities increased slightly to \$389.7 million for the year ended December 31, 2009 as compared to \$388.1 million for the year ended December 31, 2008, due to an increase in borrowings partially offset by a decrease in interest-bearing deposits. Average borrowings increased \$4.7 million as the result of daily rate credits from the FHLB used throughout 2009 for monthly funding purposes, most of which was repaid within a 30 days of the borrowing date. Daily rate credits are short-term borrowings that reprice daily based on current interest rates and are generally repaid within a few days.

For the year ending December 31, 2009, as compared to the year ending December 31, 2008, total deposits increased \$2.7 million primarily due to an increase in our savings accounts offset by a decrease in time deposits. The increase in savings account deposits is due to increased rates offered on these products compared to our competitors, which resulted in new customer deposits during the year. The decrease in time deposits was a result of runoff in our brokered deposits due to our not retaining new brokered deposits as existing ones matured. At December 31, 2009 compared to December 31, 2008, our time deposits were \$163.5 million and \$189.3 million, respectively, and the corresponding interest expense on these deposits during 2009 and 2008 was approximately \$6.7 million and \$8.7 million, respectively. This total at December 31, 2008, included 16 accounts totaling approximately \$54.6 million of deposits received through brokers. These funds were primarily used to fund loan originations and purchase investments. These brokered accounts consist of individual accounts issued under master certificates in the broker's name. These types of accounts are covered by FDIC insurance. We did not retain additional brokered deposits to replace all of the runoff during 2009 as we didn't need to replenish the lost deposits at that time as a result of having access to other funding sources. The interest rates on these brokered deposits are similar to our posted rates or less than the borrowed fund rates for similar terms. As a result, we anticipate we will increase brokered deposits as a source of funding as needed in the future.

Allowance for Loan and REO Losses. Our loan portfolio is subject to varying degrees of credit risk. We seek to mitigate this risk through portfolio diversification and limiting exposure to any single customer or industry. We maintain an allowance for loan losses to absorb losses inherent in the loan portfolio. The amount of the allowance is based on careful, continuous review and evaluation of the loan portfolio, along with monthly and quarterly assessments of the probable losses inherent in that portfolio. The amount of the allowance is reviewed monthly by the Loan Committee and reviewed and approved monthly by the Bank's Board of Directors. The methodology for determining the appropriate amount 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 non-specific allowance which considers risk factors not evaluated by the other two components of the methodology. Additions to the allowance are made through periodic charges to income (provision for loan losses), and actual loan losses are charged against the allowance, while recoveries are added to the allowance.

Each of the components of the allowance for loan losses is determined based upon estimates that can and do change when the actual events occur. The specific allowance is used to individually allocate an allowance for loans identified for impairment testing. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses. When an impairment is identified, a specific reserve is established based on our calculation of the loss embedded in the individual loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment. The formula allowance is used for estimating the loss on those loans internally classified as high risk exclusive of those identified for impairment testing. The Bank categorizes its classified assets within four categories: Special Mention, Substandard, Doubtful and Loss. Special Mention loans have potential weaknesses that deserve management's attention. These loans are not adversely classified and do not expose an institution to sufficient risk to currently warrant adverse classification. Substandard loans are loans that have a well-defined weakness. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. The Doubtful category consists of loans where we expect a loss, but not a total loss. Various subjective factors are considered with the most important consideration being the estimated underlying value of the collateral in determining the loss reserve for these loans. Loans that are classified as "Loss" are fully reserved for on our financial statements, while we establish a prudent allowance for loan losses for loans classified as "Substandard" or "Doubtful" and "Special Mention". The loans meeting the criteria for classification as special mention, substandard, doubtful and loss, as well as impaired loans are segregated from performing loans within the portfolio. Internally classified loans are then grouped by loan type (commercial, commercial real estate, commercial construction, residential real estate, residential construction or installment). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the particular loan category. Classified loans are part of the formula allowance and are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors grow with the worsening of the internal risk rating. The non-specific formula is used to estimate the loss of non-classified loans and loans identified for impairment testing for which no impairment was identified. These loans are also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, quality of loan review system and the effect of external factors (i.e. competition and regulatory requirements). The factors assigned differ by loan type.

We have significant discretion in making the judgments inherent in the determination of the provision and allowance for loan losses, including in connection with the valuation of collateral, a borrower's prospects of repayment, and in establishing allowance factors on the formula allowance and nonspecific allowance components. The establishment of allowance factors is a continuing exercise, based on management's continuing assessment of the global factors discussed above and their impact on the portfolio, and 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. Changes in allowance factors will have a direct impact on the amount of the provision, and a corresponding effect on net earnings. Errors in management's perception and assessment of the global factors and their impact on the portfolio could result in the allowance not being adequate to cover losses in the portfolio, and may result in additional provisions or charge-offs.

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. We make provisions for loan losses in amounts considered by management necessary to maintain the allowance at an appropriate level to cover its estimate of losses inherent and probable in the loan portfolio, as established by use of the allowance methodology. Under the methodology, we consider trends in credit risk against broad categories of homogenous loans, as well as a loan by loan review of loans criticized or classified by the Company. The provision for loan losses was \$9.5 million in 2009 compared to \$2.2 million in 2008. Generally, the current economic environment has led to an increase in loan delinquencies and the decrease in valuation of real estate collateral used to secure some of our loans, thus resulting in a significant increase in the provision. Management identified the following, occurring during 2009, as specific reasons for the increase in the allowance during 2009:

- We experienced defaults in 1-4 family residential loans of approximately \$823,000 compared to \$492,000 of such defaults in 2008.
- We experienced defaults in lot loans and land acquisition loans of approximately \$1.1 million compared to \$531,000 of such defaults in 2008.
- We experienced defaults in construction residential loans of approximately \$1.5 million compared to \$333,000 during 2008.
- We experienced defaults in commercial loans of approximately \$3.2 million compared to \$146,000 during 2008.
- As a result of an analysis of the current portfolio, we recognized an increase of the loss allocation percentages to our internally classified loans which consist of special mention, substandard, doubtful and loss.

We are intent on maintaining a strong credit review system and risk rating process. Management believes its evaluation as to the adequacy of the allowance as of December 31, 2009 is appropriate, however, provisions for 2009 are not necessarily indicative of future 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. 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. Future additions to the allowance may be necessary based on changes in the credits comprising the portfolio and changes in the financial condition of borrowers, which may result from changes in economic conditions. 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 the agencies' judgments of information available at the time of each examination.

We have developed a comprehensive review process to monitor the adequacy of the allowance for loan losses. The review process and guidelines were developed using guidance from federal banking regulatory agencies and rely on relevant observable data. The observable data considered in the determination of the allowance is modified if other more relevant data becomes available. The results of this review process support management's view as to the adequacy of the allowance as of the balance sheet date.

Changes in estimation methods may take place based upon 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 current economic environment has led to an increased volume in loan delinquencies, an increase of internally criticized loans, and the devaluation of real estate collateral used to secure some of these loans. Additionally, we continue to experience an increase in our commercial real estate and commercial lending portfolio, for which management uses a higher reserve factor than traditional mortgages due to a historical loss history from both the Bank and industry indicating a higher risk of default for commercial loans. The allowance for loans losses is very subjective in nature, relying significantly on historical loss experience, collateral valuations available to management on specific loans, and economic conditions.

The \$8.3 million loans held-for-sale portfolio has already been committed to be purchased by investors and is normally settled within 30 days. As of March 15, 2010, the entire \$8.3 million that was outstanding had been purchased by committed investors. Analysis of our history of sold loans indicates that minimal credit losses have been realized after the sale of loans, and therefore management does not consider these loans in determining the amount of the allowance.

As of December 31, 2009, the allowance increased by \$3.2 million, or 65%, to \$8.2 million or 3.28% of the loan portfolio from \$5.0 million or 2.06% of the loan portfolio at December 31, 2008. Most of the change in allowance position was due a noticeable increase in the charge-offs experienced in the loan portfolio, which impacted management's analysis of the adequacy of the allowance for loan loss during the year ending December 31, 2009. During the year ended December 31, 2009, charge-offs were approximately \$6.6 million and approximately \$330,000 was recorded as recoveries for a net charge-off of \$6.2 million, compared to charge-offs of approximately \$1.5 million and approximately \$37,000 recorded as recoveries for a net charge-off of \$1.5 million for the year ending December 31, 2008.

The following table sets forth certain information as to the allowance for loan losses:

	Year ended December 31, 2009	Year ended December 31, 2008
	(dollars in thousands)	
Average loans held for investment	<u>\$ 244,553</u>	<u>\$ 228,497</u>
Total gross loans outstanding- held for investment at year end	<u>\$ 249,236</u>	<u>\$ 241,941</u>
Allowance, beginning of year	\$ 4,973	\$ 4,217
Charge-offs		
single family	(823)	(493)
construction	(1,475)	(333)
other	<u>(4,274)</u>	<u>(685)</u>
	(6,572)	(1,511)
Recoveries :		
single family	7	10
construction	240	2
other	<u>84</u>	<u>25</u>
Net charge-offs	<u>(6,241)</u>	<u>(1,474)</u>
Provision for loan losses	9,450	2,230
Allowance, end of year	<u>\$ 8,182</u>	<u>\$ 4,973</u>
Allowance as a percentage of total gross loans-held for investment	3.28%	2.06%
Net charge-offs as a percentage of average loans	2.55%	0.65%

Our loans held-for-investment portfolio increased \$7.3 million, or 3.0% as of December 31, 2009, compared to December 31, 2008. Our average loans held-for-investment also increased by 7.0% for fiscal year 2009, compared to fiscal year 2008. This increase is primarily the result of an increase in our commercial real estate mortgage loans secured by other properties. Management continues with its diversification of WSB's loan portfolio from residential lending into commercial real estate and business lending. However, these changes continue to be significantly hampered by the current economic slowdown.

The following table sets forth the allocation of the allowance for loan loss to each loan category as of December 31, 2009 and 2008. The allowance established for each category is not necessarily indicative of future losses or charge offs for that category and does not restrict the use of the allowance to absorb losses in any category:

	December 31, 2009		December 31, 2008	
	Allowance Amount	Percentage of loans in each category to Total loans(1)	Allowance Amount	Percentage of loans in each category to Total loans(1)
Single family	\$ 1,910	33.25%	\$ 1,342	32.47%
Non-Residential	744	17.10%	163	3.94%
Commercial	5,183	40.90%	2,009	48.55%
Construction	116	2.93%	1,089	6.09%
Land and Development	222	5.63%	364	8.80%
Other	<u>7</u>	<u>0.19%</u>	<u>6</u>	<u>0.15%</u>
Total	<u>\$ 8,182</u>	<u>100.00%</u>	<u>\$ 4,973</u>	<u>100.00%</u>

(1) Excludes loans held-for-sale

Non-Performing Assets.

The following table sets forth information as to non-accrual and past due loans. We generally discontinue the accrual of interest on loans after a delinquency of more than four monthly payments, or when, in the opinion of management, the complete recovery of principal and interest is unlikely, at which time all previously accrued but uncollected interest is reversed from income.

	At December 31, 2009	At December 31, 2008
	(dollars in thousands)	
Loans accounted for on a non-accrual basis:		
Mortgage loans:		
Single family	\$ 6,278	\$ 3,651
Land	4,529	6,304
Construction	3,446	6,584
Non-mortgage loans:		
Consumer	-	-
Commercial	11,655	1,129
Non-residential	1,046	659
Total non-accrual loans	<u>26,954</u>	<u>18,327</u>
Foreclosed real estate	<u>5,653</u>	<u>5,446</u>
Total non-performing assets	<u>\$ 32,607</u>	<u>\$ 23,773</u>
Total non-performing loans to total loans held-for-investment	<u>10.80%</u>	<u>7.57%</u>
Allowance for loan losses to total non-performing loans	<u>30.36%</u>	<u>27.14%</u>
Total non-performing loans to total assets	<u>6.15%</u>	<u>4.03%</u>
Total non-performing assets to total assets	<u>7.45%</u>	<u>5.23%</u>

Total non-accrual loans increased by 47.0% to \$26.9 million at December 31, 2009, compared to \$18.3 million at December 31, 2008. This net increase is largely due to an increase in the number of and percentage of the loans in our commercial loan portfolio defaulting and the fact that such commercial loans are an increasing percentage of our loan portfolio.

We had no loans accruing more than four months past due as of December 31, 2009 or 2008. These types of loans would have current payments, but the maturity dates would have expired and a request for an extension needs to be formally filed on their current contract to extend the maturity date to make the loan current.

The allowance for loan losses is approximately 30.4% of non-accrual loans as of December 31, 2009, versus 27.1% at December 31, 2008. 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.

The following table sets forth information as to loans defined as delinquent (three payments past due, less than the four months past due as presented on the previous schedule) on which we continued to accrue interest.

	<u>At December 31,</u> 2009	<u>At December 31,</u> 2008
	(dollars in thousands)	
Loans past due (three payments past due):		
Mortgage loans:		
Single family	\$ 925	\$ 2,271
Land	1,336	2,450
Construction	-	992
Non-mortgage loans:		
Commercial	146	25
Total past due loans	<u>\$ 2,407</u>	<u>\$ 5,738</u>

We had no loans accruing that were more than three months past due as of December 31, 2009 or 2008. These types of loans would have current payments, but the maturity dates would have expired and a request for an extension needs to be formally filed on their current contract to extend the maturity date to make the loan current.

Real estate acquired at or in lieu of foreclosure is classified as real estate owned (“REO”) until such time as it is sold. Acquired property is recorded at the lower of net acquisition cost or fair value, less estimated costs to sell subsequent to acquisition. Operating expenses of REO are reflected in non-interest expenses. Any write-down of the property at the acquisition date is charged against the allowance for loan losses with any subsequent additional write-downs reflected in non-interest expenses.

For the year ending December 31, 2009, there was a \$477,000 provision for REO losses compared to a \$15,000 provision for REO losses for the year ended December 31, 2008. This increase is primarily the result of a reduction of the values of our REO properties. The provision for REO losses was expensed during the respective period for REO property with a fair value less than the original carrying value. The value of REO property held due to foreclosures at December 31, 2009 and 2008 were \$5.7 million and \$5.4 million, respectively. At December 31, 2009, REO

properties consist of \$1.4 million in residential construction loans, \$3.5 million in lot loans, and \$743,000 in 1 – 4 residential loans. Management is actively seeking buyers for these properties.

Non-Interest Income. Total non-interest income for the year ending December 31, 2009 was \$1.8 million compared to \$3.2 million for the year ending December 31, 2008, a decrease of \$1.3 million, or 42.5%. Without giving effect to sale of MBS and investment securities during the respective fiscal periods, non-interest income would have been \$1.8 million compared to \$2.6 million for the years ending December 31, 2009 and 2008, respectively.

The decrease in non-interest income during 2009 is primarily attributable to an other than temporary impairment of \$693,000 on one of our mortgage-backed securities, a decrease in the gain on the sale of MBS and investment securities available for sale of \$561,000 and a decrease of approximately \$99,000 on the gain on sale of real estate acquired in settlement of loans, which were offset in part by an increase of approximately \$164,000 in gain on sale of loans.

The net other-than-temporary impairment losses of approximately \$693,000 recognized in earnings during the year ended December 31, 2009, relate to credit losses. Credit losses reflect the difference between the present value of the cash flows expected to be collected and the amortized cost. The credit loss was determined through an income approach using prepayment speeds, default rates and default percentages.

The gain on sale of MBS and investment securities classified as available for sale during 2009 was due to \$5.0 million investment securities that was called during the year, resulting in a \$23,000 pre-tax gain or approximately \$14,000 after tax gain, compared to the sale of \$5.9 million MBS and \$56.7 million investment securities that were called during the year ending December 31, 2008, resulting in a \$584,000 pre-tax gain or approximately \$354,000 after tax gain. The investments were sold in 2008 in an effort to minimize reinvestment risk while improving portfolio yield. The funds were reinvested primarily in MBS which we have the ability to hold until maturity or sell to take advantage of favorable interest rate changes.

The \$99,000 decrease on the gain on sale of real estate acquired in settlement of loans during 2009 is due to the gain on sale of 23 properties resulting in a net gain of \$70,000 compared to a net gain of \$170,000 on the sale of 15 properties during fiscal 2008.

Gain on sale of loans includes servicing release fees and discount points earned on loans sold. The increase on the gain on sale of loans compared to the same period last year is primarily due to an overall higher premium and increased collection of up-front fees associated with those loans as well as lower costs associated with the origination of these loans. The costs associated with these loans decreased primarily as the result of reducing our expense for our loan origination departments. Our ability to realize gains in future periods will depend largely on interest rates and the demand for mortgage loans.

While production of loans held-for-sale has been negatively impacted nationally by the current market constriction as to non-conforming and non-traditional mortgage offerings, and overall credit tightening, the Bank continues to offer traditional mortgage financing through its mortgage banking operations. Because loans we sell in the secondary market are recourse, and we could be required to repurchase such loans if the purchasers turn out to be not creditworthy, we continue to monitor the anticipated negative impact and/or exposure of many of the larger secondary market investors, and as such have further reduced or eliminated the selling of loans to investors where liquidity or financial capacity is in question.

Loan-related fees, which consist primarily of late fees, document preparation fees, tax service fees and construction inspection fees, decreased \$63,000 during the year ended December 31, 2009, due primarily to the reduction of upfront loan fees. Upfront loan fees decreased during 2009 despite an increase in the number of loans originated because interest rates were lower in 2009 than during 2008, resulting in fewer borrowers paying upfront “points” in order to secure a lower interest rate on their loans. We originated approximately 395 loans that were sold in the secondary market totaling \$106.9 million during fiscal 2009, compared to 346 loans totaling \$84.4 million during fiscal 2008.

Other income includes primarily fees from our deposit-based operations. The \$51,000 decrease in other income during 2009 is primarily the result of a reduction in miscellaneous and other fee income.

Non-Interest Expenses. Non-interest expenses were \$12.7 million and \$12.6 million for the years ended December 31, 2009 and 2008, respectively.

The \$78,000 increase in non-interest expenses during the year ended December 31, 2009 as compared to the year ended December 31, 2008 was primarily due to increases of \$462,000 in provisions for losses on real estate acquired in settlement of loans and \$459,000 in deposit insurance premiums, partially offset by decreases of \$509,000 in salaries and benefits and \$134,000 in occupancy expense. The increase in the provision for REO losses was due to REO properties with a fair value less than the original carrying value. These increases are the result of obtaining updated appraisal and/or evaluations on the properties that have been classified as real estate owned, which resulted in additional write downs of certain properties as a result of continuing declines in real estate prices. The increase in deposit insurance premiums is the result of a \$202,000 special assessment imposed by the FDIC on all insured institutions as well as an overall FDIC increase. The special assessment premium was based on each institution’s total assets minus its Tier 1 capital as reported on June 30, 2009. The special assessment is not expected to be a regular and ongoing expense. However, on November 19, 2009, the FDIC issued a final ruling to require insured depository institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. Depository institutions were required to prepay their assessments on December 30, 2009. In 2008 we utilized credits from the Federal Deposit Insurance Reform Act of 2005 which were available to offset our deposit insurance assessments. We fully utilized these credits in December 2008.

The decrease in salaries and benefits is the result of the reduced loan production on loans sold in the secondary market and the commissions associated with these loans. During 2008 we closed our wholesale mortgage lending offices as well as all retail mortgage offices except for the Bowie office in response to the current economic slowdown in both our local markets and nationwide. We have also reduced staff throughout various areas, primarily back-office functions. These expense reductions are expected to continue to benefit us in the foreseeable future.

Occupancy expenses decreased in 2009 as a result of branch closings during 2008.

Income Taxes. Although we generally provide for income taxes at substantially equivalent statutory rates, the tax effects of certain operations have caused variances in our overall effective tax rates from year to year. As a result, a tax benefit of \$3.6 million was recognized for the year ended December 31, 2009 compared to a tax benefit of \$413,000 for the year ended December 31, 2008. The tax benefit for 2009 was the result of a pre-tax loss of \$9.3 million, the exclusion of income for the bank owned life insurance, and a tax benefit attributable to our investments portfolio of which a

significant portion is not subject to Maryland state taxes. The effective tax rates were (38.6)% and (233.1)% for years ended December 31, 2009 and 2008, respectively.

The determination of current and deferred income taxes is a critical accounting estimate which is based on complex analyses of many factors including interpretation of income tax laws, the evaluation of uncertain tax positions, differences between the tax and financial reporting bases of assets and liabilities (temporary differences), estimates of amounts due or owed such as the timing of reversal of temporary differences and current financial accounting standards. Additionally, there can be no assurance that estimates and interpretations used in determining income tax liabilities may not be challenged by taxing authorities. Actual results could differ significantly from the estimates and tax law interpretations used in determining the current and deferred income tax liabilities.

In addition, under generally accepted accounting principles, deferred income tax assets and liabilities are recorded at the income tax rates expected to apply to taxable income in the periods in which the deferred income tax assets or liabilities are expected to be realized. If such rates change, deferred income tax assets and liabilities must be adjusted in the period of change through a charge or credit to the Consolidated Statements of Income. Also, if current period income tax rates change, the impact on the annual effective income tax rate is applied year-to-date in the period of enactment.

Financial Condition and Liquidity.

General.

Total assets were \$438.0 million at December 31, 2009 as compared to \$454.5 million at December 31, 2008. The \$16.6 million, or 3.7%, decrease in assets at December 31, 2009 was principally attributable to a decrease of \$17.2 million in investment securities available-for-sale and \$12.7 million in MBS, offsetting an increase of \$7.3 million in loans held-for-investment and \$5.0 million in cash and cash equivalents. As our short term investment securities were called, we reduced our FHLB borrowings and reinvested into highly-rated mortgage-backed securities improving our portfolio yield. The increase in loans-held-for investment is primarily due to an increase in our commercial and commercial real estate lending portfolio, which includes mortgage loans secured by other properties.

Liabilities decreased by \$15.8 million, or 3.9%, to \$385.1 million at December 31, 2009 as compared to \$400.8 million at December 31, 2008, as a result of a decrease of \$18.1 million in FHLB advances and \$416,000 in other liabilities offsetting an increase of \$2.7 million in our total deposits. The increase in deposits is the result increased savings and NOW accounts offsetting the decrease to our time deposits. Management directed its focus to increase its core savings and NOW accounts by increasing the rates we offer on these products so that our rate is higher than the rate offered by our competitors as well as decreasing our brokered deposits to approximately \$54.6 million at December 31, 2009 compared to \$64.9 at December 31, 2008. Previously, we had generally sought to lengthen our deposit maturities and decrease the effect of short-term interest rate swings through the pricing of our CDs.

Liquidity. We must meet requirements for liquid assets and for liquidity described in "Part I, Item 1, Business—Supervision and Regulation—Liquidity Requirements." As of December 31, 2009, the Bank had \$9.1 million of cash and cash equivalents. Further, the Company had \$51.6 million of unpledged investment securities. However, the unpledged securities consist of approximately \$29.9 million private label MBS with limited marketability for purposes of liquidity. At December 31, 2009, we had approximately \$32.7 million of availability on our FHLB line, \$5.0 million of

availability on our unsecured line of credit with correspondent banks, and \$14.0 million of availability on our secured line of credits with correspondent banks.

Funding requirements are impacted by loan originations and maturities of CDs and borrowings. We comply with regulatory guidelines regarding required liquidity levels and monitor our liquidity position. In an effort to reduce exposure to liquidity risk, the Board's Asset and Liability Committee monitors our sources of funds and our assets and liabilities, which may result in a change of our asset, liability, and off-balance sheet positions. Long-term liquidity is generated through growth in our deposits and long-term debt, while short-term liquidity is generated through federal funds and securities sold under agreement to repurchase.

Credit Commitments. The following table lists our credit commitments as of December 31, 2009. Off-balance sheet financial instruments include commitments to extend credit, standby letters of credit, operating lease obligations and financial guarantees. See Note 15 in our notes to consolidated financial statements contained elsewhere in this report for a complete description of off-balance sheet financial instruments.

	Year ended December 31, 2009 (dollars in thousands)
Commitments to extend credit	\$ 3,583
Stand by letters of credit	710
Unused lines of credit	<u>26,646</u>
Total	<u>\$ 30,939</u>

Capital. Current statutory provisions and OTS regulations establish standards for capital, require subsidiaries of a federally-chartered thrift institution to be separately capitalized, and require investments in and extension of credit to any subsidiary engaged in activities not permissible for a national bank to be deducted in the computation of an institution's regulatory capital. The Bank's regulatory risk-based capital reflects an increase of \$2.6 million, while its regulatory assets reflect an increase of \$4.4 million, both of which represent unrealized losses (after-tax for capital deductions and pre-tax for asset deductions, respectively) on MBS and investment securities classified as available-for-sale. See "Part I, Item 1, Business- Supervision and Regulation", "Part I, Item 1, Business—Subsidiaries" and Note 12 of Notes to Consolidated Financial Statements contained in "Part II, Item 8" of this report. The minimum regulatory capital and ratios required, the Bank's actual regulatory capital and ratios, and the amount by which the Bank's ratios exceed the minimum regulatory requirements, as of December 31, 2009, are as follows:

<u>Capital Category</u>	<u>Regulatory Ratios Required</u>	<u>Bank's Ratios</u>	<u>Bank's Excess of Requirements</u>	<u>Calculations Based Upon</u>	
Leverage	\$17,383,614 4.00%	\$ 46,742,817 10.76%	\$29,359,203 6.76%	\$ 46,742,817	Regulatory Capital
				\$ 434,590,347	Regulatory Assets
Tangible	\$6,518,855 1.50%	\$ 46,742,817 10.76%	\$40,223,962 9.26%	\$ 46,742,817	Regulatory Capital
				\$ 434,590,347	Regulatory Assets
Risk-Based	\$22,052,741 8.00%	\$ 46,701,267 16.94%	\$24,648,526 8.94%	\$ 46,701,267	Regulatory Capital
				\$ 275,659,263	Risk-Weighted Assets

Our management believes that, under current regulations, and eliminating the assets of WSB Holdings, Inc., the Bank remains well capitalized and will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of the Bank, such as a shift in interest rates or a further downturn in the economy in areas where we extend credit, could adversely affect future earnings and, consequently, the ability of the Bank to meet its future minimum capital requirements.

Impact of Inflation and Changing Prices

The Consolidated Financial Statements of WSB and related notes presented elsewhere herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike those of many industries, most of the assets and liabilities of financial institutions such as this Company are monetary in nature. Monetary items, which are those assets and liabilities that are convertible into a fixed number of dollars regardless of changes in prices, include cash, investments, loans and other receivables, savings accounts, short-term and long-term debt and, as in our case, most of its other liabilities. Virtually all of our assets and liabilities are monetary in nature. Inflation has had an immaterial effect on our operations in the two most recent fiscal years.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable

Item 8. Financial Statements and Supplementary Data

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Management's Report on Internal Control Over Financial Reporting

The management of WSB Holdings, Inc. ("the Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, utilizing the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2009, is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that 1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material affect on the Company's financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only the management's report in this annual report.

[Stegman & Company Letterhead]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
WSB Holdings, Inc.
Bowie, Maryland

We have audited the accompanying consolidated statements of financial condition of WSB Holdings, Inc. (the “Company”) as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2009. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2009 and 2008 and the results of their operations and their cash flows for the years in the two-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

/s/ Stegman & Company

Baltimore, Maryland
March 24, 2010

WSB HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2009 AND DECEMBER 31, 2008

	December 31, 2009	December 31, 2008
ASSETS		
CASH AND CASH EQUIVALENTS:		
Cash	\$ 660,334	\$ 1,560,435
Federal funds sold	8,408,530	2,490,177
Total cash and cash equivalents	<u>9,068,864</u>	<u>4,050,612</u>
LOANS RECEIVABLE:		
Held for investment	249,236,225	241,940,594
less: allowance for loan losses	(8,181,687)	(4,973,439)
Loans receivable held-for-investment - net	<u>241,054,538</u>	<u>236,967,155</u>
Held for sale	8,303,880	5,786,575
Total loans receivable - net	<u>249,358,418</u>	<u>242,753,730</u>
Mortgage-backed securities - available for sale at fair value	101,728,191	109,161,408
Mortgage-backed securities - held to maturity	3,680,814	8,970,687
Investment securities - available for sale at fair value	31,052,804	48,240,101
Investment in Federal Home Loan Bank Stock, at cost	5,910,500	6,085,700
Accrued interest receivable on loans	1,274,608	1,463,957
Accrued interest receivable on investments	736,281	861,052
Income taxes receivable	676,090	292,584
Real estate acquired in settlement of loans	5,653,114	5,446,155
Bank Owned Life Insurance	11,435,003	10,939,419
Premises and equipment - net	5,167,911	5,643,577
Deferred tax asset	8,853,252	9,364,163
Other assets	3,358,281	1,269,145
TOTAL ASSETS	\$ <u>437,954,131</u>	\$ <u>454,542,290</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest bearing	\$ 9,633,496	\$ 4,985,495
Interest-bearing	<u>244,187,986</u>	<u>246,169,413</u>
Total Deposits	253,821,482	251,154,908
Federal Home Loan Bank borrowings	99,000,000	117,100,000
Other Borrowings	30,000,000	30,000,000
Advances from borrowers for taxes and insurance	471,863	376,834
Accounts payable, accrued expenses and other liabilities	<u>1,804,069</u>	<u>2,220,323</u>
Total Liabilities	<u>385,097,414</u>	<u>400,852,065</u>
STOCKHOLDERS' EQUITY :		
Preferred stock, no stated par value; 10,000,000 shared authorized; none issued and outstanding	-	-
Common stock authorized, 20,000,000 shares at \$.0001 par value. 7,855,732 and 7,821,232 shares issued and outstanding	785	782
Additional paid-in capital	10,717,631	10,629,489
Retained earnings - substantially restricted	44,854,805	51,513,227
Accumulated other comprehensive loss	<u>(2,716,504)</u>	<u>(8,453,273)</u>
Total stockholders' equity	<u>52,856,717</u>	<u>53,690,225</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>437,954,131</u>	\$ <u>454,542,290</u>

See notes to consolidated financial statements.

WSB HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2009	December 31, 2008
INTEREST INCOME:		
Interest and fees on loans	\$ 15,725,170	\$ 16,383,085
Interest on mortgage-backed securities	7,110,319	6,877,404
Interest and dividends on investments	1,796,622	3,803,038
Total interest income	<u>24,632,111</u>	<u>27,063,527</u>
INTEREST EXPENSE:		
Interest on deposits	7,721,761	9,756,267
Interest on other borrowings	5,869,649	5,781,596
Total interest expense	<u>13,591,410</u>	<u>15,537,863</u>
NET INTEREST INCOME	11,040,701	11,525,664
Provision for loan losses	9,450,000	2,230,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>1,590,701</u>	<u>9,295,664</u>
NON-INTEREST INCOME:		
Loan-related fees	409,143	471,765
Gain on sale of loans	823,092	659,507
Gain on sale of mortgage-backed securities - available-for-sale	-	123,943
Gain on sale of investment securities - available-for-sale	23,344	460,480
Other than temporary impairment loss	(692,799)	-
Loss on disposal of premises and equipment	(12,938)	(1,504)
Rental income	405,741	409,577
Gain on sale of real estate acquired in settlement of loans	70,448	169,905
Service charges on deposits	147,105	158,772
Net gain on sale of building lots and homes	-	43,052
Bank Owned Life Insurance	495,584	466,275
Other income	150,010	201,224
Total non-interest income	<u>1,818,730</u>	<u>3,162,996</u>
NON-INTEREST EXPENSES:		
Salaries and benefits	5,711,519	6,220,896
Occupancy expense	708,446	842,768
Deposit insurance premiums and assessments	620,199	161,362
Depreciation	652,241	735,617
Advertising	276,799	257,624
Service bureau charges	563,677	557,599
Service charges from banks	32,359	48,869
Service contracts	297,966	264,611
Stationery, printing & supplies	154,129	182,502
Foreclosure costs	697,821	610,209
Professional services	691,987	647,405
Other taxes	271,421	204,661
Provisions for losses on real estate acquired in settlement of loans	477,201	15,000
Other expenses	1,558,485	1,886,638
Total non-interest expenses	<u>12,714,250</u>	<u>12,635,761</u>
LOSS BEFORE INCOME TAXES	(9,304,819)	(177,101)
INCOME TAX BENEFIT	<u>(3,588,366)</u>	<u>(412,737)</u>
NET (LOSS) INCOME	<u>\$ (5,716,453)</u>	<u>\$ 235,636</u>
BASIC (LOSS) EARNINGS PER COMMON SHARE	<u>(\$0.73)</u>	<u>\$0.03</u>
DILUTED (LOSS) EARNINGS PER COMMON SHARE	<u>(\$0.73)</u>	<u>\$0.03</u>
AVERAGE COMMON SHARES OUTSTANDING	<u>7,849,105</u>	<u>7,585,155</u>
AVERAGE DILUTED COMMON SHARES	<u>7,849,105</u>	<u>7,910,908</u>
CASH DIVIDENDS PAID PER COMMON SHARE	<u>\$ 0.12</u>	<u>\$ 0.18</u>

See notes to consolidated financial statements.

WSB HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
BALANCES, JANUARY 1, 2008	\$ 760	\$ 10,267,198	\$ 52,642,425	\$ 1,000,176	\$ 63,910,559
Exercise of Stock Options	30	726,087	-	-	726,117
Repurchase of stock	(8)	(405,803)			(405,811)
Stock-based Compensation	-	7,033			7,033
Tax effect of Stock Options Exercised	-	34,975	-	-	34,975
Comprehensive Income:					
Net income	-	-	235,636	-	235,636
Other comprehensive income					
Reclassification adjustment for gains, net of taxes of \$230,496	-	-	-	353,927	353,927
Net changes in unrealized appreciation on available for sale securities	-	-	-	(9,807,376)	(9,807,376)
Total comprehensive loss					(9,217,813)
Cash dividend paid (0.18 per common share)	-	-	(1,364,834)	-	(1,364,834)
BALANCES, DECEMBER 31, 2008	782	10,629,489	51,513,227	(8,453,273)	53,690,225
Exercise of Stock Options	3	77,366	-	-	77,369
Stock-based Compensation	-	2,344			2,344
Tax effect of Stock Options Exercised	-	8,432	-	-	8,432
Comprehensive Income:					
Net loss	-	-	(5,716,453)	-	(5,716,453)
Other comprehensive income					
Reclassification adjustment for gains, net of taxes of \$9,207	-	-	-	14,137	14,137
Reclassification adjustment for other than temporary impairment charge net of taxes of (\$273,240)				(419,559)	(419,559)
Net changes in unrealized appreciation on available for sale securities	-	-	-	6,142,191	6,142,191
Total comprehensive income					20,316
Cash dividend paid (0.12 per common share)	-	-	(941,969)	-	(941,969)
BALANCES, DECEMBER 31, 2009	\$ 785	\$ 10,717,631	\$ 44,854,805	\$ (2,716,504)	\$ 52,856,717

See notes to consolidated financial statements.

WSB HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended	
	December 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (5,716,453)	\$ 235,636
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:		
Provision for loan losses	9,450,000	2,230,000
Stock-based compensation	2,344	7,033
Provision for losses on real estate acquired in settlement of loans	477,201	15,000
Depreciation	652,241	735,617
Loss on other than temporary impairment charge	692,799	-
Loss on disposal on premises and equipment	12,938	1,504
Accretion of (discounts)/premiums on investment securities	3,830	(477,652)
Gain on sale of investment securities- available for sale	(23,344)	(460,480)
Gain on sale of mortgage-backed securities- available for sale	-	(123,943)
Gain on sale of other real estate owned	(70,448)	(169,905)
Gain on sale of loans	(823,092)	(659,507)
Gain on sale of building lots and homes	-	(43,052)
Loans originated for sale	(114,884,631)	(89,130,849)
Proceeds from sale of loans originated for sale	113,190,417	91,652,614
Increase in cash surrender value of bank owned life insurance	(495,584)	(466,275)
(Increase) decrease in other assets	(2,089,136)	748,188
Decrease in accrued interest receivable	314,121	93,943
Change in Deferred income taxes	(3,225,221)	(542,035)
Change in federal income taxes receivable	(357,074)	222,766
Excess tax benefits from stock-based compensation	(8,432)	(34,975)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(416,255)	486,105
Decrease in accrued interest payable	(46,534)	(7,728)
Increase (decrease) in net deferred loan fees	40,326	(6,585)
Net cash (used in) provided by operating activities	<u>(3,319,987)</u>	<u>4,305,420</u>
INVESTING ACTIVITIES:		
Net increase in loans receivable- held for investment	(19,142,375)	(22,813,924)
Purchase of mortgage-backed securities - available for sale	(25,576,394)	(66,874,798)
Purchase of mortgage-backed securities - held to maturity	-	(9,134,208)
Purchase of investment securities - available for sale	(5,228,809)	(18,060,000)
Proceeds from sales, calls, and maturities of mortgage-backed securities	46,764,453	36,789,199
Proceeds from sales, calls and maturities of investment securities-available for sale	22,750,755	65,178,954
Redemption (purchase) of Federal Home Loan Bank Stock	175,200	(1,090,800)
Proceeds from sale of premises and equipment	-	13,000
Purchase of premises and equipment	(189,513)	(456,888)
Sale of land held for development	-	43,052
Development of real estate acquired in settlement of loans	(240,470)	(45,875)
Proceeds from sale of real estate acquired in settlement of loans	5,191,423	2,773,102
Net cash provided by (used in) investing activities	<u>24,504,270</u>	<u>(13,679,186)</u>
FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts and savings accounts	28,462,196	11,017,549
Proceeds from issuance of certificates of deposit	92,395,305	15,581,442
Payments for maturing certificates of deposit	(118,144,393)	(50,009,766)
Net increase (decrease) in advance payments by borrowers for taxes and insurance	95,029	(41,097)
Cash dividend paid	(941,969)	(1,364,834)
(Decrease) increase in FHLB Advances	(18,100,000)	24,300,000
Decrease in short term borrowings	-	10,000,000
Proceeds from exercise of stock options	77,369	726,117
Repurchase of stock	-	(405,811)
Excess tax benefits from stock-based compensation	8,432	34,975
Net cash (used in) provided by financing activities	<u>(16,148,031)</u>	<u>9,838,575</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,036,252	464,809
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>4,050,612</u>	<u>3,585,803</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 9,086,864</u>	<u>\$ 4,050,612</u>
CASH PAID DURING THE PERIOD FOR:		
Income taxes	<u>\$ -</u>	<u>\$ 316,000</u>
Interest	<u>\$ 13,645,905</u>	<u>\$ 15,531,508</u>
Non-cash transactions:		
Real estate acquired in settlement of loans	<u>\$ 5,564,665</u>	<u>\$ 7,000,349</u>

See notes to consolidated financial statements.

WSB HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 and DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include WSB Holdings, Inc. (“WSB” or “we”) and its wholly owned subsidiaries, The Washington Savings Bank FSB (“the Bank”), WSB, Inc. and WSB Investments, Inc. (collectively referred to herein, as the “Company”). All significant intercompany balances and transactions between entities have been eliminated.

Nature of Operations – We are primarily engaged in the business of obtaining funds in the form of savings deposits and investing such funds in mortgage loans on residential, construction, and commercial real estate, and various types of consumer and other loans, mortgage-backed securities, and investment and money market securities. We grant loans throughout the Washington DC, Baltimore, Northern Virginia and surrounding metropolitan areas. Borrowers’ ability to repay is dependent upon the economy of these respective areas. WSB, Inc. is primarily engaged in the business of developing single family residential lots. WSB Investments, Inc. was primarily engaged in maintaining and managing an investment portfolio. Due the inactivity of WSB Investments, Inc., the subsidiary was closed and all assets were transferred to the Bank effective December 31, 2009. WSB Realty, LLC is primarily engaged to take assignment of the right to acquire title to certain properties purchased at foreclosure sales. Management is authorized to take usual and customary activities toward the acquisition, rehabilitation, sale, rental and disposition of these properties.

Management Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for loan losses, the valuation of real estate held for development, and the valuation of real estate acquired in settlement of loans.

Cash and Cash Equivalents - Cash and cash equivalents include demand deposits at other financial institutions, interest bearing deposits at other financial institutions and federal funds sold. All cash equivalents have original maturities of three months or less.

Investment Securities and Mortgage-Backed Securities - Investment Securities and Mortgage-Backed Securities are required to be segregated into the following three categories: trading, held-to-maturity, and available-for-sale. Trading securities are purchased and held principally for the purpose of reselling them within a short period of time with unrealized gains and losses included in earnings. Debt securities classified as held-to-maturity are accounted for at amortized cost and require the Company to have both the positive intent and ability to hold those securities to maturity. Securities not classified as either trading or held-to-maturity are considered to be available-for-sale. The premium or discount associated with these securities are amortized on a level yield to the full term of the securities. Unrealized gains and losses for available-for-sale securities are excluded from earnings and reported, net of income taxes, as other comprehensive income, a separate component of stockholders’ equity, until realized. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the

financial condition of the issuer or issuers and (3) the structure of the security. An impairment loss is recognized in earnings only when: (1) we intend to sell the debt security; (2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or (3) we do not expect to recover the entire amortized cost basis of the security. In situations where we intend to sell or when it is more likely than not that we will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in stockholders' equity as a component of other comprehensive income, net of deferred taxes. Credit loss is determined by calculating the present value of future cash flows of the security compared to the amortized cost of the security. Realized gains or losses on the sale of investment and mortgage-backed securities are reported in earnings and determined using the amortized cost of the specific security sold.

Restricted Stock Investments – The Bank, as a member of the Federal Home Loan Bank System, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Atlanta (“FHLB”) in varying amounts based on balances of outstanding home loans and on amounts borrowed from the FHLB. Because no ready market exists for this stock and it has no quoted market value, our investment in this stock is carried at cost.

Loan Origination Fees, Discounts, and Premiums on Loans - Loan origination fees and direct loan origination costs are deferred and recognized as an adjustment to yield over the lives of the related loans utilizing the interest method. The amortization of such deferred fees and costs is adjusted for the prepayment experience on a loan-by-loan basis. Commitment fees to originate or purchase loans are deferred, and if the commitment is exercised, they are recognized over the life of the loan as an adjustment of yield. If the commitment expires unexercised, commitment fees are recognized in income upon expiration of the commitment.

Loans Receivable - We originate mortgage, commercial and consumer loans for portfolio investment and mortgage loans for sale in the secondary market. During the period of origination, mortgage loans are designated as either held-for-sale or held-for-investment purposes. Mortgage loans held-for-sale are carried at the lower of cost or fair value, determined on an individual loan basis. There was no valuation allowance required as of December 31, 2009 or December 31, 2008 on loans held-for-sale. The basis of loans sold include any deferred loan fees and costs. Loans held-for-investment are stated at their principal balance outstanding net of related deferred fees and cost. Transfers of loans held-for-investment to the held-for-sale portfolio are recorded at the lower of cost or market value on the transfer date with any reduction in a loan's value reflected as a write-down of the recorded investment resulting in a new cost basis with a corresponding charge to the allowance for loan losses.

Income Recognition on Loans Receivable - Interest on loans receivable is credited to income as earned on the principal amount outstanding. For those loans that are carried on non-accrual status, interest income is recognized on the cash basis or cost recovery method. Loans are generally placed on non-accrual status when the collection of principal or interest is four payments or more past due, or earlier, if collection is deemed uncertain. Previously accrued but uncollected interest on these loans is charged against interest income. Loans may be reinstated to accrual status when such loans have been brought current, as to both principal and interest, and the borrower demonstrates the ability to pay and remain current.

Allowance for Loan Losses – The allowance for loan losses represents an amount which, in management's judgment, reflects probable losses on existing loans and other extensions of credit that

may become uncollectible as of the balance sheet date. The allowance for loan losses consists of an allocated component, consisting of both formula and specific allowances, and a non-specific component. The adequacy of the allowance for loan losses is determined through review and evaluation of the loan portfolio along with ongoing monthly assessments of the probable losses inherent in that portfolio, and, to a lesser extent, in unused commitments to provide financing. Loans deemed uncollectible are charged against, while recoveries are credited to, the allowance. Management adjusts the level of the allowance through the provision for loan losses, which is recorded as a current period operating expense. Our methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances and the non-specific allowance. The amount of the allowance is reviewed monthly by the Loan Committee, and reviewed and approved by the Board of Directors.

The formula allowance is calculated by applying loss factors to corresponding categories of outstanding loans. Loss factors consider our historical loss experience in the various portfolio categories over the prior twelve months. The use of these loss factors is intended to reduce the differences between estimated losses inherent in the portfolio and observed losses.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred in an amount different from the amount determined by application of the formula allowance. For other problem-graded credits, allowances are established according to the application of loan risk factors. These factors are set by management to reflect its assessment of the relative level of risk inherent in each grade.

The non-specific allowance is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. Such conditions include general economic and business conditions affecting key lending areas, loan quality trends (including trends in delinquencies and nonperforming loans expected to result from existing conditions), loan volumes and concentrations, specific industry conditions within portfolio categories, recent loss experience in particular loan categories, duration of the current business cycle, bank regulatory examinations results and management's judgment with respect to various other conditions including credit administration and management and the quality of risk identification systems. Executive management reviews these conditions monthly.

Management believes that the allowance for loan losses reflects its best estimate of the probable losses in the held-for-investment loan portfolio as of the respective balance sheet date. However, the determination of the allowance requires significant judgment, and estimates of probable losses inherent in the loan portfolio can vary significantly from the amounts actually observed. 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 loan portfolio and changes in the financial condition of borrowers, such as may result from changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our loan portfolio and allowance for loan losses. Such review may result in recognition of additions to the allowance for loan losses based on the examiners' judgments of information available to them at the time of their examination.

Impairment of Loans - We consider a loan impaired when it is probable that we will be unable to collect all interest and principal payments as scheduled in the loan agreement. A loan is tested for impairment once it becomes four payments past due. A loan is not considered impaired during a period of "insignificant delay" in payment if the ultimate collectability of all amounts due is expected.

We define an “insignificant delay” in payment as past due less than four payments. A valuation allowance is maintained to the extent that the measure of the impaired loan is less than the recorded investment. Our residential mortgage and consumer loan portfolios are collectively evaluated for impairment. The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided by the collateral. Generally, our impairment on such loans is measured by reference to the fair value of the collateral. Interest income on impaired loans is recognized on the cash basis.

Real Estate Acquired in Settlement of Loans - Real estate acquired in settlement of loans is carried at the lower of our recorded investment or fair value at the date of acquisition. Write-downs to fair value at the date of acquisition are charged to the allowance for loan losses. Subsequent write downs are included in non-interest expense. Costs relating to the development and improvement of a property are capitalized, whereas those relating to holding the property are charged to expense when incurred. The real estate is carried at the lower of acquisition or fair value net of estimated costs to sell subsequent to acquisition. Operating expenses of real estate owned are reflected in other non-interest expenses.

The amounts we could ultimately recover from real estate acquired in settlement of loans could differ materially from the amounts used in arriving at the net carrying value of the assets because of future market factors beyond our control or changes in our strategy for recovering its investment.

Premises and Equipment - Depreciation on buildings, furniture, and equipment is computed using the straight-line method over each asset’s estimated useful life. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life or the lease term. Such estimated useful lives are as follows:

Buildings	39 years
Improvement to buildings	5-10 years
Leasehold improvements	5-10 years
Furniture, equipment	7 years
Computer equipment	4 years
Software	3 years
Automobiles	3 years

Mortgage Banking Activities – It is our current practice to sell mortgage loans without retaining loan servicing rights (commonly referred to as “servicing released”). We have not purchased mortgage loans with servicing rights subsequent to 1994. Prior to 1995, we originated and sold some mortgage loans with servicing retained. The accounting treatment in effect at that time prohibited the capitalization of mortgage rights on internally originated loans that were subsequently sold. Accordingly, there are no capitalized mortgage servicing assets at December 31, 2009 and December 31, 2008.

Advertising Costs – We expense advertising costs as they are incurred.

Income Taxes – We file a consolidated federal income tax return with our subsidiaries. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Any deferred tax asset is reduced by the amount of any tax benefit that more likely than not will not be realized.

A tax position is recognized in the financial statements only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

We recognize interest and penalties related to income tax matters in income tax expense.

Earnings Per Share - Basic earnings per share (EPS) is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options to issue common stock were exercised. Potentially dilutive common shares include incremental shares issuable upon exercise or outstanding stock options using the Treasury Stock Method.

Stock-Based Compensation - We have 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 our 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.

Stock-based compensation is measured based on the grant-date fair value of the awards and the costs are recognized over the period during which an employee is required to provide service in exchange for the award. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

Reclassifications - Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the 2009 presentation.

New Accounting Pronouncements - On July 1, 2009, the Accounting Standards Codification ("ASC") became the Financial Accounting Standards Board (FASB) officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

During December 2007, FASB issued new accounting guidance for business combinations. This guidance is for business combinations for which the acquisition date is on or after December 15, 2008. The guidance requires business combinations to be accounted for using "acquisition accounting" which recognizes and measures the goodwill acquired in the business combination and defines a bargain purchase, and requires the acquirer to recognize that excess as a gain attributable to the acquirer. The Company adopted this new guidance effective March 31, 2009, and adoption did not have a material impact on the Company's consolidated financial statements.

During December 2007, the FASB issued accounting guidance for consolidations which establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an

ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statement, but separate from the parent's equity. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company adopted this guidance effective March 31, 2009, and adoption did not have a material impact on the Company's consolidated financial condition or results of operations.

In March 2008, the FASB issued new guidance regarding disclosures for derivatives. This guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Adoption of this new guidance, effective January 1, 2009, did not have a material impact on the consolidated financial statements.

In April 2009, the FASB issued three related accounting pronouncements intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. These pronouncements include: (1) guidelines for making fair value measurements more consistent with the existing accounting principles when the volume and level of activity for the asset or liability have decrease significantly; (2) guidelines to enhance consistency in financial reporting by increasing the frequency of fair value disclosures; and (3) guidelines to modify existing general standards of accounting for and disclosure of other-than-temporary impairment ("OTTI") losses for impaired debt securities.

The fair value measurement guidance of these pronouncements reaffirms the need for entities to use judgment in determining if a formerly active market has become inactive and in determining fair values when markets have become inactive. The changes to fair value disclosures relate to financial instruments that are not currently reflected on the balance sheet at fair value. Prior to these pronouncements, fair value disclosures for these instruments were required for annual statements only. These disclosures now are required to be included in interim financial statements. The general standards of accounting for OTTI losses were changed to require the recognition of an OTTI loss in earnings only when an entity: (1) intends to sell the debt security; (2) more likely than not will be required to sell the security before recovery of its amortized cost basis; or (3) does not expect to recover the entire amortized cost basis of the security. In situations when an entity intends to sell or more likely than not will be required to sell the security, the entire OTTI loss must be recognized in earnings. In all other situations, only the portion of the OTTI losses representing the credit loss must be recognized in earnings, with the remaining portion being recognized in other comprehensive income, net of deferred taxes.

The adoption of all three pronouncements were effective for interim and annual periods ending after June 15, 2009. WSB adopted these pronouncements for the quarterly period ending June 30, 2009, as required. The adoption of these pronouncements did not have a material effect on the consolidated financial statements.

During May 2009, the FASB issued guidance regarding subsequent events. The objective of this guidance is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. The Company adopted this guidance effective June 30, 2009, and the adoption did not have a material impact on the Company's consolidated financial statements.

During June 2009, the FASB issued guidance on the transfers and servicing of financial assets. This guidance eliminates the concept of a “qualifying special-purpose entity” from the original accounting guidance and removes the exception from applying FASB guidance on consolidation of variable interest entities to qualifying special-purpose entities. This guidance is effective at the beginning of a reporting entity’s first fiscal year that begins after November 15, 2009. The Company does not anticipate that its adoption will have a material impact on the Company’s consolidated financial condition or results of operations.

During June 2009, the FASB issued guidance on the consolidation of variable interest entities. This statement amends the original guidance to require an enterprise to perform an analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity (VIE). This analysis identifies the primary beneficiary of a VIE as the enterprise that has both (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the VIE. Additionally, this new guidance requires an enterprise to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining it has the power to direct the activities of the VIE that most significantly impact the entity’s economic performance. It is effective at the beginning of a company’s first fiscal year that begins after November 15, 2009. The Company does not anticipate that its adoption will have a material impact on the Company’s consolidated financial condition or results of operations.

Other accounting standards that have been issued or proposed by the FASB or other standard setting bodies are not expected to have a material impact on the Company’s financial statements.

2. LOANS RECEIVABLE

Loans receivable held-for-investment consists of the following:

	December 31,	
	2009	2008
FIRST MORTGAGE LOANS:		
Secured by single-family residences	\$ 77,114,657	\$ 73,251,300
Secured by 5 or more- residential	3,084,995	2,840,381
Secured by other properties	41,409,296	9,547,243
Construction loans	5,325,701	14,986,829
Land and land development loans	14,052,903	17,436,264
Land acquisition loans	1,882,875	3,912,556
	<u>142,870,427</u>	<u>121,974,573</u>
SECOND MORTGAGE LOANS	2,817,070	2,360,656
COMMERCIAL AND OTHER LOANS:		
Commercial	103,513,231	117,649,261
Loans secured by savings accounts	157,105	169,423
Consumer installment loans	327,944	195,908
	<u>249,685,777</u>	<u>242,349,821</u>
LESS:		
Allowance for loan losses	(8,181,687)	(4,973,439)
Deferred loan fees	(449,552)	(409,227)
	<u>(8,631,239)</u>	<u>(5,382,666)</u>
TOTAL LOANS RECEIVABLE HELD-FOR-INVESTMENT	<u>\$ 241,054,538</u>	<u>\$ 236,967,155</u>

We originate adjustable and fixed interest rate loans. The adjustable rate loans have interest rate adjustment limitations and are generally indexed to the 1- or 3-year U.S. Treasury index. Future market factors may affect the correlation of the interest rate adjustment with the rates we pay on the short-term deposits that have been primarily utilized to fund these loans. Adjustable interest rate loans at December 31, 2009 and December 31, 2008 was \$1.9 million and \$761,000, respectively.

Loans secured by other properties increased due to a re-classification of loans previously reported as commercial loans.

Allowance for Loan Losses - Activity in the allowance for loan losses is summarized as follows:

	Years Ended December 31,	
	2009	2008
BALANCE, BEGINNING OF YEAR	\$ 4,973,439	\$ 4,216,703
Provision (reversal) charged to operations	9,450,000	2,230,000
Charge-offs	(6,571,376)	(1,510,663)
Recoveries of previously charged-off amounts	329,624	37,399
	<u>8,181,687</u>	<u>4,973,439</u>
BALANCE, END OF YEAR	<u>\$ 8,181,687</u>	<u>\$ 4,973,439</u>

Loans on which the recognition of interest has been discontinued amounted to approximately \$27.0 million and \$18.3 million at December 31, 2009 and 2008, respectively. If interest income had been recognized on those loans at their stated rates during the years ending December 31, 2009 and 2008, interest income would have been increased by approximately \$1.6 million and \$954,000,

respectively. The total allowance for loan losses on these impaired loans was approximately \$4.6 million and \$2.8 million at December 31, 2009 and 2008, respectively.

Year-end impaired loans were as follows:

	December 31,	
	<u>2009</u>	<u>2008</u>
Balance of impaired loans with no allocated allowance	\$ 1,611	\$ 647
Balance of impaired loans with an allocated allowance	<u>28,499</u>	<u>17,680</u>
Total recorded investment of impaired loans	<u>\$ 30,110</u>	<u>\$ 18,327</u>
Amount of the allowance allocated to impaired loans	<u>\$ 4,586</u>	<u>\$ 2,838</u>

The impaired loans included in the table above were comprised of collateral dependent 1-4 residential real estate, lot loans and commercial real estate loans. The average recorded investment in impaired loans was \$27.1 million and \$12.9 million at December 31, 2009 and 2008.

Non-residential real estate loans had an outstanding balance of \$41.4 million and \$9.5 million at December 31, 2009 and 2008, respectively. These loans consist of loans secured by other properties which increased due to a re-classification of loans previously reported as commercial loans. These loans are considered by management to have somewhat greater risk of collectability due to the dependence on income production. Additionally, all of our non-residential real estate loans were collateralized by real estate (primarily warehouse and office space) in the Washington, D.C. metropolitan area.

We originate and participate in land and land development loans, real estate construction loans and commercial real estate loans, the proceeds of which are used by the borrower for acquisition, development, and construction purposes. Often the loan arrangements require us to provide, from the loan proceeds, amounts sufficient for payment of loan fees and anticipated costs during acquisition, development, or construction, including interest. This type of lending is considered by management to have higher risks. At December 31, 2009 and 2008, the undisbursed portion of such loans totaled \$26.6 million and \$33.3 million, respectively.

Loans serviced for others and not reflected in the consolidated statements of financial condition are \$283,000 and \$310,000, at December 31, 2009 and 2008, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and foreclosure processing. As of December 31, 2009 and 2008, we did not have any mortgage servicing rights. Loan servicing income is recorded on the accrual basis and includes servicing fees from investors and certain charges collected from borrowers, such as late payment fees. In connection with the loans serviced for others, we held borrowers' escrow balances of \$593 and \$1,699 at December 31, 2009 and 2008, respectively.

We have made loans to certain of the Bank's executive officers and directors. These loans were made on substantially the same terms, including interest rate and collateral requirements, as those prevailing at the time for comparable transactions with unrelated customers. The risk of loss on these loans is considered to be no greater than for loans made to unrelated customers.

The following schedule summarizes changes in amounts of loans outstanding to executive officers and directors:

	Years ended December 31,	
	2009	2008
Balance at beginning of year	\$ 8,071,010	\$ 3,390,563
Additions	496,971	8,493,940
Repayments	<u>(2,279,620)</u>	<u>(3,813,493)</u>
Balance at end of year	<u>\$ 6,288,361</u>	<u>\$ 8,071,010</u>

3. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities consisted of the following:

	December 31, 2009			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
AVAILABLE FOR SALE:				
FHLMC pass-through certificates	\$ 28,660,008	\$ 156,856	\$ 54,229	\$ 28,762,635
FNMA pass-through certificates	5,868,343	241,266	-	6,109,609
Other pass-through certificates	<u>72,880,834</u>	<u>515,709</u>	<u>6,540,596</u>	<u>66,855,947</u>
	<u>\$ 107,409,185</u>	<u>\$ 913,831</u>	<u>\$ 6,594,825</u>	<u>\$ 101,728,191</u>
Weighted average interest rate	<u>5.42%</u>			
HELD TO MATURITY:				
Other pass-through certificates	<u>\$ 3,680,814</u>	<u>\$ 164,799</u>	<u>\$ -</u>	<u>\$ 3,845,613</u>
Weighted average interest rate	<u>6.84%</u>			

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
AVAILABLE FOR SALE:				
FHLMC pass-through certificates	\$ 34,564,331	\$ 210,690	\$ 45,044	\$ 34,729,977
FNMA pass-through certificates	8,061,403	301,960	-	8,363,363
Other pass-through certificates	<u>81,374,438</u>	<u>465,109</u>	<u>15,771,479</u>	<u>66,068,068</u>
	<u>\$ 124,000,172</u>	<u>\$ 977,759</u>	<u>\$ 15,816,523</u>	<u>\$ 109,161,408</u>
Weighted average interest rate	<u>5.65%</u>			
HELD TO MATURITY:				
Other pass-through certificates	<u>\$ 8,970,687</u>	<u>\$ 77,795</u>	<u>\$ -</u>	<u>\$ 9,048,482</u>
Weighted average interest rate	<u>7.29%</u>			

The portfolio classified as “Available for Sale” is consistent with management’s assessment and intention as to the portfolio. While we have the intent to hold and do not expect to be required to sell the securities until maturity, from time to time or with changing conditions, it may be advantageous to sell certain securities either to take advantage of favorable interest rate changes or to increase liquidity. Securities classified as “Held to Maturity” are not subject to fair value adjustment due to temporary changes in value due to interest rate; while securities classified as “Available for Sale” are subject to adjustment in carrying value through the accumulated comprehensive income line item in Stockholder’s Equity section of the Statement of Financial Condition.

Gross unrealized losses and fair value by length of time that the individual available-for-sale MBS have been in a continuous unrealized loss position are as follows:

	December 31, 2009		December 31, 2008	
	Fair Value	Continuous Unrealized Losses	Fair Value	Continuous Unrealized Losses
Less than 12 months	\$ 11,582,768	\$ 59,977	\$ 79,924,434	\$ 13,369,023
More than 12 months	<u>39,501,637</u>	<u>6,534,848</u>	<u>5,655,025</u>	<u>2,447,500</u>
Total	<u>\$ 51,084,405</u>	<u>\$ 6,594,825</u>	<u>\$ 85,579,459</u>	<u>\$ 15,816,523</u>

Other-than-temporary impairment losses recognized in net earnings, related to available-for-sale investments, for the period ending December 31, 2009, were as follows:

	<u>Twelve Months Ended</u> <u>December 31, 2009</u>	
Total gross unrealized losses on other-than-temporary impaired securities	\$	(1,726)
Portion of losses recognized in Comprehensive Income(before taxes)		<u>(1,033)</u>
Net other-than-temporary impairment losses recognized in net earnings/(loss)	\$	<u><u>(693)</u></u>

In evaluating whether a security was other than temporarily impaired, we considered the severity and length of time impaired for each security in a loss position. Other qualitative data was also considered including recent developments specific to the organization issuing the security, market liquidity, extension risk, credit rating downgrades as well as analysis of performance of the underlying collateral.

We believe that the unrealized losses, other than those included in the table above, are not other-than-temporary. The unrealized losses are driven by market illiquidity causing price deterioration. Because our intention is not to sell the mortgage-backed securities (“MBS”) and it is not more likely than not that we will be required to sell the MBS before recovery of their amortized cost bases, which may be maturity, management does not consider these MBS to be other-than-temporarily impaired at December 31, 2009.

The net other-than-temporary impairment losses recognized in earnings relate to credit loss. Credit losses reflect the difference between the present value of the cash flows expected to be collected and the amortized cost. The credit loss was determined through an income approach using prepayment speeds, default rates and default percentages.

We had no sales of mortgage-backed securities during year ending December 31, 2009. Proceeds from sale of mortgage-backed securities available-for-sale were as follows as of December 31, 2008:

	<u>December 31, 2008</u>		
	<u>Carrying Value</u>	<u>Proceeds</u>	<u>Gross Realized Gain on sales</u>
FNMA pass-through certificates	<u>\$ 5,769,116</u>	<u>\$ 5,893,059</u>	<u>\$ 123,943</u>

4. INVESTMENT SECURITIES

Investment securities consist of the following:

December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
AVAILABLE FOR SALE:				
FHLB Agencies	\$ 27,557,681	\$ 1,193,200	\$ 56,892	\$ 28,693,989
Municipal Bonds	2,299,734	59,081	-	2,358,815
	<u>\$ 29,857,415</u>	<u>\$ 1,252,281</u>	<u>\$ 56,892</u>	<u>\$ 31,052,804</u>

December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
AVAILABLE FOR SALE:				
FHLB Agencies	\$ 37,056,283	\$ 607,915	\$ 123,682	\$ 37,540,516
FNMA	8,000,000	434,380	-	8,434,380
Municipal Bonds	2,303,564	-	38,359	2,265,205
	<u>\$ 47,359,847</u>	<u>\$ 1,042,295</u>	<u>\$ 162,041</u>	<u>\$ 48,240,101</u>

Proceeds from the sale of investment securities available-for-sale were as follows for the respective twelve month periods ending December 31, 2009 and 2008:

December 31, 2009			
	Carrying Value	Proceeds	Gross Realized Gain on sales
FHLB Agencies- called	\$ 5,000,000	\$ 5,023,344	\$ 23,344
	<u>\$ 5,000,000</u>	<u>\$ 5,023,344</u>	<u>\$ 23,344</u>
December 31, 2008			
	Carrying Value	Proceeds	Gross Realized Gain on sales
FHLB Agencies- called	\$ 24,972,011	\$ 24,985,000	\$ 12,989
FHLB Agencies -sales	26,866,083	27,313,574	447,491
	<u>\$ 51,838,094</u>	<u>\$ 52,298,574</u>	<u>\$ 460,480</u>

The gain on the sale of investments for the twelve month period ending December 31, 2009 resulted from an investment being called prior to maturity. The gain from the same period of the prior fiscal year is the result of restructuring short term investments within the Bank's portfolio to highly-rated mortgage-backed securities in an effort to minimize reinvestment risk while improving portfolio yield.

In evaluating whether a security was other than temporarily impaired, we considered the severity and length of time impaired for each security in a loss position. Other qualitative data was also considered including recent developments specific to the organization issuing the security and the overall environment of the financial markets.

Gross unrealized losses and fair value by length of time that the individual available-for-sale investment securities have been in a continuous unrealized loss position are as follows:

	December 31, 2009		December 31, 2008	
	Fair Value	Continuous Unrealized Losses	Fair Value	Continuous Unrealized Losses
Less than 12 months	\$ 5,083,109	\$ 56,892	\$ 7,279,874	\$ 114,669
More than 12 months	-	-	7,887,692	47,372
Total	<u>\$ 5,083,109</u>	<u>\$ 56,892</u>	<u>\$ 15,167,566</u>	<u>\$ 162,041</u>

All of our temporarily impaired securities are defined as impaired due to declines in fair values resulting from increases in interest rates compared to the time they were purchased. None of these securities have exhibited a decline in value due to changes in credit risk. Furthermore, we have the ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value and do not expect to realize losses on any of these holdings. As such, management does not consider the impairments to be other than temporary.

Maturities for the investment securities are as follows:

	2009	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ -	\$ -
Due after one year through five years	22,417,681	23,610,882
Due after five years through ten years	5,140,000	5,083,108
Due after ten years	2,285,000	2,358,814
Total debt securities	<u>\$ 29,842,681</u>	<u>\$ 31,052,804</u>

5. LAND HELD FOR DEVELOPMENT

WSB's wholly owned subsidiary, WSB, Inc., purchased land in Maryland to develop into single family building lots that were offered for sale to third parties. The subsidiary also builds homes on certain lots on a contract basis. WSB, Inc. had no development sales for the year ended December 31, 2009. During the year ended December 31, 2008, WSB, Inc. sold an undeveloped lot for a net profit of \$43,052.

Projects are carried at the lower of cost or net realizable value. The ability of the subsidiary to recover the carrying value of real estate held for development is based upon future sales. The ability to affect such sales is subject to market conditions.

Gross proceeds from the sale of lots were \$0 and \$47,000 for the fiscal years ended December 31, 2009 and 2008, respectively.

6. REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

Real estate acquired in settlement of loans consists of the following:

	December 31,	
	2009	2008
Single family properties	\$ 2,111,894	\$ 2,455,477
Land	3,503,060	2,485,178
Commercial	-	505,500
Less: valuation allowance	38,160	-
	<u>\$ 5,653,114</u>	<u>\$ 5,446,155</u>

Noncash transfers from loans receivable to real estate acquired in settlement of loans were \$6,041,866 and \$7,000,349 for the years ended December 31, 2009 and December 31, 2008, respectively.

7. PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	Years ended December 31,	
	2009	2008
Buildings	\$ 6,838,468	\$ 6,824,736
Land	1,038,294	1,038,294
Furniture and fixtures	3,073,465	3,313,095
Leasehold improvements	405,173	401,751
Automobiles	173,291	173,291
	<u>11,528,691</u>	<u>11,751,167</u>
Less accumulated depreciation and amortization	<u>(6,360,780)</u>	<u>(6,107,590)</u>
	<u>\$ 5,167,911</u>	<u>\$ 5,643,577</u>

Depreciation expense totaled \$652,000 and \$736,000 for the years ending December 31, 2009, respectively. Loss on disposal of assets totaled \$(12,938) and \$(1,504) for the years ending December 31, 2009 and 2008, respectively.

The Company has entered into long-term operating leases for certain premises. Some of these leases require payment of real estate taxes and other related expenses, and some contain escalation

clauses that provide for increased rental payments under certain circumstances. Certain leases also contain renewal options. Rental expense under leases for the years ended December 31, 2009 and December 31, 2008 was \$285,354 and \$355,640, respectively.

At December 31, 2009, the minimum rental commitment for the non-cancelable leases is as follows:

Year ending December 31,	Total
2010	\$ 255,190
2011	228,020
2012	184,638
2013	101,024
2014	67,520
	<u>\$ 836,392</u>

8. DEPOSITS

Deposits consist of the following:

	Years Ended			
	December 31, 2009		December 31, 2008	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Non-interest-bearing:				
Checking accounts	\$ 9,633,496	- %	\$ 4,985,495	- %
Interest-bearing:				
NOW accounts	20,503,916	0.78	18,737,073	0.77
Savings deposits	60,211,489	1.34	38,165,826	1.87
Time Deposits	<u>163,472,581</u>	2.64	<u>189,266,514</u>	4.00
	244,187,986		246,169,413	
	<u>\$ 253,821,482</u>	2.09 %	<u>\$ 251,154,908</u>	3.34 %

Time deposits at December 31, 2009 mature as follows:

	Amount	Average Interest Rate
Under 6 months	\$ 41,038,544	3.24 %
6 to 12 months	45,680,369	2.40
12 to 24 months	43,642,283	1.98
24 to 36 months	17,537,464	3.14
36 to 48 months	3,276,611	3.59
48 to 60 months	<u>12,297,310</u>	2.96
	<u>\$ 163,472,581</u>	2.64 %

Our deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC has temporarily raised its coverage amounts through December 31, 2013 from \$100,000 to \$250,000 per insured depositor (as defined by law and regulation) and up to \$250,000 for deposits held by

individual retirement accounts and are backed by the full faith and credit of the United States Government.

As of December 31, 2009, we have approximately 244 time deposits with a balance in excess of \$100,000 for a total of \$83,127,028, compared to approximately 238 for a total of \$98,296,175 at December 31, 2008. These funds were primarily used to fund our loan originations. Of this total, approximately 16 accounts are funds received through brokers. These brokered accounts consist of individual accounts issued under master certificates in the broker's name. These types of accounts meet the FDIC requirements and are federally insured.

The following is a summary of interest expense on deposits:

	Years ending December 31,	
	2009	2008
NOW Accounts	\$ 860,577	\$ 939,252
Savings Deposits	113,247	134,637
Time Deposits	<u>6,747,937</u>	<u>8,682,378</u>
	<u>\$ 7,721,761</u>	<u>\$ 9,756,267</u>

9. BORROWINGS

Borrowings are as follows:

	Year Ended December 31, 2009			
	Balance	Rate	Average balance	Weighted
	at year end	at year end	for the year	average rate
FHLB-advances-fixed	\$ 99,000,000	4.56%	\$ 104,300,000	4.48%
Reverse Repurchase Agreements	30,000,000	3.82%	30,000,000	3.82%
	<u>\$ 129,000,000</u>		<u>\$ 134,300,000</u>	

	Year Ended December 31, 2008			
	Balance	Rate	Average balance	Weighted
	at year end	at year end	for the year	average rate
FHLB-advances-fixed	\$ 117,100,000	4.08%	\$ 100,600,000	4.57%
Reverse Repurchase Agreements	30,000,000	3.82%	29,000,000	3.82%
	<u>\$ 147,100,000</u>		<u>\$ 129,600,000</u>	

The fixed rate advances mature as follows:

<u>Year ending December 31,</u>	<u>Total</u>
2010	\$ 43,000,000
2011	30,000,000
2012	20,000,000
2013	10,000,000
2014	-
and thereafter	26,000,000
Total	<u>\$ 129,000,000</u>

At December 31, 2008, total borrowings consisted of \$117.1 million in FHLB advances and \$30.0 million in reverse repurchase agreements. During January 2009, we repaid the daily rate credit of \$13.1 million and a FHLB advance of \$5.0 million matured in October 2009, bringing the balance of FHLB borrowing to \$99.0 million and total borrowings to \$129.0 million at December 31, 2009. To meet our funding needs during the current calendar year, we purchased FHLB daily rate credits that were repaid within 30 days. We are required to maintain collateral against FHLB advances. This collateral consisted of a blanket lien on our 1-to-4 family residential loan portfolio, commercial real estate loan portfolio and multi-family first trust mortgage portfolio, which had a balance of \$58,737,625 and \$45,043,163 at December 31, 2009 and 2008, respectively.

During the years ended December 31, 2009 and 2008, the maximum month end balance of other borrowings was \$143,000,000 and \$147,100,000, respectively. We currently have an unused secured line of credit of \$10.0 million with First Tennessee Bank, a \$5.0 million unused secured line of credit with M & T Bank as well as a \$4.0 million unused unsecured line of credit with M & T Bank.

10. BENEFIT PLANS

Profit Sharing/401(k) Retirement Plan – The Bank has a 401(k) Retirement Plan (“401(k)”). The Plan offers a corporate match program of 100% of the first 3% of employee directed contributions and a 50% match up to an additional 2% of employee directed contributions. The corporate match is effective for employee contributions after September 1, 2006. For the calendar year ending December 31, 2009 and 2008, we recognized expenses of \$151,000 and \$159,000, respectively.

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 410,875 options remain available for grant. No options were issued during 2009. However, 25,500 options granted under the 1999 Plan expired during the twelve month period ending December 31, 2009. During 2008 the 1997 Plan, which still had 4,000 shares available for issuance pursuant to option grants, expired. Options granted expire ten years after grant date with the exception of options granted under the Non-Employee Directors’ Plan and the 5,000 options granted to Mr. Bowman in 2005 pursuant to the terms of his employment agreement, each of which expire 5 years after the grant date. Options are exercisable at 50% one year after the date of grant and the remaining 50% two years after the date of grant. The options issued under the Non-Employee Directors’ Plan are exercisable at 25% on the first and second anniversary dates and the remaining 50% three years after the date of grant. The exercise price of the options granted pursuant to these plans is equal to the market price of the shares on the date of grant.

Information with respect to stock options is as follows:

	December 31,			
	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	508,475	\$3.24	818,575	\$2.93
Exercised	(34,500)	2.25	(303,900)	2.39
Granted	-	-	-	-
Forfeited/expired	<u>(28,500)</u>	3.04	<u>(6,200)</u>	4.18
Outstanding at end of year	<u>445,475</u>	\$3.33	<u>508,475</u>	\$3.24
Exercisable at end of year	<u>445,475</u>	\$3.33	<u>505,975</u>	\$3.21

A summary of options outstanding and exercisable at December 31, 2009 is as follows:

Options Outstanding and Exercisable		
Exercise Price	Shares	Weighted Average Remaining Life (years.months)
\$2.2083	48,100	0.10
\$2.2500	40,500	0.03
\$2.2917	10,500	0.11
\$2.5800	21,000	1.03
\$3.1667	9,000	1.10
\$3.2667	115,500	1.11
\$3.4667	162,000	2.01
\$5.2000	28,875	3.03
\$8.6500	5,000	8.09
\$9.1100	5,000	0.09
	<u>445,475</u>	1.09

There were no options granted during 2009 or 2008. The total intrinsic value of options exercised during the years ended December 31, 2009 and 2008 was \$22,681 and \$102,868, respectively. The aggregate intrinsic value of all options outstanding and exercisable was \$8,505 at December 31, 2009. Total pre-tax stock-based compensation of \$2,344 and \$7,033 were recognized in the Statements of Earnings for the years ended December 31, 2009 and December 31, 2008, respectively. All outstanding options are vested and there is currently no unrealized compensation cost related to non-vested share based compensation arrangements.

11. CONTINGENCIES

During 2003 we donated land we had foreclosed upon to the Maryland Environmental Trust and took a tax deduction for a conservation easement charitable donation. We valued the donation at \$2,008,000 based on an independent appraisal of the land, and the deduction netted us a tax benefit of \$745,000. The Internal Revenue Service ("IRS") disagreed that the conservation easement satisfied the statutory legal requirements under 26 U.S.C. §170(h) and, in the alternative, determined that the appraised value was too high. On April 6, 2006, the IRS disallowed the deduction in its entirety and asserted substantial overvaluation penalties of \$212,000 under 26 U.S.C. § 6662. On May 8, 2006, we filed a timely Protest appealing the proposed adjustments and, when the IRS refused to agree with a valuation we would accept, we filed a Petition in the U.S. Tax Court challenging the determination. We were scheduled to begin trial on this matter on February 1, 2010. After exchanging expert reports and filing an extensive pretrial memorandum, the IRS conceded all of the legal issues in the case and agreed to a valuation of the easement in the amount of \$1,300,000 (no penalties will be imposed). We are waiting for the IRS to provide final Decision documents setting forth the amount of tax due. Upon receipt, the proposed Decision will be signed and filed with the court. As previously noted, we recorded a liability of approximately \$405,574, as a result of this pending issue.

12. STOCKHOLDERS' EQUITY AND REGULATORY MATTERS

We are insured by the FDIC through its Deposit Insurance Fund (DIF) and regulated by the Office of Thrift Supervision ("OTS"). As a condition of maintaining the insurance of accounts, we are required to maintain certain minimum regulatory capital in accordance with a formula provided in FDIC regulations. We may not pay dividends on our stock unless all such capital requirements are met. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted assets (as defined), and of total capital (as defined) to risk-weighted assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

Our management believes that, under current regulations, and eliminating the assets of WSB Holdings, Inc., the Bank remains well capitalized and will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond our control, such as a shift in interest rates or a greater than anticipated downturn in the economy in areas where we extend credit, could adversely affect future earnings and, consequently, our ability to meet our future minimum capital requirements.

As of December 31, 2009, the Bank remains well capitalized under the regulatory framework for prompt corrective action. To be categorized as “well-capitalized,” the Bank must maintain minimum core, tier 1 risk-based and total risk-based ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank’s category. The Bank’s actual capital amounts and ratios as of December 31, 2009 and 2008 are presented in the following tables:

	<u>Actual</u>		<u>Adequacy Purposes</u>		<u>Corrective Action</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
At December 31, 2009:						
Tangible (to Tangible Assets)	\$ 46,742,817	10.76 %	\$ 6,518,855	1.50 %	N/A	N/A
Core (leverage) (to Adjusted Tangible Assets)	46,742,817	10.76 %	17,383,614	4.00 %	\$ 21,729,517	5.00 %
Tier 1 capital (to Risk Weighted Assets)	46,742,817	16.96 %	N/A	N/A	16,539,556	6.00 %
Total capital (to Risk Weighted Assets)	46,701,267	16.94 %	22,052,741	8.00 %	27,565,926	10.00 %
At December 31, 2008:						
Tangible (to Tangible Assets)	\$ 52,250,265	11.37 %	\$ 6,890,712	1.50 %	N/A	N/A
Core (leverage) (to Adjusted Tangible Assets)	52,250,265	11.37 %	18,375,233	4.00 %	\$ 22,969,041	5.00 %
Tier 1 capital (to Risk Weighted Assets)	52,250,265	17.64 %	N/A	N/A	17,510,108	6.00 %
Total capital (to Risk Weighted Assets)	55,130,994	18.89 %	23,346,811	8.00 %	29,183,513	10.00 %

The following table summarizes the reconciliation of stockholders’ equity of the Bank to regulatory capital.

	December 31, 2009		
	<u>Tangible Capital</u>	<u>Core Capital</u>	<u>Total Capital</u>
Total stockholders' equity	\$ 44,093,761	\$ 44,093,761	\$ 44,093,761
Nonallowable assets:			
Unrealized depreciation on available for sale securities, net of taxes	2,649,056	2,649,056	2,649,056
Additional item:			
Low level recourse			(3,493,530)
Allowance for loan losses	-	-	3,451,980
Total regulatory capital	<u>\$ 46,742,817</u>	<u>\$ 46,742,817</u>	<u>\$ 46,701,267</u>

	December 31, 2008		
	Tangible Capital	Core Capital	Total Capital
Total stockholders' equity	\$ 44,200,384	\$ 44,200,384	\$ 44,200,384
Nonallowable assets:			
Unrealized depreciation on available for sale securities, net of taxes	8,049,880	8,049,880	8,049,880
Additional item:			
Low level recourse			(773,233)
Allowance for loan losses	-	-	3,653,962
Total regulatory capital	<u>\$ 52,250,264</u>	<u>\$ 52,250,264</u>	<u>\$ 55,130,993</u>

At December 31, 2009 and December 31, 2008, tangible assets used in computing regulatory capital were \$434,590,347 and \$459,380,819, respectively, and total risk-weighted assets used in the computation were \$275,659,263 and \$291,835,136, respectively.

13. EARNINGS PER SHARE

Options to purchase 445,475 and 41,875 shares of common stock were outstanding at December 31, 2009 and December 31, 2008, respectively, but were not included in the computation of diluted EPS because either the options' exercise price was greater than the average market price of the common stock for the respective period or we were in a consolidated net loss position and the effect would have been antidilutive. For the year ended December 31, 2008, 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 respective twelve month period. Average common and common equivalent shares used in the determination of earnings per share were:

	<u>Year Ended December 31,</u>					
	<u>2009</u>			<u>2008</u>		
	<u>Net Loss (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Basic EPS						
Net loss available to Common Stockholders	\$ <u>(5,716,453)</u>	7,849,105	\$ <u>(0.73)</u>	\$ <u>235,636</u>	7,585,155	\$ <u>0.03</u>
Effect of Dilutive Options Incremental Shares		<u>-</u>			<u>325,753</u>	
Diluted EPS						
Net loss available to Common Stockholders	\$ <u>(5,716,453)</u>	<u>7,849,105</u>	\$ <u>(0.73)</u>	<u>235,636</u>	<u>7,910,908</u>	\$ <u>0.03</u>

14. INCOME TAXES

The provision for income taxes consists of the following:

	Year ending December 31,	
	2009	2008
Current taxes:		
Federal	\$ (363,405)	\$ 125,274
State	<u>260</u>	<u>4,024</u>
	<u>(363,145)</u>	<u>129,298</u>
Deferred taxes (credit):		
Federal	(2,829,214)	(428,653)
State	<u>(396,007)</u>	<u>(113,382)</u>
	<u>(3,225,221)</u>	<u>(542,035)</u>
	<u>\$ (3,588,366)</u>	<u>\$ (412,737)</u>

The provision for income taxes differs from that computed at the statutory corporate tax rate as follows:

	Year ended December 31, 2009		Year ended December 31, 2008	
	<u>Amount</u>	<u>Percent of Pretax Income</u>	<u>Amount</u>	<u>Percent of Pretax Income</u>
Tax at statutory rate	\$ (3,163,638)	(34.0)%	\$ (60,214)	(34.0)%
Increases (decreases):				
State income tax net of federal income tax benefit	172	-	2,656	1.5
Bank owned life insurance	(168,499)	(1.8)	(158,534)	(89.5)
Tax exempt interest	(32,881)	(0.4)	(22,824)	(12.9)
Other	<u>(223,520)</u>	<u>(2.4)</u>	<u>(173,821)</u>	<u>(98.2)</u>
	<u>\$ (3,588,366)</u>	<u>(38.6)%</u>	<u>\$ (412,737)</u>	<u>(233.1)%</u>

Deferred income tax assets and liabilities reflect the net tax effects of temporary differences between the financial reporting and the tax bases of assets and liabilities.

The components of net deferred tax assets as of December 31, 2009 and December 31, 2008 are as follows:

	December 31,	
	2009	2008
Deferred tax assets:		
Deferred loan fees	\$ 965,794	\$ 942,793
Allowance for loan losses	3,226,858	1,961,525
Non accrual interest adjustment	643,526	376,218
Allowance for losses on real estate acquired in settlement of loans	15,050	-
Deferred compensation	3,557	13,235
Unrealized loss on available for sale securities	1,769,123	5,505,236
Other than temporary impairment on MBS	273,240	-
Depreciation	591,601	525,683
Net Operating Loss carryforward	1,356,938	-
Other	58,090	78,338
	<u>8,903,777</u>	<u>9,403,028</u>
Deferred tax liabilities:		
Deferred rental income	<u>50,525</u>	<u>38,865</u>
Net deferred tax assets	\$ 8,853,252	\$ 9,364,163

Our federal income tax returns for fiscal years 2002 and 2003 were audited by the Internal Revenue Service. During 2003 we donated land we had foreclosed upon to the Maryland Environmental Trust and took a tax deduction for a conservation easement charitable donation. We valued the donation at \$2,008,000 based on an independent appraisal of the land, and the deduction netted us a tax benefit of \$745,000. The Internal Revenue Service ("IRS") disagreed that the conservation easement satisfied the statutory legal requirements under 26 U.S.C. §170(h) and, in the alternative, determined that the appraised value was too high. On April 6, 2006, the IRS disallowed the deduction in its entirety and asserted substantial overvaluation penalties of \$212,000 under 26 U.S.C. § 6662. On May 8, 2006, we filed a timely Protest appealing the proposed adjustments and, when the IRS refused to agree with a valuation we would accept, we filed a Petition in the U.S. Tax Court challenging the determination. We were scheduled to begin trial on this matter on February 1, 2010. After exchanging expert reports and filing an extensive pretrial memorandum, the IRS conceded all of the legal issues in the case and agreed to a valuation of the easement in the amount of \$1,300,000 (no penalties will be imposed). We are waiting for the IRS to provide final Decision documents setting forth the amount of tax due. Upon receipt, the proposed Decision will be signed and filed with the court.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

We have recorded a liability for uncertain tax positions of \$474,253 as a cumulative effect charge to the retained earnings balance as of August 1, 2007. During 2009, the state of Maryland offered a one-time tax amnesty of which the Bank agreed to pay the state of Maryland interest of \$127,277, bringing the full value of unrecognized tax benefit to \$405,574 at December 31, 2009,

which included accrued interest and penalties. If this liability were de-recognized, it would favorably impact the effective tax rate for the period of de-recognition. These non-current income tax liabilities are recorded in other liabilities in our consolidated balance sheet at December 31, 2009. Interest and penalties related to income tax liabilities are included in income tax expense. The balance of accrued interest and penalties included in the total \$405,574 liability recorded in the consolidated balance sheet at December 31, 2009 was \$58,599.

15. FAIR VALUE MEASUREMENTS

The Company applies guidance issued by FASB regarding fair value measurements which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. This guidance requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under the guidance, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These hierarchy levels are:

Level 1 inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Investment Securities Available-for-Sale

Investment securities available-for-sale is recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans

We do not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principle will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with the FASB's Accounting Standards Codification Receivables Topic. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2009, substantially all of the totally impaired loans were evaluated based upon the fair value of the collateral. In accordance with guidance regarding fair value measurements, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, we record the loan as nonrecurring Level 3.

Loans Held for Sale- Loans held for sale are value based quotations from the secondary market for similar instruments and are classified as level 2 of the fair value hierarchy.

Real Estate Acquired in Settlement of Loans- We record foreclosed real estate assets at the lower cost or estimated fair value on their acquisition dates and at the lower of such initial amount or estimated fair value less estimated selling costs thereafter. Estimated fair value is generally based upon independent appraisal of the collateral. We consider these collateral values to be estimated using Level 2 inputs.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

At December 31, 2009 (In thousands)						
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Trading Gains and (Losses)	Total Changes in Fair Values Included in Period Earnings (1)	
Carrying Value December 31, 2009						
Available-for-Sale Securities	\$ 31,053	\$ -	\$ 31,053	\$ -	\$ -	\$ -
Available-for-Sale Mortgage- Backed Securities	101,728	-	66,671	35,057	-	(693)
	<u>\$ 132,781</u>	<u>\$ -</u>	<u>\$ 97,724</u>	<u>\$ 35,057</u>	<u>\$ -</u>	<u>\$ (693)</u>

(1) The \$693,000 listed in the above column represents an other-than-temporary impairment on one of our mortgage-backed securities. The net other-than-temporary impairment losses recognized in earnings relate to credit loss.

Assets and Liabilities measured at Fair Value on a Nonrecurring Basis

The Company may be required from time to time, to measure certain assets at fair value on a non-recurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below:

At December 31, 2009 (In thousands)				
Carrying Value December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired Loans	\$ 25,524	\$ -	\$ 25,524	\$ -
Loans held for sale	8,304	-	8,304	-
Real estate acquired in settlement of loans	5,653		5,653	
	<u>\$ 39,481</u>	<u>\$ -</u>	<u>\$ 39,481</u>	<u>\$ -</u>

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$30,110,000, with a related valuation allowance of \$4,586,000.

Loans held-for-sale, which are carried at the lower of cost or market, did not have any impairment charge at December 31, 2009.

Real estate acquired in settlement of loans is carried at the lower of our recorded investment or fair value at the date of acquisition. Write-downs to fair value at the date of acquisition are charged to the allowance for loan losses. Subsequent write downs are included in non-interest expense. Costs relating to the development and improvement of a property are capitalized, whereas those relating to holding the property are charged to expense when incurred. The real estate is carried at the lower of acquisition or fair value net of estimated costs to sell subsequent to acquisition. Operating expenses of real estate owned are reflected in other non-interest expenses. The value of REO properties held due to foreclosures at December 31, 2009 were \$5.7 million, of which included a valuation allowance of \$38,160.

The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments". We have determined the fair value amounts by using available market information and

appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	December 31, 2009		December 31, 2008	
	Carrying Amount (000's)	Estimated Fair Value (000's)	Carrying Amount (000's)	Estimated Fair Value (000's)
Assets:				
Cash and cash equivalents	\$ 9,069	\$ 9,069	\$ 4,051	\$ 4,051
Loans receivable, net	249,358	249,861	242,754	248,426
Mortgage-backed securities:				
Held to maturity	3,681	3,846	8,971	8,894
Available for sale	101,728	101,728	109,161	109,161
Investment securities:				
Available for sale	31,053	31,053	48,240	48,240
Investment in Federal Home				
Loan Bank stock	5,911	5,911	6,086	6,086
Bank Owned Life Insurance	11,435	11,435	10,939	10,939
Liabilities:				
Deposits:				
Non-interest-bearing	9,633	9,633	4,985	4,985
Interest bearing	244,188	245,677	246,169	247,405
Borrowings	129,000	130,138	147,100	149,724

Cash and Cash Equivalents - For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Loans Receivable, Net - Loans not having quoted market prices are priced using the discounted cash flow method. The discount rate used is the rate currently offered on similar products. The estimated fair value of loans held-for-sale is based on the terms of the related sale commitments.

Mortgage-Backed Securities - Fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Investment Securities - Fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair values are estimated using quoted market prices for similar securities.

Investment in Federal Home Loan Bank Stock - The carrying amount of Federal Home Loan Bank (FHLB) Stock is a reasonable estimate of fair value as FHLB stock does not have a readily available market and can only be sold back to the FHLB at its par value of \$100 per share.

Bank Owned Life Insurance - The carrying amount of Bank Owned Life Insurance ("BOLI") purchased on a group of officers. BOLI is an insurance product that provides an effective way to offset current employee benefit costs.

Deposits - The fair value of non-interest bearing accounts is the amount payable on demand at the reporting date. The fair value of interest-bearing deposits is determined using the discounted cash flow method. The discount rate used is the rate currently offered on similar products.

Borrowings - The fair value of borrowings is determined using the discounted cash flow method. The discount rate used is the rate currently offered on similar products.

Commitments to Grant Loans and Standby Letters of Credit and Financial Guarantees Written - The majority of our commitments to grant loans and standby letters of credit and financial guarantees written carry current market interest rates if converted to loans. Because commitments to extend credit and letters of credit are generally unassignable by either the Company or the borrower, they only have value to the Company and the borrower and therefore it is impractical to assign any value to these commitments.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2009 and December 31, 2008. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively reevaluated for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

16. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

We are party to financial instruments with off-balance-sheet risk in the normal course of our business to meet the financing needs of our customers and to reduce our own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees.

These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments.

Unless noted otherwise, we do not require collateral or other security to support financial instruments with credit risk.

	Contract Amount	
	December 31, 2009	December 31, 2008
Financial instruments whose contract amounts represent credit risk:		
Commitments to grant mortgage and commercial loans	\$ 3,582,808	\$ 2,105,930
Unfunded commitments to extend credit under existing construction equity line and commercial lines of credit	\$ 26,645,520	\$ 33,327,315
Standby letters of credit and financial guarantees written	\$ 710,451	\$ 903,278

Commitments to grant mortgage and commercial loans, which include pending applications, are agreements to lend to a customer as long as there is no violation of any condition established in the contract. 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 or pending applications will be denied, the total commitment amounts do not necessarily represent future cash requirements. Historically, approximately seventy-five percent of the agreements and pending applications are drawn upon. We evaluate each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. 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.

Standby letters of credit and financial guarantees written are conditional commitments issued by us to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support construction borrowing. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. We hold cash as collateral supporting those commitments for which collateral is deemed necessary.

17. CONDENSED FINANCIAL STATEMENTS- PARENT COMPANY ONLY

WSB HOLDINGS, INC.

CONDENSED STATEMENTS OF FINANCIAL CONDITION - PARENT COMPANY ONLY

AS OF DECEMBER 31, 2009 AND DECEMBER 31, 2008

	December 31,	
	<u>2009</u>	<u>2008</u>
ASSETS		
CASH AND CASH EQUIVALENTS:		
Cash	\$ 817,913	\$ 860,653
Mortgage-backed securities - available for sale at fair value	2,736,660	3,097,741
Accrued interest receivable on investments	11,926	15,818
Premises and equipment - net	4,334,103	4,532,379
Deferred tax asset	434,911	653,194
Investment in wholly owned subsidiaries	46,955,674	52,461,064
Income taxes receivable	93,924	-
Other assets	<u>305,973</u>	<u>347,081</u>
TOTAL ASSETS	\$ <u>55,691,084</u>	\$ <u>61,967,931</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Income taxes payable	\$ -	\$ 13,991
Accounts payable, accrued expenses and other liabilities	<u>185,291</u>	<u>213,815</u>
Total Liabilities	<u>185,291</u>	<u>227,806</u>
STOCKHOLDERS' EQUITY:		
Preferred stock, no stated par value; 10,000,000 shared authorized; none issued and outstanding	-	-
Common stock authorized, 20,000,000 shares at \$.0001 par value. 7,855,732 and 7,821,232 shares issued and outstanding	785	782
Additional paid-in capital	10,717,631	10,629,489
Retained earnings - substantially restricted	44,854,805	51,513,227
Accumulated other comprehensive (loss) income	<u>(67,428)</u>	<u>(403,373)</u>
Total stockholders' equity	<u>55,505,793</u>	<u>61,740,125</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>55,691,084</u>	\$ <u>61,967,931</u>

WSB HOLDINGS, INC.
CONDENSED STATEMENTS - PARENT COMPANY ONLY
As of December 31, 2009 and 2008

Condensed Statement of Operations

	Years Ended December 31,	
	2009	2008
INTEREST INCOME:		
Interest on mortgage-backed securities	\$ 181,296	\$ 212,789
Total interest income	181,296	212,789
NON-INTEREST INCOME:		
Rental income	936,141	1,120,076
Total non-interest income	936,141	1,120,076
NON-INTEREST EXPENSES:		
Salaries and benefits	138,318	155,640
Occupancy expense	37,781	36,681
Depreciation	210,537	205,635
Stationery, printing & supplies	6,310	4,456
Professional services	250,155	219,605
Other taxes	263,764	224,188
Other expenses	526,810	570,048
Total non-interest expenses	1,433,675	1,416,252
LOSS BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED NET (LOSS) INCOME OF SUBSIDIARIES	(316,238)	(83,387)
INCOME TAX BENEFIT	107,519	28,400
EQUITY IN UNDISTRIBUTED NET (LOSS) INCOME OF SUBSIDIARIES	(5,507,734)	290,623
NET (LOSS) INCOME	\$ (5,716,453)	\$ 235,636

Condensed Statement of Cash Flows

	Year Ended December 31,	
	2009	2008
Cash Flows from Operating Activities		
Net (loss) income	\$ (5,716,453)	\$ 235,636
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Equity in undistributed earnings of subsidiaries	5,507,734	(290,623)
Stock based compensation	2,344	7,033
Excess tax benefits from share based payment	(8,432)	(34,975)
Depreciation	210,537	205,635
Accretion of (discounts)/premiums on MBS	(18,250)	(15,838)
Decrease (Increase) in other assets	44,999	(362,899)
Increase in income tax receivable	(87,837)	-
Deferred income tax benefit	(534)	(535,547)
(Decrease) increase in current liabilities	(42,515)	227,806
Net cash used in operating activities	(108,406)	(563,772)
Cash Flows from Investing Activities		
Purchase of premises and equipment	(12,261)	(125,382)
Repayment on MBS available for sale	934,094	337,669
Transfer of premises and equipment from subsidiary	-	(4,612,632)
Transfer of MBS from subsidiary	-	(4,085,677)
Dividends received from subsidiary	-	10,920,000
Net cash provided by investing activities	921,833	2,433,978
Cash Flows from Financing Activities		
Dividends paid	(941,969)	(1,364,834)
Exercise of stock options	77,369	726,117
Repurchase of common stock	-	(405,811)
Excess tax benefits from tax-based compensation	8,432	34,975
Net cash used in financing activities	(856,168)	(1,009,553)
(DECREASE) INCREASE IN CASH	(42,741)	860,653
CASH AT THE BEGINNING OF YEAR	860,653	-
CASH AT END OF YEAR	\$ 817,913	\$ 860,653

18. QUARTERLY DATA (Unaudited)

Summarized quarterly financial information is as follows (amounts in thousands except per share information):

Year Ended December 31, 2009:	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>
Interest income	\$ 6,350	\$ 6,333	\$ 6,145	\$ 5,805
Interest expense	3,600	3,616	3,408	2,967
Net interest income	2,750	2,717	2,736	2,838
Provision for loan losses	2,500	250	6,600	100
Net interest income after provision for loan losses	250	2,467	(3,864)	2,738
(Loss) income before income taxes	(2,392)	(134)	(7,212)	433
Income tax (benefit) expense	(859)	(93)	(2,861)	224
Net (loss) income	(1,533)	(41)	(4,351)	209
Basic earnings per common share	(0.20)	(0.01)	(0.55)	0.03
Diluted earnings per common share	(0.20)	(0.01)	(0.55)	0.03
Year Ended December 31, 2008:	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>
Interest income	\$ 7,057	\$ 6,885	\$ 6,691	\$ 6,430
Interest expense	3,999	3,958	3,809	3,772
Net interest income	3,058	2,927	2,882	2,658
Provision for loan losses	-	-	2,100	130
Net interest income after provision for loan losses	3,058	2,927	782	2,528
Income (loss) before income taxes	657	716	(1,694)	143
Income tax (benefit) expense	189	202	(620)	(184)
Net income (loss)	468	514	(1,074)	327
Basic earnings per common share	0.06	0.07	(0.14)	0.04
Diluted earnings per common share	0.06	0.06	(0.14)	0.04

* * * *

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Our Chief Executive Officer and Principal Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures are effective as of December 31, 2009.

There were no changes in our internal control over financial reporting in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The text and tables under the captions "Proposal 1 - Election of Directors", "Corporate Governance," "Executive Officers of WSB Holdings, Inc." and "Section 16(a) Beneficial Ownership Reporting Compliance" in WSB's Proxy Statement for its 2010 Annual Meeting of Stockholders are incorporated herein by reference.

Item 11. Executive Compensation

The text and tables under the captions "Executive Compensation and Other Information" and "Compensation of Directors" in WSB's Proxy Statement for its 2010 Annual Meeting of Stockholders are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities Authorized For Issuance Under Equity Compensation Plans

The following table sets forth certain information as of December 31, 2009, with respect to compensation plans under which equity securities of WSB are authorized for issuance:

Equity Compensation Plan Information

<u>Plan Category</u>	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	445,475	3.333	410,875

(1) Includes the Non-employee Directors' Stock Option Plan, the 1997 Omnibus Stock Plan, the 1999 Stock Option and Incentive Plan and the 2001 Stock Option and Incentive Plan. The Plans were approved by security holders of the Bank. Effective January 3, 2008, all of the then stockholders of the Bank became stockholders of WSB.

The information contained in the text and tables under the caption "Beneficial Ownership of Securities" in WSB's Proxy Statement for its 2010 Annual Meeting of Stockholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The text under the captions "Corporate Governance – Meetings of the Board of Directors; Independence of the Board of Directors" and "Executive Compensation and Other Information -- Certain Relationships and Related Person Transactions" in WSB's Proxy Statement for its 2010 Annual Meeting of Stockholders is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The text under the captions "Independent Registered Public Accounting Firm" and the Policy on Audit Committee Pre-Approval of Audit Services and Permissible Non-Audit Services of Independent Registered Public Accounting Firm in WSB's Proxy Statement for its 2010 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a)(1) The following consolidated financial statements of WSB and its subsidiaries are included in Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Financial Condition—as of December 31, 2009 and 2008

Consolidated Statements of Operations--Years ended December 31, 2009 and 2008

Consolidated Statements of Changes in Stockholders' Equity--Years ended December 31, 2009 and 2008

Consolidated Statements of Cash Flows--Years ended December 31, 2009 and 2008

Notes to Consolidated Financial Statements

- (a)(2) Financial statements schedules--none applicable or required

- (a)(3) The following is an index of the exhibits included in this report:

<u>Exhibit No.</u>	<u>Item</u>
2.1	- Plan of Merger and Reorganization by and among The Washington Savings Bank, F.S.B., Washington Interim Savings Bank and WSB Holdings, Inc. (Incorporated by reference from WSB's Annual Report on Form S-4 for the fiscal year ended July 31, 2007).
3.1	- Amended and Restated Certificate of Incorporation of WSB Holdings, Inc. (Incorporated by reference from Amendment No. 1 to WSB's Registration Statement on Form S-4, filed October 26, 2007, file no. 333-146877).

- 3.2 - Amended and Restated By-Laws of WSB Holdings, Inc. (Incorporated by reference from Amendment No. 1 to WSB's Registration Statement on Form S-4, filed October 26, 2007, file no. 333-146877).
- 10.1 - WSB Non-Employee Directors' Stock Option Plan. (Incorporated by reference from WSB's Registration Statement on Form S-4, filed October 23, 2007, file no. 333-146877) †.
- 10.1.1 - Amendment No. 1 to the Non-Employee Directors' Stock Option Plan (Incorporated by reference from WSB's Registration Statement on Form S-8, filed January 18, 2008, file no. 333-148753) †.
- 10.2 - 1997 Omnibus Stock Plan of WSB. (Incorporated by reference from WSB's Registration Statement on Form S-4, filed October 23, 2007, file no. 333-146877) †.
- 10.2.2 - Amendment No. 1 to the 1997 Omnibus Stock Plan (Incorporated by reference from WSB's Registration Statement on Form S-8, filed January 18, 2008, file no. 333-148753) †.
- 10.3 - 1999 Stock Option and Incentive Plan. (Incorporated by reference from WSB's Registration Statement on Form S-4, filed October 23, 2007, file no. 333-146877) †.
- 10.3.3 - Amendment No. 1 to the 1999 Stock Option and Incentive Plan (Incorporated by reference from WSB's Registration Statement on Form S-8, filed January 18, 2008, file no. 333-148753) †.
- 10.4 - 2001 Stock Option and Incentive Plan. (Incorporated by reference from WSB's Registration Statement on Form S-4, filed October 23, 2007, file no. 333-146877).
- 10.4.4 - Amendment No. 1 to the 2001 Stock Option and Incentive Plan (Incorporated by reference from WSB's Registration Statement on Form S-8, filed January 18, 2008, file no. 333-148753) †.
- 10.5 - Form of Stock Award Agreement for executive officers pursuant to 2001 Stock Option and Incentive Plan. (Incorporated by reference from WSB's Registration Statement on Form S-4, filed October 23, 2007, file no. 333-146877) †.
- 10.6 - Employment Agreement dated March 21, 2005 by and among The Washington Savings Bank, F.S.B. and Phillip C. Bowman. (Incorporated by reference from WSB's Registration Statement on Form S-4, filed October 23, 2007, file no. 333-146877) †.
- 10.7 - Form of Stock Option Agreement pursuant to the 1999 Stock Option and Incentive Plan (Incorporated by reference from WSB's Registration Statement on Form S-4, filed October 23, 2007, file no. 333-146877) †.
- 10.8 - Description of payments due certain officers upon a change-in-control (Incorporated by reference from WSB's Form 10-K for the year ended December 31, 2008) †.
- 10.9 - Description of compensation arrangement for William J. Harnett for service as Chairman of the Board (Incorporated by reference from WSB's Form 10-K for the year ended December 31, 2008) †.
- 21 - Subsidiaries of WSB Holdings, Inc. (filed herewith)

- 23 - Consent of Independent Registered Public Accounting Firm (filed herewith).
- 31.1 - Rule 13a-14(a)/15d – 14(a) Certifications of Chief Executive Officer (filed herewith).
- 31.2 - Rule 13a-14(a)/15d –14(a) Certifications of Chief Financial Officer (filed herewith).
- 32.1 - Section 1350 Certifications (furnished herewith).

†Management compensatory arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WSB Holdings, Inc.
(Registrant)

March 24, 2010

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

Principal Executive Officer:

March 24, 2010

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

Principal Financial and Accounting Officer:

March 24, 2010

By: /s/Carol A. Ramey
Carol A. Ramey
Sr. Vice President/
Chief Financial Officer

March 24, 2010 /s/ Phillip C. Bowman
Phillip C. Bowman, Director

March 24, 2010 /s/ George Q. Conover
George Q. Conover, Director

March 24, 2010 /s/ Charles A. Dukes
Charles A. Dukes, Director

March 24, 2010 /s/ William J. Harnett
William J. Harnett, Director

March 24, 2010 /s/ Kevin P. Huffman
Kevin P. Huffman, Director

March 24, 2010 /s/ Eric S. Lodge
Eric S. Lodge, Director

March 24, 2010 /s/ Charles W. McPherson
Charles W. McPherson, Director

March 24, 2010 /s/ Michael J. Sullivan
Michael J. Sullivan, Director

RULE 13a-14(a)/15d – 14(a)
CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER

I, Phillip C. Bowman, certify that:

1. I have reviewed this annual report on Form 10-K of WSB Holdings, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant'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
 - d) 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. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - 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 the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2010

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

RULE 13a-14(a)/15d – 14(a)
CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Carol A. Ramey, certify that:

1. I have reviewed this annual report on Form 10-K of WSB Holdings, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant'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
 - d) 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. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - 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 the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2010

By: /s/ Carol A. Ramey
Carol A. Ramey
Sr. Vice President and Chief Financial Officer

**Written Statement of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002
(18 U.S.C. Section 1350)**

The undersigned, the Chief Executive Officer and the Chief Financial Officer of WSB Holdings, Inc. (the “**Company**”), each hereby certifies that, to his or her knowledge on the date hereof:

- (a) the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2009 (the “**Report**”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Phillip C. Bowman
Phillip C. Bowman
Chief Executive Officer
March 24, 2010

By: /s/ Carol A. Ramey
Carol A. Ramey
Sr. Vice President/Chief Financial Officer
March 24, 2010

This certification is made solely for the purpose of 18 U.S.C. Section 1350, and is not being filed as part of the Form 10-K or as a separate disclosure document, and may not be disclosed, distributed or used by any person for any reason other than as specifically required by law.