

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

FORM 10-Q

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

For The Quarterly Period Ended: **June 30, 2011**

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **000-53003**

\_\_\_\_\_  
**WSB HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

26-1219088  
(I.R.S. Employer  
Identification No.)

4201 Mitchellville Road, Suite 200, Bowie, Maryland 20716  
(Address of principal executive offices, Zip Code)

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

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 (§223.405 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 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 [  ] (Do not check if a smaller reporting company) Smaller reporting company [X ]

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

YES  NO

There were 7,995,232 shares of Common Stock (\$0.0001 Par Value) outstanding as of August 3, 2011.

WSB HOLDINGS, INC. AND SUBSIDIARIES  
FORM 10-Q  
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**Item 1. Financial Statements****WSB HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(UNAUDITED)**

	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
Cash	\$ 888,084	\$ 21,438,474
Federal funds sold and interest bearing deposits at FHLB - Atlanta	4,466,134	2,095,561
Total cash and cash equivalents	<u>5,354,218</u>	<u>23,534,035</u>
Loans receivable:		
Held for sale	4,717,057	24,169,595
Held for investment (net of allowance for loan losses of \$8,126,326 and \$10,219,791 respectively)	218,510,747	223,844,534
Investment securities - available for sale at fair value	60,191,798	22,110,923
Mortgage-backed securities - available for sale at fair value	60,725,106	58,551,837
Investment in Federal Home Loan Bank stock, at cost	4,990,600	5,501,800
Accrued interest receivable on loans	1,114,187	1,169,898
Accrued interest receivable on investments	708,101	465,831
Real estate acquired in settlement of loans	4,881,445	6,055,945
Bank owned life insurance	12,138,905	11,911,801
Premises and equipment - net	4,639,351	4,802,675
Income taxes receivable	112,823	629,167
Deferred income taxes	9,405,284	9,829,655
Other assets	<u>2,734,322</u>	<u>3,352,288</u>
<b>TOTAL ASSETS</b>	<u>\$ 390,223,944</u>	<u>\$ 395,929,984</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 5,818,899	\$ 6,512,064
Interest bearing	249,828,777	260,069,078
Total deposits	<u>255,647,676</u>	<u>266,581,142</u>
Federal Home Loan Bank borrowings	79,000,000	76,000,000
Advances from borrowers for taxes and insurance	888,195	479,480
Accounts payable, accrued expenses and other liabilities	<u>1,750,838</u>	<u>1,250,469</u>
<b>TOTAL LIABILITIES</b>	<u>337,286,709</u>	<u>344,311,091</u>
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, no stated par value; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock authorized, 20,000,000 shares at \$.0001 par value, 7,995,232 and 7,924,732 issued and outstanding as of June 30, 2011 and December 31, 2010, respectively	799	792
Additional paid-in capital	11,095,646	10,872,561
Retained earnings - substantially restricted	41,537,945	40,981,757
Accumulated other comprehensive income (loss)	<u>302,845</u>	<u>(236,217)</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>52,937,235</u>	<u>51,618,893</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 390,223,944</u>	<u>\$ 395,929,984</u>

See notes to consolidated financial statements.

**WSB HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three Months ended		Six Months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
<b>INTEREST INCOME:</b>				
Interest and fees on loans	\$ 3,461,710	\$ 3,930,511	7,177,105	\$ 7,784,539
Interest on mortgage-backed securities	702,752	1,186,758	1,356,836	2,532,894
Interest and dividends on investments	451,491	444,263	744,194	826,314
	<u>4,615,953</u>	<u>5,561,532</u>	<u>9,278,135</u>	<u>11,143,747</u>
<b>INTEREST EXPENSE:</b>				
Interest on deposits	1,007,024	1,279,075	2,122,226	2,594,627
Interest on other borrowings	525,152	1,020,577	1,044,582	2,264,658
	<u>1,532,176</u>	<u>2,299,652</u>	<u>3,166,808</u>	<u>4,859,285</u>
<b>NET INTEREST INCOME</b>	3,083,777	3,261,880	6,111,327	6,284,462
Provision for loan losses	100,000	2,400,000	100,000	2,400,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>2,983,777</u>	<u>861,880</u>	<u>6,011,327</u>	<u>3,884,462</u>
<b>NON-INTEREST INCOME:</b>				
Loan related fees	100,406	90,301	212,526	177,907
Gain on sale of loans	316,432	258,645	680,574	381,790
Gain on sale of investment securities - available for sale	231,427	769,170	414,275	769,170
Gain (Loss) on sale of real estate acquired in settlement of loans	28,359	(6,802)	41,502	(43,202)
Service charges on deposits	27,673	34,446	52,669	69,442
Rental income	93,179	104,617	187,424	206,056
Other income	165,322	162,847	321,133	318,076
	<u>962,798</u>	<u>1,413,224</u>	<u>1,910,103</u>	<u>1,879,239</u>
<b>NON-INTEREST EXPENSE:</b>				
Salaries and benefits	1,732,913	1,694,985	3,693,138	3,255,980
Occupancy expense	163,320	171,577	336,118	348,617
Depreciation	111,840	126,766	226,764	264,492
Advertising	81,651	74,373	168,164	157,265
Service bureau charges	120,517	139,118	254,641	272,176
Service charges from banks	8,247	9,015	17,257	17,663
Stationary, printing and supplies	42,345	49,521	87,190	82,882
Professional services	240,971	162,622	340,028	393,674
FDIC Insurance	219,861	312,561	439,783	614,489
Pre-payment penalty expense	-	1,967,187	-	1,967,187
Provision for losses on real estate acquired in settlement of loans	50,920	439,173	82,799	499,414
Other taxes	79,163	71,003	159,960	152,232
Other	637,636	833,350	1,372,300	1,454,128
	<u>3,489,384</u>	<u>6,051,251</u>	<u>7,178,142</u>	<u>9,480,199</u>
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	457,191	(3,776,147)	743,288	(3,716,498)
<b>INCOME TAX EXPENSE (BENEFIT)</b>	<u>136,600</u>	<u>(1,354,358)</u>	<u>187,100</u>	<u>(1,548,453)</u>
<b>NET EARNINGS (LOSS)</b>	<u>\$ 320,591</u>	<u>\$ (2,421,789)</u>	<u>556,188</u>	<u>\$ (2,168,045)</u>
<b>BASIC EARNINGS (LOSS) PER COMMON SHARE</b>	<u>\$ 0.04</u>	<u>\$ (0.31)</u>	<u>0.07</u>	<u>\$ (0.28)</u>
<b>DILUTED EARNINGS (LOSS) PER COMMON SHARE</b>	<u>\$ 0.04</u>	<u>\$ (0.31)</u>	<u>0.07</u>	<u>\$ (0.28)</u>
<b>CASH DIVIDENDS DECLARED PER COMMON SHARE</b>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>0.00</u>	<u>\$ 0.00</u>
<b>AVERAGE COMMON SHARES OUTSTANDING</b>	<u>7,993,683</u>	<u>7,876,610</u>	<u>7,980,207</u>	<u>7,866,171</u>
<b>AVERAGE DILUTED COMMON SHARES OUTSTANDING</b>	<u>7,994,742</u>	<u>7,876,610</u>	<u>7,981,065</u>	<u>7,866,171</u>

See notes to consolidated financial statements.

WSB HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2010	\$ 785	\$ 10,717,631	\$ 44,854,806	\$ (2,716,504)	\$ 52,856,718
Exercise of Stock Options	5	91,120	-	-	91,125
Tax effect of stock options exercised	-	-	-	-	-
Comprehensive Loss:					
Net Loss	-	-	(2,168,045)	-	(2,168,045)
Other comprehensive income Reclassification adjustment for gains, net of taxes of \$303,361	-	-	-	(465,809)	(465,809)
Net changes in unrealized appreciation on available for sale securities	-	-	-	1,852,071	1,852,071
Total comprehensive Loss					(781,783)
BALANCE, JUNE 30, 2010	<u>\$ 790</u>	<u>\$ 10,808,751</u>	<u>\$ 42,686,761</u>	<u>\$ (1,330,242)</u>	<u>\$ 52,166,060</u>
BALANCE, JANUARY 1, 2011	\$ 792	\$ 10,872,561	\$ 40,981,757	\$ (236,217)	\$ 51,618,893
Exercise of Stock Options	7	220,635	-	-	220,642
Tax effect of stock options exercised	-	2,450	-	-	2,450
Comprehensive Income:					
Net Income	-	-	556,188	-	556,188
Other comprehensive income Reclassification adjustment for gains, net of taxes of \$163,390	-	-	-	(250,886)	(250,886)
Net changes in unrealized appreciation on available for sale securities	-	-	-	789,948	789,948
Total comprehensive income					1,095,250
BALANCE, JUNE 30, 2011	<u>\$ 799</u>	<u>\$ 11,095,646</u>	<u>\$ 41,537,945</u>	<u>\$ 302,845</u>	<u>\$ 52,937,235</u>

See notes to consolidated financial statements

**WSB HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Six months ended June 30 ,	
	<u>2011</u>	<u>2010</u>
<b>OPERATING ACTIVITIES:</b>		
Net earnings (loss)	\$ 556,188	\$ (2,168,045)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	100,000	2,400,000
Depreciation	226,764	264,492
Accretion of discounts on investment securities	315,963	17,477
Gain on sale of mortgage-backed securities-available for sale	(401,052)	(769,170)
Gain on sale of investment securities	(13,223)	-
(Gain) Loss on sale of real estate acquired in settlement of loans	(41,502)	43,202
Gain on sale of loans	(680,574)	(381,790)
Loans originated for sale	(54,548,609)	(34,330,730)
Proceeds from sale of loans originated for sale	74,681,721	35,793,302
Increase in cash surrender value of bank owned life insurance	(227,104)	(237,396)
Change in deferred income taxes	73,306	(1,450,315)
Increase in accrued interest receivable	(186,559)	(82,637)
Decrease in other assets	617,968	326,005
Increase (decrease) in net deferred loan fees	71,387	(57,277)
Change in income taxes payable/receivable	516,344	-
Decrease in accrued interest payable	(11,361)	(12,047)
Increase in accounts payable, accrued expenses and other liabilities	500,369	10,310,835
	<u>21,550,026</u>	<u>9,665,906</u>
Net cash provided by operating activities		
<b>INVESTING ACTIVITIES:</b>		
Net increase in loans	4,142,789	631,187
Purchase of mortgage-backed securities - available for sale	(30,971,549)	75,186
Repayment of mortgage-backed securities - available for sale	18,624,133	25,499,354
Sale of mortgage backed securities -available for sale	10,972,982	-
Redemption of Federal Home Loan Bank Stock	511,200	(247,500)
Purchase of investment securities - available for sale	(43,539,673)	(62,748)
Purchase of investment securities - held to maturity	-	(22,735,000)
Repayment of investment securities - available for sale	5,635,181	2,375,709
Purchase of premises and equipment	(63,441)	(39,530)
Sale of investment securities - available for sale	13,223	14,985,745
Development of real estate acquired in settlement of loans	(33,222)	(48,777)
Proceeds from sale of real estate acquired in settlement of loans	2,268,834	2,303,963
	<u>(32,439,543)</u>	<u>22,737,589</u>
Net cash (used in) provided by investing activities		
<b>FINANCING ACTIVITIES:</b>		
Net increase in demand deposits, NOW accounts and savings accounts	16,206,952	11,571,432
Proceeds from issuance of certificates of deposit	3,057,944	16,675,685
Payments for maturing certificates of deposit	(30,187,000)	(20,512,915)
Net increase in advance payments by borrowers for taxes and insurance	408,715	410,106
Increase in advance from the Federal Home Loan Bank	3,000,000	-
Decrease in advance from Federal Home Loan Bank	-	(8,000,000)
Decrease in other borrowings	-	(30,000,000)
Excess tax benefit from stock-based compensation	2,450	-
Proceeds from exercise of stock options	220,642	91,125
	<u>(7,290,297)</u>	<u>(29,764,567)</u>
Net cash used in by financing activities		
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(18,179,814)	2,638,928
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>23,534,036</u>	<u>9,068,864</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 5,354,222</u>	<u>\$ 11,707,792</u>
<b>CASH PAID DURING THE PERIOD FOR:</b>		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ 3,182,117</u>	<u>\$ 5,053,790</u>
Non-cash transactions:		
Transfer from loans to real estate acquired in settlement of loans	<u>\$ 1,019,610</u>	<u>\$ 3,447,661</u>

See notes to consolidated financial statements.

**WSB HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010**  
**(unaudited)**

1. Financial Statements

The Consolidated Financial Statements for the three and six months ended June 30, 2011 and 2010 have been prepared by WSB Holdings, Inc. ("WSB" or the "Company") without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at June 30, 2011, and for all periods presented, have been made. All significant intercompany transactions have been eliminated.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Management believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (the "2010 Annual Report"), a copy of which is available at [www.twsb.com](http://www.twsb.com) and [www.sec.gov](http://www.sec.gov). The results of operations for the period ended June 30, 2011, are not necessarily indicative of the operating results for the full year, or any other period.

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

2. Earnings Per Common Share

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

	<u>Three Months Ended June 30,</u>					
	<u>2011</u>			<u>2010</u>		
	<u>Net Income</u>	<u>Shares</u>	<u>Per Share</u>	<u>Net Loss</u>	<u>Shares</u>	<u>Per Share</u>
	<u>(Numerator)</u>	<u>(Denominator)</u>	<u>Amount</u>	<u>(Numerator)</u>	<u>(Denominator)</u>	<u>Amount</u>
Basic EPS						
Net income (loss) available to Common Stockholders	\$ <u>320,591</u>	7,993,683	\$ <u>0.04</u>	\$ <u>(2,421,789)</u>	7,876,610	\$ <u>(0.31)</u>
Effect of Dilutive Options						
Incremental Shares		<u>1,059</u>			<u>0</u>	
Diluted EPS						
Net income (loss) available to Common Stockholders	\$ <u>320,591</u>	<u>7,994,742</u>	\$ <u>0.04</u>	\$ <u>(2,421,789)</u>	<u>7,876,610</u>	\$ <u>(0.31)</u>

**WSB HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010**  
**(unaudited)**

	<u>Six Months Ended June 30,</u>					
	<u>2011</u>			<u>2010</u>		
	<u>Net Income</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per Share</u> <u>Amount</u>	<u>Net Loss</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per Share</u> <u>Amount</u>
Basic EPS						
Net income (loss) available to Common Stockholders	\$ 556,188	7,980,207	\$ 0.07	\$ (2,168,045)	7,866,171	\$ (0.28)
Effect of Dilutive Options						
Incremental Shares		858			0	
Diluted EPS						
Net income (loss) available to Common Stockholders	\$ 556,188	7,981,065	\$ 0.07	\$ (2,168,045)	7,866,171	\$ (0.28)

Options to purchase 260,375 shares of common stock were not included in the computation of diluted EPS for the three and six months ended June 30, 2011 because their effect would have been antidilutive.

For the three and six month periods, there was no dilutive effect on EPS as we experienced a loss for the quarter and six month period ending June 30, 2010. Options to purchase 325,375 and 200,875 shares of common stock were excluded in the computation of diluted EPS for the three and six months ended June 30, 2010 because their effect would have been antidilutive.

### 3. 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 WSB's common stock on the date the options are granted. Options predominantly vest over a two year period from the date of grant, and expire not later than ten years from the date of grant.

There were no awards granted during 2011 or 2010. There was no pre-tax stock-based compensation during the three and six months ending June 30, 2011 and 2010.

All outstanding options are vested and there is currently no unrealized compensation cost related to non-vested share based compensation arrangements.

Equity Incentive Plans – On April 27, 2011, the stockholders of WSB Holdings, Inc. approved the adoption of the WSB Holdings, Inc. 2011 Equity Incentive Plan, which reserve shares of common stock for issuance to certain key employees and non-employee directors. The maximum number of shares of our common stock that be issued with respect to awards granted under the plan is 500,000 plus (i) any shares of common stock that are available under the Washington Savings Bank 2001 Stock Option and Incentive Plan (the "2001 Plan") as of its termination date

**WSB HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010**  
**(unaudited)**

(which was April 27, 2001) and (ii) shares of common stock subject to options granted under the 2001 Plan that expire or terminate without having been fully exercised. In no event, however, may the number of shares issuable pursuant to incentive stock options exceed 500,000. The period during which an option granted under the Plan will be exercisable, as determined by the Administrator, will be set forth in the agreement evidencing the option award. However, an incentive stock option may not be exercisable for more than ten years from its date of grant.

The following table summarizes stock option activity for the six month period ended June 30, 2011:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at				
December 31, 2010	341,375	\$3.56		
Exercised	(70,500)	3.16		
Granted	-	-		
Forfeited	<u>(10,500)</u>	-		
Outstanding at				
June 30, 2011	<u>260,375</u>	<u>\$3.71</u>	<u>0.07</u>	<u>\$0</u>
Exercisable at				
June 30, 2011	<u>260,375</u>	<u>\$3.71</u>	<u>0.07</u>	<u>\$0</u>

4. 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). This 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. This 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.

We utilize 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, we 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.

**WSB HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010**  
**(unaudited)**

Under the fair value measurement guidance, we group 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.

An asset or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Management reviews and updates the fair value hierarchy classifications of our assets and liabilities on a quarterly basis.

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 are 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. With the exception of our private labeled mortgage-backed securities, all securities available for sale are classified as Level 2.

Loans

We do not record loans held-for-investment 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

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allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At June 30, 2011, all of the totally impaired loans were evaluated based upon the fair value of the collateral and/or discounted cash flows. 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 valued based on quotations from the secondary market for similar instruments and is classified as level 2 of the fair value hierarchy.

Foreclosed Assets

Foreclosed assets are adjusted for fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value and fair value. Fair value is based upon independent market prices, appraised value of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the foreclosed asset 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 foreclosed asset at nonrecurring Level 3.

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 June 30, 2011 and December 31, 2010:

	At June 30, 2011 (In thousands)				
	Carrying Value June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Changes in Fair Values Included in Period Earnings
Loans held-for-sale	\$ 4,717		\$ 4,717		\$ -
Available-for-sale, FHLB Agencies callable	57,873	-	57,873	-	-
Available-for-Sale, Municipal Bonds	2,319	-	2,319	-	-
Available-for-Sale Residential MBS	60,725	-	40,394	20,331	-
	<u>\$ 125,634</u>	<u>\$ -</u>	<u>\$ 105,303</u>	<u>\$ 20,331</u>	<u>\$ -</u>

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At December 31, 2010 (In thousands)

	Carrying Value December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Changes in Fair Values Included in Period Earnings
Loans held-for-sale	\$ 24,170		\$ 24,170		\$
Available-for-sale, FHLB Agencies callable	19,784	-	19,784	-	-
Available-for-Sale, Municipal Bonds	2,327	-	2,327	-	-
Available-for-Sale Residential MBS	58,552	-	35,187	23,365	(2,932)
	<u>\$ 104,833</u>	<u>\$ -</u>	<u>\$ 81,468</u>	<u>\$ 23,365</u>	<u>\$ (2,932)</u>

Loans held-for-sale, which are carried at the lower of cost or market, did not have any impairment charge at June 30, 2011.

Assets included in Level 3 include our private-labeled mortgage-backed securities (“MBS”) due to lack of observable market data due to decreases in market activity for these securities. Our policy is to recognize transfers in and out as of the actual date of the event or change in circumstances that caused the transfer. No assets were transferred to Level 3 during the three and six month periods ending June 30, 2011. The change in the assets included in Level 3 was due to principal repayments and the change in unrealized gains/losses for the three month period ending June 30, 2011.

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2011 and June 30, 2010.

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>	
	<b>Private Labeled Mortgage-Backed Securities Available for Sale</b>	
	<b>Six months ended June 30,</b>	
	2011	2010
Beginning Balance	\$ 23,365	\$ 40,194
Accretion/Amortization of Discount/Premiums	5	30
Payments received	(4,025)	(5,798)
Difference in Unrealized gain (loss)	986	2,072
Other than temporary impairment		
Ending Balance	<u>\$ 20,331</u>	<u>\$ 36,498</u>

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We 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 at June 30, 2011 and December 31, 2010 is included in the tables below:

	At June 30, 2011 (In thousands)			
	Carrying Value June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans:				
Residential Real estate	\$ 13,121	-	\$ 13,121	-
Construction	-	-	-	-
Land and land Acquisition	3,988	-	3,988	-
Commercial Real Estate and Commercial	14,334	-	14,334	-
Consumer	2	-	2	-
Total Impaired Loans	31,445	-	31,445	-
Real estate acquired in settlement of loans:				
Residential Real estate	\$ 400	-	\$ 400	-
Construction	1,049	-	1,049	-
Land and land Acquisition	1,988	-	1,988	-
Commercial Real Estate and Commercial	1,444	-	1,444	-
Total Real estate acquired in settlement of loans:	4,881	-	4,881	-
Total	\$ 36,326	-	\$ 36,326	-

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	At December 31, 2010 (In thousands)			
	Carrying Value December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans:				
Residential Real estate	\$ 12,228	\$ -	\$ 12,228	\$ -
Construction	1,617	-	1,617	-
Land and land Acquisition	2,942	-	2,942	-
Commercial Real Estate and Commercial	16,304	-	16,304	-
Consumer	1	-	1	-
Total Impaired Loans	<u>33,092</u>	<u>-</u>	<u>33,092</u>	<u>-</u>
Real estate acquired in settlement of loans:				
Residential Real estate	\$ 1,053	\$ -	\$ 1,053	\$ -
Construction	1,330	-	1,330	-
Land and land Acquisition	1,976	-	1,976	-
Commercial Real Estate and Commercial	1,697	-	1,697	-
Total Real estate acquired in settlement of loans:	<u>6,056</u>	<u>-</u>	<u>6,056</u>	<u>-</u>
Total	<u>\$ 39,148</u>	<u>\$ -</u>	<u>\$ 39,148</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 \$35.5 million, with a related valuation allowance of \$4.1 million, at June 30, 2011 compared to principal balance of \$38.8 million, with a related valuation allowance of \$5.7 million, at December 31, 2010.

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 OREO properties held due to foreclosures at June 30, 2011 was \$4.9 million compared to \$6.1 million at December 31, 2010.

Impaired loans and real estate acquired in settlement of loans are classified as Level 2 within the valuation hierarchy.

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The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of FASB's Accounting Standards Codification Topic 820, "Fair Value Measurements and Disclosures". 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 amount 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.

	June 30, 2011		December 31, 2010	
	Carrying Amount (000's)	Estimated Fair Value (000's)	Carrying Amount (000's)	Estimated Fair Value (000's)
Assets:				
Cash and cash equivalents	\$ 5,354	\$ 5,354	\$ 23,534	\$ 23,534
Loans receivable, net	223,228	225,241	248,014	248,175
Mortgage-backed securities:				
Available for sale	60,725	60,725	58,552	58,552
Investment securities:				
Available for sale	60,192	60,192	22,111	22,111
Investment in Federal Home				
Loan Bank stock	4,991	4,991	5,502	5,502
Bank Owned Life Insurance	12,139	12,139	11,912	11,912
Liabilities:				
Deposits:				
Non-interest-bearing	5,819	5,819	6,512	6,512
Interest bearing	249,829	251,297	260,069	261,964
Borrowings	79,000	78,962	76,000	76,086

*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.

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*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 is a reasonable estimate of fair value. 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 un-assignable by either the Bank or the borrower, they only have value to the Bank 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 June 30, 2011 and December 31, 2010. 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 reporting period ending June 30, 2011 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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5. Loans

The following table summarizes loans at June 30, 2011 and December 31, 2010.

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
<b>FIRST MORTGAGE LOANS:</b>		
Secured by single-family residences	\$ 76,091,494	\$ 72,968,063
Secured by 5 or more- residential	3,148,148	3,019,186
Secured by other properties	41,640,577	41,306,353
Construction loans	5,284,608	4,898,672
Land and land development loans	9,441,883	11,613,824
Land acquisition loans	1,299,520	1,849,875
	<u>136,906,230</u>	<u>135,655,973</u>
<b>SECOND MORTGAGE LOANS</b>	2,058,398	2,597,198
<b>COMMERCIAL AND OTHER LOANS:</b>		
Commercial -secured by real estate	84,430,974	92,458,529
Commercial	3,203,576	3,212,401
Loans secured by savings accounts	196,021	205,637
Consumer installment loans	312,214	333,540
	<u>227,107,413</u>	<u>234,463,278</u>
<b>LESS:</b>		
Allowance for loan losses	(8,126,326)	(10,219,791)
Deferred loan fees	(470,340)	(398,953)
	<u>(8,596,666)</u>	<u>(10,618,744)</u>
<b>TOTAL LOANS RECEIVABLE HELD-FOR- INVESTMENT</b>	<u>\$ 218,510,747</u>	<u>\$ 223,844,534</u>

The risks associated with each portfolio class are as follows:

First mortgage loans secured by single family residences, secured by 5 or more residential, secured by other properties and second mortgage loans – The primary risks related to this type of lending include; unemployment, deterioration in real estate values, our ability to access the creditworthiness of the customer, deterioration in the borrowers financial condition (whether the result of personal issues or general economic downturn), the inability of the borrower to maintain occupancy for investment properties, and an appraisal on a property is not reflective of the true property value. Portfolio risk includes condition of the economy, changing demand for these types of loans, large concentration of these types of loans and geographic concentration of these types of loans.

Construction loans – Since this portfolio is substantially owner occupied residential construction loans, the loan specific risks and portfolio risks are the same as described above as first mortgage loans secured by single family residences. However these loans carry the additional risk associated with the builder and the

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potential for builder cost overruns and/or the builder being unable to complete the construction.

Land development loans and land acquisition loans – The primary loan-specific risk in land and land development are: unemployment, deterioration of the business and/or collateral values, deterioration of the financial condition of the borrowers and/or guarantors creates a risk of default, and that an appraisal on the collateral is not reflective of the true property value. 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 development and construction financing. Portfolio risk includes condition of the economy, changing demand for these types of loans, large concentration of these types of loans, and geographic concentrations of these types of loans.

Commercial and Commercial secured by real estate – The primary loan-specific risks in these types of loans are: unemployment, general deterioration in the economy, deterioration of the business and/or business cash flows, financial condition of the guarantors, deterioration of collateral values, and that an appraisal on any real estate collateral is not reflective of the true property value. Portfolio risk includes condition of the economy, changing demand for these types of loans, large concentration of these types of loans, and geographic concentration of these types of loans.

Loans secured by savings accounts and consumer installment loans- The primary risks of these loans are: unemployment, and deterioration of the borrower's financial condition, whether the result of person issues or a general economic downturn. The portfolio risks for these types of loans is the same as for first mortgage loans secured by single family residences as described above.

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Allowance for loan losses and recorded investment in loans for the six months ended June 30, 2011 is summarized as follows:

	Residential Real Estate	Construction	Land and Land Acquisition	Commercial Real Estate and Commercial	Consumer	Total
	<i>(dollars in thousands)</i>					
<b>Allowance for loan losses:</b>						
Beginning balance	\$ 2,891	\$ 326	\$ 2,932	\$ 4,067	\$ 4	\$ 10,220
Charge-offs	(427)	-	(1,344)	(434)	(2)	(2,207)
Recoveries	13	-	-	-	-	13
Provisions	417	(297)	452	(475)	3	100
Ending Balance	<u>2,894</u>	<u>29</u>	<u>2,040</u>	<u>3,158</u>	<u>5</u>	<u>8,126</u>
Ending Balance: individually evaluated for impairment	<u>1,342</u>	<u>-</u>	<u>1,209</u>	<u>1,523</u>	<u>-</u>	<u>4,074</u>
Ending Balance: collectively evaluated for impairment	<u>1,552</u>	<u>29</u>	<u>831</u>	<u>1,635</u>	<u>5</u>	<u>4,052</u>
<b>Loans:</b>						
Ending Balance	<u>\$ 122,988</u>	<u>\$ 5,285</u>	<u>\$ 10,741</u>	<u>\$ 87,635</u>	<u>\$ 508</u>	<u>\$ 227,107</u>
Ending Balance: individually evaluated for impairment	<u>14,462</u>	<u>2</u>	<u>5,198</u>	<u>15,857</u>	<u>-</u>	<u>35,519</u>
Ending Balance: collectively evaluated for impairment	<u>108,476</u>	<u>5,283</u>	<u>5,543</u>	<u>71,778</u>	<u>508</u>	<u>191,588</u>

As part of our on-going monitoring of the credit quality of our loan portfolio, we categorize loans into risk categories based on relevant information about the ability of borrowers to repay their debt. Current financial information, historical payment experience, credit documentation, current economic trends and other factors are used to categorize loans into risk categories.

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Credit quality indicators as of June 30, 2011 are as follows:

**Pass:** Loans classified as pass generally meet or exceed normal credit standards. Factors include repayment source, collateral, borrower cash flows, and performance history.

**Special Mention:** Loans classified 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 classified as substandard 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. These loans are inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged as security for the asset.

**Doubtful:** Loans classified as doubtful consists of loans where we expect a loss, but not a total loss. These loans have all the weaknesses inherent in a substandard asset, in addition, these weaknesses make collection highly questionable or improbable based on the existing circumstances.

**Loss:** Loans classified as loss are considered uncollectible. A loan classified as a loss does not mean that an asset has no recovery value, but that is practical to defer writing off or reserving all or a portion of the asset, even though partial recovery may be collected in the future. Loans that are classified as "Loss" are fully reserved for on our financial statements.

Credit risk profile by internally assigned grade, as described above as of June 30, 2011 is as follows:

	Real Estate	Construction	Land and Land Acquisition	Commercial Real Estate and Commercial	Consumer	Total
	<i>(dollars in thousands)</i>					
Pass	\$ 105,090	\$ 5,285	\$ 5,712	\$ 55,041	\$ 506	\$ 171,634
Special Mention	3,446	-	157	17,514	-	21,117
Substandard	14,022	-	4,613	14,966	2	33,603
Doubtful/Loss	380	-	259	114	-	753
<b>Total</b>	<b>\$ 122,938</b>	<b>\$ 5,285</b>	<b>\$ 10,741</b>	<b>\$ 87,635</b>	<b>\$ 508</b>	<b>\$ 227,107</b>

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Information on impaired loans for the six months ended June 30, 2011 is as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(dollars in thousands)</i>					
<b>With no related allowance recorded:</b>					
Residential Real Estate Construction	\$ 4,048	\$ 4,048	\$ -	\$ 4,122	\$ 72
Land and Land Acquisition	912	912	-	912	9
Commercial Real Estate and Commercial Consumer	864 2	864 2	-	862 2	23 -
<b>With an allowance recorded:</b>					
Residential Real Estate Construction	\$ 9,074	\$ 10,415	\$ 1,341	\$ 9,099	\$ 204
Land and Land Acquisition	3,075	4,285	1,210	3,083	41
Commercial Real Estate and Commercial Consumer	13,470 -	14,993 -	1,523 -	13,367 -	293 -
<b>Total</b>					
Residential Real Estate Construction	\$ 13,122	\$ 14,463	\$ 1,341	\$ 13,221	\$ 276
Land and Land Acquisition	3,987	5,197	1,210	3,995	50
Commercial Real Estate and Commercial Consumer	14,334 2	15,857 2	1,523 -	14,229 2	316 -

At June 30, 2011 and December 31, 2010, nonaccrual loans were \$19.4 million and \$27.1 million, respectively.

An age analysis of past due loans as of June 30, 2011 is as follows:

	Two payments Past Due	Three payments Past Due	Non-Accrual Loans	Total Past Due	Current	Total
<i>(dollars in thousands)</i>						
Residential Real Estate Construction	\$ 3,586	\$ 440	\$ 7,465	\$ 11,491	\$ 111,447	\$ 122,938
Land and Land Acquisition	182	772	4,392	5,346	5,395	10,741
Commercial Real Estate and Commercial Consumer	5,634 24	261 -	7,546 2	13,441 26	74,194 482	87,635 508
<b>Total</b>	<b>\$ 9,426</b>	<b>\$ 1,473</b>	<b>\$ 19,405</b>	<b>\$ 30,304</b>	<b>\$ 196,803</b>	<b>\$ 227,107</b>

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Loans on which the recognition of interest has been discontinued amounted to approximately \$19.4 million and \$27.1 million at June 30, 2011 and December 31, 2010, respectively. If interest income had been recognized on those loans at their stated rates during the period ending June 30, 2011 and 2010, interest income would have been increased in each period by approximately \$1.6 million. The total allowance for loan losses on these impaired loans was approximately \$4.1 million at June 30, 2011 and \$5.7 million at December 31, 2010.

Period-end impaired loans were as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Balance of impaired loans with no allocated allowance	\$ 5,826	\$ 4,641
Balance of impaired loans with an allocated allowance	<u>29,693</u>	<u>34,143</u>
 Total recorded investment of impaired loans	 <u>\$ 35,519</u>	 <u>\$ 38,784</u>
 Amount of the allowance allocated to impaired loans	 <u>\$ 4,074</u>	 <u>\$ 5,693</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 \$31.4 million and \$25.0 million at June 30, 2011 and December 31, 2010, respectively.

6. Investments and Mortgage-Backed Securities

Investment securities consist of the following:

	<u>June 30, 2011</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
AVAILABLE FOR SALE:				
FHLB Agencies	\$ 37,715,721	\$ 488,522	\$ 237,122	\$ 37,967,121
FNMA Agencies	14,995,983	73,967	-	15,069,950
Farmer Mac	5,000,000	-	164,000	4,836,000
Municipal Bonds	2,293,690	25,037	-	2,318,727
	<u>\$ 60,005,394</u>	<u>\$ 587,526</u>	<u>\$ 401,122</u>	<u>\$ 60,191,798</u>

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	<b>December 31, 2010</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>AVAILABLE FOR SALE:</b>				
FHLB Agencies	\$ 9,811,049	\$ 326,524	\$ 160,450	\$ 9,977,123
FNMA Agencies	4,985,020	25,330	-	5,010,350
Farmer Mac	5,000,000	-	203,550	4,796,450
Municipal Bonds	2,295,741	31,259	-	2,327,000
	\$ 22,091,810	\$ 383,113	\$ 364,000	\$ 22,110,923

Mortgage-backed securities consisted of the following:

	<b>June 30, 2011</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>AVAILABLE FOR SALE:</b>				
GNMA certificates	\$ 8,446,191	\$ 72,816	\$ 75,817	\$ 8,443,190
Private label collateralized mortgage obligations	20,921,996	17,547	608,753	20,330,790
FHLMC pass-through certificates	5,765,200	121,649	-	5,886,849
FNMA pass-through certificates	12,583,158	229,220	-	12,812,378
Other pass-through certificates	12,694,856	557,043	-	13,251,899
	\$ 60,411,401	\$ 998,275	\$ 684,570	\$ 60,725,106
Weighted average interest rate	<u>4.71%</u>			

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**(unaudited)**

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
AVAILABLE FOR SALE:				
GNMA certificates	\$ 965,230	\$ 104,993	\$ -	\$ 1,070,223
Private label collateralized mortgage obligations	24,942,257	5,052	1,582,644	23,364,665
FHLMC pass-through certificates	10,165,914	263,607	-	10,429,521
FNMA pass-through certificates	9,099,423	250,779	-	9,350,202
Other pass-through certificates	13,788,148	549,078	-	14,337,226
	\$ 58,960,972	\$ 1,173,509	\$ 1,582,644	\$ 58,551,837
Weighted average interest rate	5.39%			

The portfolio classified as “Available for Sale” is consistent with management’s assessment and intention as to the portfolio. While we have the ability to hold 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 variations, 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 Consolidated Statement of Financial Condition.

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

	June 30, 2011		December 31, 2010	
	Fair Value	Continuous Unrealized Losses	Fair Value	Continuous Unrealized Losses
<b>Less than 12 months</b>				
FHLB Agencies	\$ 13,308,123	\$ 237,122	-	-
Farmer Mac Callable	4,836,000	164,000	-	-
GNMA MBS	7,664,719	75,817	-	-
<b>More than 12 months</b>				
Other pass-through	18,949,598	608,753	23,182,150	1,582,644
Total	\$ 44,758,440	\$ 1,085,692	\$ 23,182,150	\$ 1,582,644

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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, 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 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, as such, management does not consider these MBS to be other-than-temporarily impaired at June 30, 2011.

There are five remaining non-agency MBS that have been rated less than investment grade by at least one rating agency. The remaining portfolio is U.S. Government securities. We continue to aggressively monitor the performance of these securities and the underlying collateral.

Proceeds from the call of investment securities were as follows for the six months ending June 30, 2011:

	<b>June 30, 2011</b>		
	<b>Carrying Value</b>	<b>Proceeds</b>	<b>Gross Realized Gain (Loss) on sales</b>
FNMA - Agency Callable	\$ 4,986,777	\$ 5,000,000	\$ 13,223
	\$ 4,986,777	\$ 5,000,000	\$ 13,223

Proceeds from the sale of mortgage-backed securities were as follows for the six months ending June 30, 2011:

	<b>June 30, 2011</b>		
	<b>Carrying Value</b>	<b>Proceeds</b>	<b>Gross Realized Gain (Loss) on sales</b>
FNMA -available for sale	\$ 3,256,987	\$ 3,475,190	\$ 218,203
FHLMC - available for sale	7,715,995	7,898,844	182,849
	\$ 10,972,982	\$ 11,374,034	\$ 401,052

7. New Accounting Pronouncements

All pending but not yet effective Accounting Standards Updates (“ASU”) were evaluated and only that listed below could have a material impact on our financial condition or results of operations.

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In April 2011, the FASB amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. This guidance is effective for interim and annual reporting periods beginning after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified troubled debt restructurings, the amendments should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company has not determined the impact, if any, upon the adoption of the standard.

In April 2011, the FASB issued ASU No. 2011-03, "Reconsideration of Effective Control for Repurchase Agreements." ASU No. 2011-03 affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendments in ASU No. 2011-03 remove from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. ASU No. 2011-03 also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The guidance is effective for the Company's reporting period ended March 31, 2012. The guidance will be applied prospectively to transactions or modifications of existing transaction that occur on or after January 1, 2012.

In June, 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income." This guidance requires companies to present comprehensive income in a single statement below net income or in a separate statement of comprehensive income immediately following the income statement. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity, which is our current presentation. This guidance does not change which items are reported in other comprehensive income or the requirement to report reclassifications of items from other comprehensive income to net income. This guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and will require retrospective application for all periods presented.

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

Some of the matters discussed below include forward-looking statements within the meaning of the federal securities laws. Forward-looking statements often use words such as “may,” “will,” “believe,” “expect,” “estimate,” “anticipate,” “continue” or other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. Our actual results and the actual outcome of our expectations and strategies could be materially different from those anticipated or estimated for the reasons discussed below and the reasons under the heading “Information Regarding Forward Looking Statements.”

### Overview

The consolidated financial statements include WSB Holdings, Inc. (“WSB”) and its wholly owned subsidiaries, The Washington Savings Bank FSB (the “Bank”), WSB, Inc. and WSB Realty, Inc. (collectively referred to herein, as the “Company”).

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 currently on residential mortgage 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. Our principal expense generally is the interest we pay 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. Our net income is also affected by the level of our non-interest income, including loan-related fees, deposit-based fees, rental income, operations of our service corporation subsidiary, gain on sale of real estate acquired in settlement of loans, gain on the sale of investment securities and gain on sale of loans, as well as our non-interest and tax expenses.

As a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd Frank”) banks are no longer prohibited from paying interest on demand deposit accounts, including those from businesses, effective July 21, 2011. It is not clear what affect the elimination of this prohibition will have on the Bank’s interest expense, allocation of deposits, deposit pricing, loan pricing, net interest margin, ability to compete, ability to establish and maintain customer relationships, or profitability.

During this continuing 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. The Bank originates residential loans for its portfolio and for sale in the secondary market. We had previously focused on diversifying our loan portfolio by broadening our lending emphasis to include commercial real estate and commercial and industrial loans. Recently, however, as demand for these and other areas of lending have slowed, we again are focusing on increasing our mortgage activity in order to reduce balance sheet risk as well as to realize gains on the sale of loans in the secondary market. As a result, our portfolios of commercial business, commercial real estate, and residential land development loans to commercial borrowers have decreased. We also use available funds to retain certain higher-yielding fixed rate residential mortgage loans in our portfolio in order to improve interest income. Although we intend to again focus on diversifying our loan portfolio when demand for these other areas of loans picks up, we believe that our continued efforts to expand our residential mortgage lending department are important to ensure future profitability based on the current slow demand for commercial lending. 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.

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

### Recent Regulatory and Related Developments

On June 3, 2011, WSB Holdings, Inc. (the “Holding Company”) and the Bank, entered into separate Supervisory Agreements (the “Agreements”) with the Office of Thrift Supervision (the “OTS”), their primary banking regulator on such date. Pursuant to regulatory changes instituted by the Dodd-Frank, the Holding Company is now regulated by the Board of Governors of the Federal Reserve (the “Federal Reserve”) and the Bank is now regulated by the Office of the Comptroller of the Currency (the “OCC”).

The Holding Agreements, which are formal enforcement actions initiated by the OTS, require the Holding Company and the Bank to take certain measures to improve their safety and soundness and maintain ongoing compliance with applicable laws. During the course of a routine review at the Company by the OTS bank, examiners identified certain supervisory issues, primarily related to our classified assets. The Supervisory Agreements formalized the current understandings of both the Company and the OTS of the actions that the Holding Company, the Bank and their Board of Directors must undertake to address the issues. Each Agreement will remain in effect until terminated, modified or suspended by the Federal Reserve or OCC, as applicable.

We have adopted many of the requirements required by the Supervisory Agreements and have submitted the information to the appropriate regulators for their approval.

For additional information regarding the Agreements, please see the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2011. The Agreements are also filed as Exhibits 10.12 and 10.13 to this report.

### Critical Accounting Policies

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

Accounting policies considered relatively more critical due to either the subjectivity involved in the estimate and/or the potential impact that changes in the estimates can have on the reported financial results include the accounting for the allowance for loan losses. Information concerning this policy is included in the “Critical Accounting Policies” section of Management’s Discussion and Analysis in our Form 10-K for the year ended December 31, 2010 (“2010 Form 10-K”). There were no significant changes in this accounting policy during the six months ending June 30, 2011.

### Consolidated Results of Operations

Net income for the three and six months ended June 30, 2011 was \$321,000, or \$0.04 per basic and diluted share, and \$556,000, or \$0.07 per basic and diluted share, respectively, compared to net loss of \$2.4 million or (\$0.31) per basic share and diluted share and \$2.2 million, or (\$0.28) per basic and diluted share, respectively, for the corresponding 2010 periods. Net income for the three and six month periods ended June 30, 2011, represents an increase \$2.7 million, or 113%, and \$2.7 million, or 126%, over the same period last year.

The increase in net income for the three and six month periods ending June 30, 2011, is primarily the result of allocating \$100,000 to the Bank's allowance for loan losses during both the three and six month periods ending June 30, 2011 compared to a \$2.4 million provision in the prior year periods. Also, non-interest expenses decreased \$2.6 million, or 42%, and \$2.3 million, or 24%, respectively, for the three and six month periods ending June 30, 2011 primarily as a result of the one-time debt pre-payment penalty that the Bank recognized in 2010 as compared to the same periods this year. Interest expense for the three and six months periods also decreased \$767,000, or 33%, and \$1.7 million, or 35%, primarily due to the reduction in our cost of funds, primarily as a result of our paying lower interest rates on deposits as a result of the continuing low interest rate environment. This decrease was partially offset by a decrease in interest income. Non-interest income for the three month period ending June 30, 2011 decreased \$450,000 due to the decrease in gain on sale of investments recognized during the current period compared to the same period in the prior year, however, non-interest income increased slightly for the six month period due to the gain on the sale of loans sold in the secondary market.

The tax expense for the period ending June 30, 2011 includes an exclusion of income for the bank owned life insurance and tax benefit attributable to our investment portfolio which consists of callable investments backed by U.S. Agencies ("U.S. Agencies"). The tax benefit for the period ending June 30, 2010 was primarily attributable to the reversal of a portion of a reserve established for an uncertain tax position resulting from a settlement of an IRS examination and, to a lesser extent, the exclusion of income for the bank owned life insurance and a tax benefit attributable to our investment portfolio which consists of U.S. Agencies. See our 2010 Form 10-K for further details regarding the settlement.

#### Interest Income/Expense

Total interest income decreased \$946,000, or 17.0%, and \$1.9 million, or 16.8%, respectively, for the three and six month periods ending June 30, 2011, compared to the corresponding periods last year, due primarily to a decrease in both the average volume and average yield on interest-earning assets.

The average six month balance of interest-earning assets decreased to \$367.7 million for the six months ending June 30, 2011 from \$400.3 million for the six months ending June 30, 2010, due primarily to a decrease in MBS and loans held for investment, offsetting the increase in investment securities. The decrease in MBS is primarily the result of selling approximately \$11.0 million of MBS and principal pay-downs since June 2010. The average yield on our interest-earning assets decreased to 5.05% during the six months ended June 30, 2011 from 5.57% during the same period in 2010. The decrease is primarily the result of lower interest rates on our MBS and investment securities compared to the same period last year due to a lower interest rate environment. In addition, we had more restructured loans, which had significantly lower interest rates after such restructuring, in the 2011 period compared to the same period last year, which also negatively impacted the yield on our interest-earning assets.

Total interest expense decreased \$767,000, or 33.4%, and \$1.7 million, or 34.8%, respectively, for the three and six month periods ended June 30, 2011, compared to the same periods in the prior year. The decrease was attributable to both a decrease in both the average balance, resulting from the maturities of approximately \$22.0 million in our brokered certificate of deposits, and the average interest rate on our interest-bearing liabilities. For the six month period ended June 30, 2011, our average interest-bearing liabilities were \$339.2 million with an

average rate of 1.89%, compared to \$367.1 million with an average rate of 2.67% for the corresponding period last year.

Net interest income decreased \$178,000, or 5.5%, and \$173,000, or 2.8%, respectively, for the three and six month periods ended June 30, 2011, compared to the same periods in the prior year. Due to a lower average cost of our interest-bearing liabilities, our net interest rate spread increased to 3.16% for the six month period ended June 30, 2011 from 2.90% for the same periods in the prior year. The ratio of our interest-earning assets to interest-bearing liabilities decreased to 108.41% from 109.04%.

We continue to experience pressure on the compression of our interest rate margins due to slowing demand for loans and lower yields on loan originations and investment security offerings, however, the effects of this have been minimized by our ability to decrease interest rate expense through lower deposit costs. This lower interest rate environment for loans and investment securities compresses the interest rate spread by reducing interest income. Interest rate margins may be further enhanced when and if economic conditions begin to become more favorable to lending and funds currently held in investment securities can be redirected back into the loan portfolio.

#### Allowance for Loan Losses

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

The allowance is increased by provisions for loan losses, which are an 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 necessary to maintain the allowance at an appropriate level, 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 management. Classified loans exceeding \$300,000 are individually evaluated quarterly as part of the calculation of the adequacy of the allowance.

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 challenges caused by the recent recession and continuing high unemployment levels and uncertain real estate valuations have resulted in the Bank shortening its loss history look back period used for the allowance for loan losses from 36 months to 12 months during the third quarter of 2010. We continue to be mindful of the continued problems within the economy and its impact on our loan portfolio as well as the inherent risk within the portfolio, and management will make adjustments to the allowance and loan loss provision as necessary. The shortened loss history component of our calculation of the allowance for loan losses was due, in part, to recent recommendations from our regulators. Based on our review, a provision for \$100,000 was necessary for the period ending June 30, 2011.

During the six months ended June 30, 2011, the allowance decreased in net by \$2.1 million or 20.5%, to \$8.1 million at June 30, 2011 from \$10.2 million at December 31, 2010, as a result of net charge-offs of approximately

\$2.2 million during the six months ending June 30, 2011. At June 30, 2011, the allowance was 3.59% of total loans held-for-investment, compared to 4.37% of total loans held-for-investment at December 31, 2010.

Our determination of the adequacy of the allowance requires significant judgment, and estimates of probable losses inherent in the loans held-for-investment portfolio can vary significantly from the amounts actually observed. See Critical Accounting Policies in the 2010 Form 10-K. While we use available information to recognize probable losses, future additions to the allowance may be necessary based on changes in the credits comprising the portfolios, changes in the financial condition of borrowers, such as may result from changes in economic conditions, or other considerations determined by management to be appropriate.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the loan portfolio and the allowance. Such review may result in additional provisions based upon their judgments of information available at the time of each examination.

We experienced an increase in charge-offs in our loan portfolio during the six months ending June 30, 2011 compared to the same period last year. During the six months ending June 30, 2011 we recorded loan charge-offs of \$2.2 million and recoveries of previous charged-off loans of approximately \$13,000 compared to net charge-offs of \$1.2 million for the corresponding six month period last year. A charge-off of \$1.0 million included in the total \$2.2 million charge-offs represented one land and acquisition loan that was determined to be uncollectable during the quarter ended June 30, 2011.

Assets subject to our Loan Committee review include loans which meet our criteria for classification as sub-standard due to collateral deficiencies that may reflect inherent losses. Based on the review of the individual loans involved, management estimates inherent losses. We continue to assess the allowance as new and relevant data is obtained.

We believe that the allowance reflects our best estimate of the probable inherent losses existing in our \$226.6 million loans-held for investment portfolio as of June 30, 2011. The \$4.7 million loan held-for-sale portfolio has been committed to be purchased by investors at June 30, 2011 and will be settled subsequent to that date.

We have developed a comprehensive review process to monitor the adequacy of the allowance. The review process and guidelines were developed utilizing guidance from federal banking regulatory agencies and relies on relevant observable data. The observable data considered in the determination of the allowance is modified as more relevant data becomes available. The results of this review process support management's view that the allowance reflects probable losses within the loan portfolio as of June 30, 2011.

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

The following occurred during the six months ending June 30, 2011, which impacted the allowance analysis:

- We experienced defaults in 1-4 family residential loans of approximately \$422,000.
- We experienced defaults in lot loans of approximately \$1.3 million.
- We experienced defaults in commercial loans of approximately \$426,000.

All of the above-referenced loan defaults were charged off to the allowance for loan losses during the six months ended June 30, 2011. The amounts indicated reflect charge-offs, net of recoveries.

We believe our evaluation as to the adequacy of the allowance as of June 30, 2011 is appropriate, and caution the reader that the provisioning for the three and six month periods is not necessarily indicative of future provisioning. Subjective judgment is significant in the determination of the provision and allowance, manifested in the valuation of collateral, a borrower's prospects of repayment, and in establishing allowance factors and

components for the formula allowance for homogeneous loans. The establishment of allowance factors is a continuing exercise, based on management's assessment of the factors and their impact on the portfolio, and that allowance factors may change from period to period, resulting in an increase or decrease in the amount of the provision or allowance, based upon the same volume and classification of loans. A time lag between the recognition of loss exposure in the evaluation of the adequacy of the allowance and a loan's ultimate resolution and/or charge-off is normal and to be expected. See above for discussion of some of the factors that have had a significant impact in the evaluation of the adequacy of our allowance.

We review on a monthly basis the adequacy of the allowance, and make provisions accordingly to meet the deemed losses within the portfolio. Based on this review, a provision for \$100,000 was deemed necessary for the period ending June 30, 2011. For a better understanding and a more complete description of the allowance and the evaluation process, refer to the 2010 Form 10-K.

As shown below in tabular format, there was an increase in charge-offs compared to the comparable period last year. In addition, we believe there are additional, unidentified, probable losses within the portfolio, which may be reflected as charge-offs against the allowance in future quarters as these losses manifest themselves and loan collection efforts continue.

	2011		2010	
	2nd Qtr	1st Qtr	2nd Qtr	1st Qtr
Provision for loan losses	\$ <u>100,000</u>	\$ <u>-</u>	\$ <u>2,400,000</u>	\$ <u>-</u>
Loan charge-offs	\$ 1,741,128	\$ 466,104	\$ 560,091	\$ 1,024,081
Loan recoveries	6,012	7,755	311,797	3,929
Net Charge-offs	\$ <u>1,735,116</u>	\$ <u>458,349</u>	\$ <u>248,294</u>	\$ <u>1,020,152</u>
Allowance for loan losses at period end	\$ <u>8,126,326</u>	\$ <u>9,761,442</u>	\$ <u>9,313,241</u>	\$ <u>7,161,535</u>
Total loans held for investment at period end	\$ <u>226,637,073</u>	\$ <u>235,551,909</u>	\$ <u>243,946,209</u>	\$ <u>248,337,943</u>
Allowance to total loans held for investment at period end	3.59%	4.14%	3.82%	2.88%

The fair value of impaired loans may be 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 June 30, 2011, all of the impaired loans were evaluated based upon the fair value of the collateral and/or discounted cash flows. Management's analysis of our impaired loans represents a level of reserves of approximately \$4.1 million for the period ending June 30, 2011 compared to approximately \$5.7 million at December 31, 2010.

Our policy is to charge off all or that portion of our investment in an impaired loan upon a determination that it is probable the full amount will not be collected. At June 30, 2011, total impaired loans were \$35.5 million, or 15.68% of total loans held for investment, compared to \$38.8 million, or 16.57% of total loans held-for-investment, at December 31, 2010. Non-performing loans consisted of \$19.4 million that were non-accrual loans at June 30, 2011 and approximately \$16.1 million of troubled debt restructured loans. 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.

	<u>At June 30,</u> <u>2011</u>	<u>At December 31,</u> <u>2010</u>
	(dollars in thousands)	
Loans accounted for on a non-accrual basis:		
Mortgage loans:		
Single family	\$ 6,387	\$ 9,164
Land	4,128	5,947
Construction	-	1,648
Non-mortgage loans:		
Consumer	2	3
Commercial	7,333	10,298
Non-residential	1,555	-
Total non-accrual loans	<u>19,405</u>	<u>27,060</u>
Foreclosed real estate	<u>4,881</u>	<u>6,056</u>
Total non-performing assets	<u>\$ 24,286</u>	<u>\$ 33,116</u>
Total non-performing loans to total loans held-for-investment	<u>8.56%</u>	<u>11.54%</u>
Allowance for loan losses to total non-performing loans	<u>41.87%</u>	<u>37.77%</u>
Total non-performing loans to total assets	<u>4.97%</u>	<u>6.83%</u>
Total non-performing assets to total assets	<u>6.22%</u>	<u>8.36%</u>

A troubled debt restructuring (“TDR”) means that, due to a borrower’s current financial difficulties, we have granted a concession to the borrower that we would not otherwise have considered. We do this when we believe the borrower may default on the loan without such concession and we believe the concession will increase the borrower’s ability to remain current on the loan, in order to maximize recovery of our investment. The majority of our TDRs involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required), lowering of the interest rate and/or extending the maturity date of the loan. All TDRs are reported as “impaired” but not reported as non-performing loans unless the restructured loans are more than 90 days delinquent or on non-accrual status. As of June 30, 2011, we had \$16.1 million in TDRs, of which \$2.0 million were on non-accrual status, compared to \$13.8 million in TDRs, of which \$1.0 million were on non-accrual status, as of December 31, 2010.

As previously reported, there has been an increase in court caseloads resulting in delays in ratification of foreclosure sale actions by the courts affecting mortgage lenders, including us. This has resulted in both a lengthening of the curing time for delinquent loans and the possibility of an increase in non-performing asset levels. We are also experiencing increased short sales and resales of bank owned properties in the marketplace, which is having a negative impact on real estate values and collateral on loans, in general. We are continuing our practice of working with borrowers to resolve delinquencies, with foreclosure action being the remedy of last resort when reasonable means to cure deficiencies in the best interest of both the Bank and the borrower, consistent with sound banking considerations, are exhausted.

### Non-Interest Income

Total non-interest income decreased \$450,000, or 31.9%, and increased \$31,000, or 1.6%, respectively, for the three and six month periods ended June 30, 2011, compared to the same periods in the prior year. The decrease for the three month period is primarily due to a decrease in gain on sale of investment securities during the current period compared to the same period last year. The increase for the six month period is primarily the result gain on the sale of loans sold in the secondary market and gain on the sale of real estate acquired in settlement of loans, partially offset by a decrease in the gain on sale of investment securities.

Gain on the sale of mortgage-backed securities and investment securities for the three month period ending June 30, 2011, was approximately \$231,000 pretax, \$140,000 net of tax, compared to \$769,000 pretax, \$508,000 net of tax, during the same period last year. Gain on the sale of investments for the six month period was approximately \$414,000 pretax, \$251,000 net of tax, compared to \$769,000 pretax, \$508,000 net of tax, for the same six month period last year. Gain on the sale of these investments is the result of the Bank selling approximately \$7.6 million and \$11.0 million, respectively, of our mortgage-backed securities during the three and six month periods ended June 30, 2011. Also, \$5.0 million in callable agency paper was called during the three months ended June 30, 2011, resulting in a \$13,000 gain for the quarter. We believed there was a good opportunity to receive a premium on the MBS sold during the quarter and six month period and therefore decided to sell the MBSs that generated these gains. Gain on the sale of investments for the three and six months ending June 30, 2010 was the result of the Bank selling approximately \$9.1 million of our callable agencies to offset the one-time debt pre-payment penalty that we recognized in non-interest expense due to the payoff of \$30.0 million in other borrowings that we had with a third party, and because there were more opportunities to sell MBS securities at a gain during the same periods of 2010.

Gain on the sale of loans increased \$58,000 and \$299,000 respectively, for the three and six months ending June 30, 2011, compared to the same periods last year. The increase is primarily due to an increase in number of originations and the premiums associated with loans sold in the secondary market. 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 with 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.

The gain on the sale of real estate acquired in settlement of loans for the six month period ending June 30, 2011 is the result of the sale of seven properties for a net gain of \$42,000 compared to a net loss of \$43,000 on the sale of six properties during the same period last year. The gain during the six month period was the result of a \$156,000 gain on the sale of two properties, partially offset by losses on the sale of the other five properties during the six-month period. The gain during the three month period was the result of a \$106,000 gain on the sale of one property, partially offset by losses on the sale of the other four properties during the three-month period ending June 30, 2011. In the current economic environment, property values have a material result in our selling these properties. Management may determine it in our best interests to sell the properties at a lower price than the value we had assigned to them as real estate owned in settlement of loans in order to avoid the ongoing expense associated with maintaining these properties in our portfolio, including maintenance, costs and property taxes, and with selling the properties at a later date.

#### Non-Interest Expenses

Non-interest expenses decreased \$2.6 million, or 42.3% and \$2.3 million, or 24.3% for the three and six month period ending June 30, 2011, as compared to the corresponding prior year periods.

The decrease in non-interest expenses for the three and six month period was primarily due to the \$2.0 million debt pre-payment penalty we paid during the second quarter of 2010, for which there was no corresponding expense for the three and six months ended June 30, 2011. The decreases in non-interest expenses for the three and six months ending June 30, 2011 were also impacted by decreases of \$388,000 and \$417,000, respectively, in the provision for losses on real estate acquired in settlement of loans and \$93,000 and \$175,000, respectively, in FDIC premiums, partially offset by increases of \$38,000 and \$437,000 in salaries and benefits

compared to the same three and six month periods last year and, for the three-month period, an increase of \$78,000 in fees for professional services.

The \$2.0 million pre-payment penalty recognized last year was the result of a one-time termination fee that we incurred as a result of the early payoff of \$30.0 million in other borrowings to a third party. Although this transaction resulted in a net loss for the quarter last year, it has allowed the Bank to reduce its cost of funds.

We recognized an expense of \$51,000 and \$83,000, respectively, for the three and six month periods ending June 30, 2011 for the provision for losses on real estate acquired in settlement of loans as compared to \$439,000 and \$499,000, respectively for the corresponding periods last year. We continue to obtain updated appraisals 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 decreases in deposit insurance premiums during both the three and six month periods ended June 30, 2011 is primarily the result of an overall decrease in FDIC assessment rates based on our reduced brokered deposits and our borrowings as compared to the same period last year.

The increase in salaries and benefits during both the three and six month periods is primarily associated with the growth of the mortgage lending department as well as annual increases and increased employee benefits expenses as compared with the same periods last year. Benefit costs increased due to higher medical and life insurance premiums.

The increase in professional services for the three month period is the result of pending litigation on two loans that required additional legal services. Professional services decreased \$54,000 for the six month period ended June 30, 2011, as a result of a reduction in fees paid in the prior year due to the IRS litigation that was pending last year and settled in May 2010.

#### Income Taxes

A tax expense of \$187,000 was recorded for the six months ended June 30, 2011, compared to a tax benefit of \$1.5 million for the same period last year. The tax expense for the period ending June 30, 2011 includes an exclusion of income for the bank owned life insurance and state income tax benefit attributable to our investment portfolio which consists of U.S. Agencies. The tax benefit for the period ending June 30, 2010 was primarily attributable to the reversal of a portion of a reserve established for an uncertain tax position resulting from a settlement of an IRS examination and, to a lesser extent, the exclusion from taxable income for the bank owned life insurance and a tax benefit attributable to our investment portfolio which consists of U.S. Agencies. The effective tax rates were 25.2% and (41.7%) for the respective six month periods ended June 30, 2011 and 2010.

#### Liquidity and Capital Resources

Total assets were \$390.2 million and \$395.9 million at June 30, 2011 and December 31, 2010, respectively. The decrease in assets at June 30, 2011, compared to December 31, 2010, was primarily attributable to decreases in the loans held for sale and federal funds sold partially offset by an increase in the available for sale investment securities. Loans classified as held for sale fluctuate based on the outstanding balance of money due us from the investors that the loans were sold to. At December 31, 2010, we had \$24.2 million to be funded compared to \$4.7 million at June 30, 2011. The excess funds received from these sales and the excess funds in federal funds sold were used to purchase investment securities available for sale.

Deposits were \$255.6 million at June 30, 2011, compared to \$266.6 million at December 31, 2010. The decrease in deposits at June 30, 2011, compared to December 31, 2010, was primarily due to a decrease in our brokered certificate of deposits partially offset by an increase in our savings accounts. During this period, our

rates on money fund accounts were slightly higher than the Bank's competitors, resulting in an increase in our core deposits. Approximately \$19.5 million of our certificate of deposits ("CDs") classified as broker deposits matured and were not renewed. Management anticipates continuing to utilize excess funding liquidity to offset a runoff of higher cost CDs which were previously originated to fund loan production.

Borrowings at June 30, 2011 and December 31, 2010 are as follows:

	Balance as of			
	June 30, 2011	Weighted Avg Rate	December 31, 2010	Weighted Avg Rate
FHLB-advances -fixed	\$ 79,000,000	2.56%	\$ 76,000,000	2.64%
	<u>\$ 79,000,000</u>		<u>\$ 76,000,000</u>	

Total borrowings are \$79.0 million as of June 30, 2011. We maintain funding activities with correspondent banks and the Federal Home Loan Bank of Atlanta, which are cancelable by the lender and subject to lender discretion. To the extent we do not or cannot use FHLB borrowings, we would expect to rely on alternative funding sources, including our deposit base and correspondent bank lines of credit. Our remaining credit availability for additional FHLB advances at June 30, 2011 is \$43.3 million. We currently have unused lines of credit with our correspondent banks in the amount of \$7.0 million.

As a member of the FHLB system, and in order to maintain insurance with the FDIC, we must maintain sufficient liquidity to ensure a safe and sound operation. Liquid assets are defined as cash, Federal Reserve deposits, time and savings deposits in certain institutions, obligations of states and political subdivisions thereof, highly rated corporate debt, mortgage loans and MBS, and accrued interest receivable and principal on certain qualified unpledged assets payable within five years. Internal sources of liquidity used by the Bank are various short-term investments, MBS, and short-term borrowings.

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. We maintain sufficient liquidity to fund routine loan demand and routine deposit withdrawal activity. Liquidity is managed by maintaining sufficient liquid assets in the form of investment securities. Funding and cash flows can also be realized by the sale of securities available for sale, principal pay-downs on loans and MBS and proceeds realized from loans held for sale.

Current regulations require subsidiaries of a financial institution to be separately capitalized and require investments in and extensions of credit to any subsidiary engaged in activities not permissible for a bank to be deducted in the computation of the institution's regulatory capital. The Bank's regulatory capital and regulatory assets below also reflect decreases of \$292,000 and \$483,000, respectively, which represents unrealized gains (after-tax for capital deductions and pre-tax for asset deductions, respectively) on MBS and investment securities classified as available for sale. In addition, the Bank's risk-based capital reflects an increase of \$2.9 million in the general loan loss reserve during the six months ended June 30, 2011. The loan loss reserve factor represents 1.25% of the Bank's risk-weighted assets. The following table shows regulatory thrift capital ratios required, the Bank's actual ratios, and the amount by which the Bank's ratios exceed required capital ratios, as of June 30, 2011.

Capital Category	Regulatory Ratios Required	Bank's Amount and Ratio	Bank's Excess of Requirements	Calculations	Based Upon
Leverage	\$15,240,032 4.00%	\$42,207,931 11.08%	\$26,967,899 7.08%	\$42,207,931 \$381,000,804	Regulatory Capital Regulatory Assets
Tangible	\$5,715,012 1.50%	\$42,207,931 11.08%	\$36,492,919 9.58%	\$42,207,931 \$381,000,804	Regulatory Capital Regulatory Assets
Risk-Based	\$18,213,281 8.00%	\$45,068,646 19.80%	\$26,855,365 11.80%	\$45,068,646 \$227,666,007	Regulatory Capital Risk-Weighted Assets

Our management believes that, under current regulations, and eliminating the assets of WSB Holdings, 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 continued downturn or slower recovery in the economy in areas where we extend credit, could adversely affect future earnings and, consequently, our ability to meet minimum capital requirements in the future.

The Qualified Thrift Lender Test currently requires that "qualified thrift investments" be at least 65% of portfolio assets as defined by the Office of Thrift Supervision ("OTS"). At June 30, 2011, our ratio was approximately 80% of defined portfolio assets.

#### Off-Balance Sheet Transactions

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

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

Commitments to originate new loans	\$	3,497,833
Unfunded commitments to extend credit under existing construction, equity line and commercial lines of credit		16,878,135
Standby letters of credit		675,224
Commitments to sell loans held-for-sale		4,717,067

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

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

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

#### Information Regarding 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 diversifying our loan portfolio when our nonresidential loan demand picks up, the impact of future potential economic conditions, future changes in interest rates and the impact of such changes on us, the allowance for loan losses, the collectability of non-accrual loans, the Bank’s continuing to meet its capital requirements and future sources of liquidity are forward-looking.

Forward-looking statements are based on our 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) changes we make as a result of our ongoing review of our business and operations; (b) implementation of changes in lending practices and lending operations; (c) changes made as a result of the Board of Directors’ ongoing review of our capital management plan; (d) changes in accounting principles; (e) government legislation and regulation, including regulations adopted pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; (f) changes in interests rates; (g) further deterioration of economic conditions or a slowing recovery; (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 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 obligation, 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.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

#### Item 4. Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of June 30, 2011.

During the period covered by this report, there were no changes (including corrective actions with regard to significant or material weaknesses) in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II.

### Item 1. Legal Proceedings

From time to time we may be involved in ordinary routine litigation incidental to our business. At June 30, 2011, 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 of operations.

### Item 1A. Risk Factors

#### **Downgrade of U.S. credit rating and uncertain political, credit and financial market conditions may reduce our net income, capital levels, liquidity and increase our future borrowing costs.**

As a result of the uncertain domestic political, credit and financial market conditions, investments in these types of financial instruments pose risks arising from liquidity and credit concerns. Given that future deterioration in the United States credit and financial markets is a possibility, no assurance can be made that losses or significant deterioration in the fair value of our investments will not occur. We are invested in U.S. government agency securities, and residential mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. On August 5, 2011, Standard and Poor's downgraded the United States credit rating from its AAA rating to AA+. This downgrade could affect the stability of securities issued or guaranteed by the federal government. These factors could affect the liquidity or valuation of our current portfolio of such investment securities in the future, and could result in our counterparties requiring additional collateral for our borrowings. Further, unless and until the current United States political, credit and financial market conditions have been sufficiently resolved, it may increase our future borrowing costs.

There have been no other material changes in the risk factors from those disclosed in Item 1A "Risk Factors" in our 2010 Form 10-K.

### Item 6. Exhibits

10.11 2011 Stock Incentive Plan. (Incorporated by reference from Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed March 22, 2011).

10.12 Supervisory Agreement for WSB Holdings, Inc. dated June 3, 2011 (Filed herewith).

10.13 Supervisory Agreement for The Washington Savings Bank dated June 3, 2011 (Filed herewith).

31.1 Rule 13a-14(a) Certification of Principal Executive Officer (Filed herewith).

31.2 Rule 13a-14(a) Certification of Principal Financial Officer (Filed herewith).

32.1 Section 1350 Certification of Principal Executive Officer and Principal Financial Officer (Furnished herewith).

101 The following materials from WSB Holdings, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows and (iv) the Notes to the Consolidated Financial Statements, tagged as blocks of text - (Furnished herewith).\*

\*Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as

amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**SIGNATURES**

Pursuant to the requirements 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.

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

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

Date: August 12, 2011

**SUPERVISORY AGREEMENT**

This Supervisory Agreement (Agreement) is made this 3<sup>rd</sup> day of June, 2011, by and through the Board of Directors (Board) of WSB Holdings, Inc., Bowie, Maryland, OTS Docket No. H-4468 (Holding Company) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Southeast Region (Regional Director);

**WHEREAS**, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

**WHEREAS**, the Holding Company is subject to examination, regulation and supervision by the OTS; and

**WHEREAS**, based on its examination of the Holding Company, the OTS finds that the Holding Company has engaged in unsafe or unsound practices and/or violations of law or regulation; and

**WHEREAS**, in furtherance of their common goal to ensure that the Holding Company addresses the unsafe or unsound practices and/or violations of law or regulation identified by the OTS in the October 12, 2010 Report of Examination (2010 ROE), the Holding Company and the OTS have mutually agreed to enter into this Agreement; and

**WHEREAS**, on May 3, 2011, the Holding Company's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Holding Company to enter into this Agreement and directs compliance by the Holding Company and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

**NOW THEREFORE**, in consideration of the above premises, it is agreed as follows:

**Business Plan.**

1. By July 31, 2011, the Holding Company shall submit a new business plan, in conjunction with its savings association subsidiary, The Washington Savings Bank, FSB, Bowie, Maryland, OTS Docket No. 08173 (Association), for the second half of calendar year 2011 and calendar year 2012 (Business Plan), that is acceptable to the Regional Director and that addresses all corrective actions in the 2010 ROE relating to the Holding Company's Business Plan. Thereafter, the Holding Company shall submit a new one (1) year Business Plan at least sixty (60) days prior to the end of each calendar year. At a minimum, the Business Plan shall conform to applicable laws, regulations, and regulatory guidance and include:

- (a) plans and strategies to ensure that the capital of the Holding Company and capital of the Association are sufficient given the credit quality and other risks inherent in the Holding Company and the Association's balance sheets and operations;
- (b) methods by which additional capital will be raised if needed at the Holding Company and/or the Association, including identifying the sources of such capital and timeframes for obtaining additional capital;
- (c) plans and strategies to improve asset quality, strengthen and improve earnings, and maintain appropriate levels of liquidity at the Association;
- (d) quarterly pro forma financial projections (balance sheet, capital forecasts, and income statement) for each quarter covered by the Business Plan; and
- (e) identification of all relevant assumptions made in formulating the Business Plan and a requirement that documentation supporting such assumptions be retained by the Holding Company.

2. Upon receipt of written notification from the Regional Director that the Business Plan is acceptable, the Board shall adopt and ensure that the Holding Company implements and adheres to the

Business Plan. A copy of the Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

3. Any material modifications<sup>1</sup> to the Business Plan must receive the prior written non-objection of the Regional Director. The Holding Company shall submit proposed modifications to the Regional Director at least forty-five (45) days prior to the proposed date of implementation of the proposed modifications.

4. Within thirty (30) days after the close of each calendar quarter, beginning with the calendar quarter ending September 30, 2011, the Board shall review quarterly variance reports on the Holding Company's compliance with the Business Plan (Quarterly Business Plan Variance Reports). The Quarterly Business Plan Variance Reports shall:

- (a) identify material variances<sup>2</sup> in the Holding Company's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan;
- (b) contain an analysis and explanation of identified variances; and
- (c) discuss the specific measures taken or to be taken to address identified variances.

5. The Board's review of the Quarterly Business Plan Variance Reports, including any corrective actions adopted by the Board, shall be fully documented in the Board meeting minutes. A copy of the Quarterly Business Plan Variance Report and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting.

### **Dividends and Other Capital Distributions.**

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<sup>1</sup> A modification shall be considered material under this section of the Agreement if the Holding Company plans to: (a) engage in any activity that is inconsistent with the Business Plan; or (b) exceed the level of any activity contemplated in the Business Plan or fail to meet target amounts established in the Business Plan by more than ten percent (10%), unless the activity involves assets risk-weighted fifty percent (50%) or less, in which case a modification of more than twenty-five percent (25%) shall be deemed to be a material modification.

<sup>2</sup> A variance shall be considered material under this section of the Agreement if the Holding Company: (a) engaged in any activity that is inconsistent with the Business Plan; or (b) exceeded the level of any activity contemplated in the Business Plan or failed to meet target amounts established in the Business Plan by more than ten percent (10%), unless the activity involved assets risk-weighted fifty percent (50%) or less, in which case a variance of more than twenty-five percent (25%) shall be deemed to be a material variance.

6. Effective immediately, the Holding Company shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director in accordance with applicable regulations and regulatory guidance. The Holding Company's written request for approval shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed declaration, dividend payment or distribution of capital.

**Financial Recordkeeping and Reporting.**

7. Effective immediately, the Holding Company shall ensure that its books and records and financial reports and statements are timely and accurately prepared and filed in compliance with generally accepted accounting principles and all applicable laws, regulations, and regulatory guidance.

8. Effective immediately, the Holding Company shall ensure that it maintains, at all times, books and records that are separate and distinct from the books and records of the Association. The books and records for each legal entity shall accurately reflect and fully support the financial condition of the Holding Company and the Association respectively. All mortgage securities owned by the Holding Company shall be fully supported by separate broker statements addressed to the Holding Company.

**Directorate and Management Changes.**

9. Effective immediately, the Holding Company shall comply with the prior notification requirements for changes in directors and Senior Executive Officers<sup>3</sup> set forth in 12 C.F.R. Part 563, Subpart H.

**Employment Contracts and Compensation Arrangements.**

10. Effective immediately, the Holding Company shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Holding Company, unless it first provides the Regional Director with not less than thirty

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<sup>3</sup> The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

(30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

**Golden Parachute and Indemnification Payments.**

11. Effective immediately, the Holding Company shall not make any golden parachute payment<sup>4</sup> or prohibited indemnification payment<sup>5</sup> unless, with respect to such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

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<sup>4</sup> The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

<sup>5</sup> The term “prohibited indemnification payment” is defined at 12 C.F.R. § 359.1(l).

**Association Oversight.**

12. Effective immediately, the Holding Company shall ensure the Association’s compliance with the terms of the Supervisory Agreement issued by the OTS to the Association effective June 3, 2011.

**Transactions with Affiliates.**

13. Effective immediately, the Holding Company shall not engage in any new transaction with an affiliate unless, with respect to each such transaction, the Holding Company has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which shall include the information set forth in 12 C.F.R. § 563.41(c)(3).

14. Within sixty (60) days, the Holding Company shall revise its transaction with affiliates policies to ensure that all transactions with an affiliate comply with all applicable laws, regulations, and regulatory guidance, including the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223.

**Board Oversight of Compliance with Agreement.**

15. Within thirty (30) days, the Board shall designate a committee to monitor and coordinate the Holding Company’s compliance with the provisions of this Agreement. The Oversight Committee shall be comprised of four (4) or more directors, the majority of whom shall be independent<sup>6</sup> directors.

16. Within thirty (30) days after the end of each quarter, beginning with the quarter ending

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<sup>6</sup> For purposes of this Agreement, an individual who is “independent” with respect to the Holding Company shall be any individual who:

- (a) is not employed in any capacity by the Holding Company, its subsidiaries, or its affiliates, other than as a director;
- (b) does not own or control more than ten percent (10%) of the outstanding shares of the Holding Company or any of its affiliates;
- (c) is not related by blood or marriage to any officer or director of the Holding Company or any of its affiliates, or to any shareholder owning more than ten percent (10%) of the outstanding shares of the Holding Company or any of its affiliates, and who does not otherwise share a common financial interest with any such officer, director or shareholder;
- (d) is not indebted, directly or indirectly, to the Holding Company or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 15 percent (15%) of the Holding Company’s total Tier 1 (Core) capital; and
- (e) has not served as a consultant, advisor, underwriter, or legal counsel to the Holding Company or any of its affiliates.

September 30, 2011, the Oversight Committee shall submit a written compliance progress report to the Board (Compliance Tracking Report). The Compliance Tracking Report shall, at a minimum:

- (a) separately list each corrective action required by this Agreement;
- (b) identify the required or anticipated completion date for each corrective action; and
- (c) discuss the current status of each corrective action, including the action(s) taken or to be taken to comply with each corrective action.

17. Within sixty (60) days after the end of each quarter, beginning with the quarter ending September 30, 2011, the Board shall review the Compliance Tracking Report and all reports required to be prepared by this Agreement. Following its review, the Board shall adopt a resolution: (a) certifying that each director has reviewed the Compliance Tracking Report and all required reports; and (b) documenting any corrective actions adopted by the Board. A copy of the Compliance Tracking Report and the Board resolution shall be provided to the Regional Director within fifteen (15) days after the Board meeting.

**Effective Date.**

18. This Agreement is effective on the Effective Date as shown on the first page.

**Duration.**

19. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

**Time Calculations.**

20. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

**Submissions and Notices.**

21. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

22. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- (a) To the OTS<sup>7</sup>:  
James G. Price, Regional Director  
Attn: Robert A. Mitchell, Assistant Director  
Office of Thrift Supervision  
1475 Peachtree Street, NE  
Atlanta, Georgia 30309
  
- (b) To the Holding Company:  
Phillip C. Bowman, CEO  
WSB Holdings, Inc.  
4201 Mitchellville Road, Suite 200  
Bowie, Maryland 20716  
301.352.3121 (Facsimile)

**No Violations Authorized.**

23. Nothing in this Agreement shall be construed as allowing the Holding Company, its Board, officers or employees to violate any law, rule, or regulation.

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<sup>7</sup> Following the Transfer Date, *see* Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. Law No. 111-203, § 311, 124 Stat. 1520 – 21 (2010), all submissions, requests, communications, consents or other documents relating to this Agreement shall be directed to the Comptroller of the Currency, or to the individual, division, or office designated by the Comptroller of the Currency.

**OTS Authority Not Affected.**

24. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Holding Company if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

**Other Governmental Actions Not Affected.**

25. The Holding Company acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 25 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Holding Company that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

**Miscellaneous.**

26. The laws of the United States of America shall govern the construction and validity of this Agreement.

27. If any provision of this Agreement is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

28. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

29. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

30. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject

matters.

**Enforceability of Agreement.**

31. This Agreement is a “written agreement” entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

**Signature of Directors/Board Resolution.**

32. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Holding Company to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

**WHEREFORE**, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

**[The Remainder of this Page Intentionally Left Blank]**

**WSB HOLDINGS, INC.**  
**Bowie, Maryland**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_ /s/ \_\_\_\_\_  
William J. Harnett  
Chairman

By: \_\_\_\_\_ /s/ \_\_\_\_\_  
James G. Price  
Regional Director, Southeast Region

Date: See Effective Date on Page 1

\_\_\_\_\_ /s/ \_\_\_\_\_  
Phillip C. Bowman  
Director

\_\_\_\_\_ /s/ \_\_\_\_\_  
George Q. Conover  
Director

\_\_\_\_\_ /s/ \_\_\_\_\_  
Charles A. Dukes  
Director

\_\_\_\_\_ /s/ \_\_\_\_\_  
Kevin P. Huffman  
Director

\_\_\_\_\_ /s/ \_\_\_\_\_  
Eric S. Lodge  
Director

\_\_\_\_\_ /s/ \_\_\_\_\_  
Charles W. McPherson  
Director

\_\_\_\_\_ /s/ \_\_\_\_\_  
Michael J. Sullivan  
Director

**SUPERVISORY AGREEMENT**

This Supervisory Agreement (Agreement) is made this 3rd day of June, 2011, by and through the Board of Directors (Board) of The Washington Savings Bank, FSB, Bowie, Maryland, OTS Docket No. 08173 (Association) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Southeast Region (Regional Director);

**WHEREAS**, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

**WHEREAS**, the Association is subject to examination, regulation and supervision by the OTS; and

**WHEREAS**, based on its examination of the Association, the OTS finds that the Association has engaged in unsafe or unsound practices and/or violations of law or regulation; and

**WHEREAS**, in furtherance of their common goal to ensure that the Association addresses the unsafe or unsound practices and/or violations of law or regulation identified by the OTS in the October 12, 2010 Report of Examination (2010 ROE), the Association and the OTS have mutually agreed to enter into this Agreement; and

**WHEREAS**, on May 3, 2011, the Association's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

**NOW THEREFORE**, in consideration of the above premises, it is agreed as follows:

**Business Plan.**

1. By July 31, 2011, the Association shall submit a new business plan for the second half of calendar year 2011 and calendar year 2012 (Business Plan) that is acceptable to the Regional Director and that addresses all corrective actions in the 2010 ROE relating to the Association's Business Plan. Thereafter, the Association shall submit a new one (1) year Business Plan at least sixty (60) days prior to the end of each calendar year. At a minimum, the Business Plan shall conform to applicable laws, regulations, and regulatory guidance and include:
  - (a) plans and strategies to ensure capital is sufficient given the credit quality and other risks inherent in the Association's balance sheet and operations;
  - (b) methods by which additional capital will be raised if needed, including identifying the sources of such capital and timeframes for obtaining additional capital;
  - (c) plans and strategies to improve asset quality, strengthen and improve earnings, and maintain appropriate levels of liquidity;
  - (d) strategies for ensuring that the Association has the financial and personnel resources necessary to implement and adhere to the Business Plan;
  - (e) quarterly pro forma financial projections (balance sheet, capital forecasts, and income statement) for each quarter covered by the Business Plan; and
  - (f) identification of all relevant assumptions made in formulating the Business Plan and a requirement that documentation supporting such assumptions be retained by the Association.
2. Upon receipt of written notification from the Regional Director that the Business Plan is acceptable, the Board shall adopt and ensure that the Association implements and adheres to the Business Plan. A copy of the Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

3. Any material modifications<sup>8</sup> to the Business Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed modifications to the Regional Director at least forty-five (45) days prior to the proposed date of implementation of the proposed modifications.

4. Within forty-five (45) days after the close of each calendar quarter, beginning with the calendar quarter ending September 30, 2011, the Board shall review quarterly variance reports on the Association's compliance with the Business Plan (Quarterly Business Plan Variance Reports). The Quarterly Business Plan Variance Reports shall:

- (a) identify material variances<sup>9</sup> in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan;
- (b) contain an analysis and explanation of identified variances; and
- (c) discuss the specific measures taken or to be taken to address identified variances.

5. The Board's review of the Quarterly Business Plan Variance Reports, including any corrective actions adopted by the Board, shall be fully documented in the Board meeting minutes. A copy of the Quarterly Business Plan Variance Report and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting.

**Problem Assets.**

6. Effective immediately, the Association shall identify problem assets, including but not limited to:

- (a) conducting periodic asset quality reviews to identify problem assets and the appropriate classification of all assets;

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<sup>8</sup> A modification shall be considered material under this section of the Agreement if the Association plans to: (a) engage in any activity that is inconsistent with the Business Plan; or (b) exceed the level of any activity contemplated in the Business Plan or fail to meet target amounts established in the Business Plan by more than ten percent (10%), unless the activity involves assets risk-weighted fifty percent (50%) or less, in which case a modification of more than twenty-five percent (25%) shall be deemed to be a material modification.

<sup>9</sup> A variance shall be considered material under this section of the Agreement if the Association: (a) engaged in any activity that is inconsistent with the Business Plan; or (b) exceeded the level of any activity contemplated in the Business Plan or failed to meet target amounts established in the Business Plan by more than ten percent (10%), unless the activity involved assets risk-weighted fifty percent (50%) or less, in which case a variance of more than twenty-five percent (25%) shall be deemed to be a material variance.

(b) conducting internal impairment analyses for all problem assets identified by the review required by subparagraph (a) above; and

(c) estimating potential losses in identified problem assets and establishing the appropriate allowance for loan and lease losses (ALLL) for all classified assets, consistent with all applicable laws, regulations, and regulatory guidance.

7. Within sixty (60) days, the Association shall prepare and adopt a detailed, written plan with specific strategies, targets, and timeframes to reduce<sup>10</sup> the Association's level of criticized assets<sup>11</sup> (Problem Asset Plan). At a minimum, the Problem Asset Plan shall require Management to prepare and submit for Board review individual written asset resolution plans for each criticized asset and delinquent loan or group of loans to the same borrower of Five Hundred Thousand Dollars (\$500,000.00) or greater (Asset Resolution Plans).

8. Within forty-five (45) days after the end of each calendar quarter, beginning with the quarter ending September 30, 2011, the Board shall review a quarterly written asset status report (Quarterly Asset Report). The Quarterly Asset Report shall include, at a minimum:

- (a) the current status of all Asset Resolution Plans;
- (b) a detailed analysis of the calculation and adequacy of the Association's ALLL levels and comparison of ALLL levels to the total level of classified assets;
- (c) a comparison of classified assets to core and risk based capital;
- (d) a comparison of classified assets at the current quarter end with the preceding quarter;
- (e) a breakdown of classified assets by type (residential, acquisition and development, construction, land loans, etc.);

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<sup>10</sup> For purposes of this Paragraph, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification.

<sup>11</sup> The term "criticized assets" shall include all classified assets, assets designated special mention, all nonperforming assets and all delinquent loans, that are ninety (90) or more days delinquent.

- (f) an assessment of the Association's compliance with the Problem Asset Plan; and
- (g) a discussion of the actions taken during the preceding quarter to reduce the Association's level of criticized assets and delinquent loans.

9. The Board's review of the Quarterly Asset Reports, and any corrective actions adopted by the Board, shall be fully documented in the Board meeting minutes. A copy of the Quarterly Asset Report and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within thirty (30) days after the Board meeting.

**Allowance for Loan and Lease Losses.**

10. Within sixty (60) days, the Association shall revise its policies, procedures, and methodology relating to the timely establishment and maintenance of an adequate ALLL level (ALLL Policy) to address all corrective actions set forth in the 2010 ROE relating to ALLL. The ALLL Policy shall

comply with applicable laws, regulations, and regulatory guidance and shall:

- (a) incorporate the results of all internal loan reviews and classifications;
- (b) incorporate specific valuation allowance increases for impaired, collateral-dependent loans in the loss history for purposes of determining an appropriate allowance for pass loans pursuant to Statement of Financial Accounting Standards (SFAS) 5;
- (c) address the historical loan loss rates of the Association in compliance with regulatory guidance;
- (d) include an estimate of the potential loss exposure on each significant<sup>12</sup> credit;
- (e) require the stress testing of loss rates and delinquency rates to: (i) determine the sensitivity of the ALLL methodology to changes from primary inputs, and (ii) evaluate the appropriateness of the ALLL in a range of credit environments;

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<sup>12</sup> A credit shall be considered significant for the purposes of assessing, establishing, and maintaining an appropriate level of ALLL if it has (i) a current balance, or (ii) a current balance plus a committed amount, of Five Hundred Thousand Dollars (\$500,000.00) or greater.

(f) address the level and impact of the Association's current concentrations of credit, including geographic concentrations; and

(g) take into consideration current and prospective market and economic conditions.

11. Effective immediately, the Association shall ensure that all impaired or otherwise troubled loans have updated appraisals or evaluations where needed and ensure that adequate fair values are determined and that losses are appropriately and timely recognized. Fair values for impaired loans shall be updated on a periodic basis, as appropriate, in accordance with all applicable laws, regulations, and regulatory guidance.

12. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending September 30, 2011, the Association shall analyze the adequacy of the ALLL consistent with its ALLL Policy (Quarterly ALLL Report). The Board's review of the Quarterly ALLL Report, including, but not limited to, all qualitative factors considered in determining the adequacy of the Association's ALLL, shall be fully documented in the Board meeting minutes. Any deficiency in the ALLL shall be remedied by the Association in the quarter in which it is discovered and before the Association files its Thrift Financial Report (TFR) with the OTS. A copy of the Quarterly ALLL Report and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within thirty (30) days after the Board meeting.

**Liquidity Management.**

13. Within sixty (60) days, the Association shall revise its liquidity and funds management policies and procedures (Liquidity Management Policy) to address all corrective actions set forth in the 2010 ROE relating to liquidity and funds management. The Liquidity Management Policy shall comply with all applicable laws, regulations and regulatory guidance, including the Interagency Policy Statement on Funding and Liquidity Risk Management (March 17, 2010) (the Liquidity IPS). The Liquidity

Management Policy shall incorporate a projected sources and uses of funds analysis that is consistent with the guidance set forth in the Liquidity IPS.

14. The Liquidity Management Policy shall include a Contingency Funding Plan, which shall, at a minimum, include:

(a) alternative funding sources for meeting extraordinary demands or to provide liquidity in the event the sources identified are insufficient. Such alternative funding sources must consider, at a minimum, the selling of assets, obtaining secured lines of credit, recovering charged-off assets, injecting additional equity capital, and the priority of their implementation; and

(b) sources and uses of funds projections under various stress scenarios including, but not limited to, (i) falling below Prompt Corrective Action (PCA) well-capitalized status; (ii) restricted access to brokered deposits; (iii) restricted access to Federal Home Loan Bank (FHLB) borrowings; (iv) loss of uninsured deposits; and (v) limitations on deposit offering rates.

15. Beginning on June 30, 2011, the Association shall submit to the Regional Director a quarterly written assessment of its current liquidity position (Liquidity Report). The Liquidity Report shall be acceptable to the Regional Director and include an assessment of the Association's compliance with its Liquidity Management Policy and Contingency Funding Plan. At a minimum, the Liquidity Report shall include:

(a) cash on hand;

(b) a maturity schedule of certificates of deposit, including, but not limited to, large uninsured deposits, brokered deposits, and public funds deposits;

(c) the volatility of deposits;

- (d) a listing of funding sources, including federal funds sold; unpledged assets and assets available for sale; and borrowing lines by lender, including original amount, remaining availability, type and book value of collateral pledged, terms, and maturity date, if applicable;
- (e) an analysis of the continuing availability and volatility of present funding sources;
- (f) an analysis of the impact of decreased cash flow from the Association's loan portfolio resulting from delinquent and non-performing loans;
- (g) an analysis of the impact of decreased cash flow from the sale of loans or loan participations; and
- (h) a schedule of deposit offering rates by type and maturity compared to national offering rates as published by the Federal Deposit Insurance Corporation.

16. Within ten (10) days after receipt of communication from a Federal Home Loan Bank, Federal Reserve Bank, correspondent bank, or government agency with collateralized public unit deposits regarding changes in the Association's borrowing and/or collateral requirements, the Association shall notify the Regional Director of such communication.

**Brokered Deposits.**

17. Effective immediately, the Association is prohibited from increasing the dollar amount of brokered deposits<sup>13</sup> at the Association without receiving the prior written non-objection of the Regional Director. The Association's written request for non-objection shall be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of acceptance of additional brokered deposits.

18. Within sixty (60) days, the Association shall submit a detailed brokered deposit plan that is acceptable to the Regional Director covering July 1, 2011 through December 31, 2012 (Brokered

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<sup>13</sup> The term "brokered deposit" is defined at 12 C.F.R. § 337.6(a)(2).

Deposit Plan). At a minimum, the Brokered Deposit Plan shall include:

- (a) a detailed description of the current level and composition of the Association's brokered deposits, including the source of each deposit and its maturity date;
- (b) comprehensive cash flow and brokered deposit projections forecasting funding needs and sources for each calendar quarter covered by the Brokered Deposit Plan; and
- (c) detailed strategies to reduce the current level of brokered deposits, which shall include target dates and amounts.

19. Upon receipt of written non-objection from the Regional Director, the Association shall implement and adhere to the Brokered Deposit Plan. A copy of the Brokered Deposit Plan shall be provided to the Regional Director within twenty (20) days after the Board meeting.

20. Any modifications to the Brokered Deposit Plan must receive the prior written non-objection of the Regional Director. The Association shall submit any proposed modifications to the Regional Director at least forty-five (45) days prior to implementation of any modifications.

21. Within forty-five (45) days after the close of each quarter, beginning with the quarter ending September 30, 2011, the Board shall review quarterly variance reports on the Association's compliance with the Brokered Deposit Plan (Brokered Deposit Variance Reports). A copy of the Brokered Deposit Variance Reports shall be provided to the Regional Director within twenty (20) days after the Board meeting.

**Concentrations of Credit.**

22. Within thirty (30) days, the Association shall revise its written program for identifying, monitoring, and controlling risks associated with concentrations of credit (Concentration Program) to ensure that it addresses all corrective actions set forth in the 2010 ROE relating to concentrations of credit. The Concentration Program shall comply with all applicable laws, regulations, and regulatory

guidance and shall:

- (a) establish prudent concentration limits expressed as a percentage of Tier 1 (Core) Capital plus ALLL, and document the appropriateness of such limits based on the Association's risk profile;
- (b) establish stratification categories of the Association's concentrations of credit (e.g., nonresidential permanent loans, construction loans, acquisition and development loans) and establish enhanced risk analysis, monitoring, and management for each stratification category;
- (c) contain specific review procedures and reporting requirements, including written reports to the Board, designed to identify, monitor, and control the risks associated with concentrations of credit and periodic market analysis for the various property types and geographic markets represented in its portfolio; and
- (d) contain a written action plan, including specific time frames, for bringing the Association into compliance with its concentration of credit limits.

23. Within sixty (60) days, the Association shall submit its Concentration Program to the Regional Director for review and comment. Upon receipt of written notification from the Regional Director that the Concentration Program is acceptable, the Association shall implement and adhere to the Concentration Program. The Board's review of the Concentration Program shall be documented in the Board meeting minutes.

24. Beginning with the quarter ending June 30, 2011, the Board shall review the appropriateness of the Association's concentration limits given current conditions and the Association's compliance with its Concentration Program. The Board's review of the Association's Concentration Program shall be documented in the Board meeting minutes. A copy of the Board meeting minutes shall be provided to the Regional Director within sixty (60) days after the end of each quarter, beginning with the quarter

ending June 30, 2011.

**Financial Recordkeeping and Reporting.**

25. Effective immediately, the Association shall ensure that its books and records and financial reports and statements are timely and accurately prepared and filed in compliance with generally accepted accounting principles and all applicable laws, regulations, and regulatory guidance including, but not limited to, 12 C.F.R. Part 562 and the TFR instructions.

26. Effective immediately, the Association shall ensure that it maintains at all times books and records that are separate and distinct from those of its holding company, WSB Holdings, Inc., Bowie, Maryland, OTS Docket No. H-4468 (Holding Company). The books and records for each legal entity shall accurately reflect and fully support the financial condition of the Association and the Holding Company respectively.

**Reporting Deferred Tax Assets.**

27. Effective immediately, the Association shall take all necessary steps to properly report deferred tax assets on Item SC690 of Schedule SC and Item CCR133 of Schedule CCR of the Thrift Financial Report (TFR) in accordance with 12 C.F.R. §§560.160 and 567.12(h), OTS Thrift Bulletin 56, and SFAS 109.

**Violations of Law.**

28. Within sixty (60) days, the Association shall ensure that all violations of law and/or regulation discussed in the 2010 ROE are corrected and that adequate policies, procedures and systems are established or revised and thereafter implemented to prevent future violations.

**Growth.**

29. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written notice of non-objection of the Regional Director.

**Directorate and Management Changes.**

30. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers<sup>14</sup> set forth in 12 C.F.R. Part 563, Subpart H.

Dividends and Other Capital Distributions.

31. Effective immediately, the Association shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director in accordance with applicable regulations and regulatory guidance. The Association's written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed declaration, dividend payment or distribution of capital.

**Employment Contracts and Compensation Arrangements.**

32. Effective immediately, the Association shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

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<sup>14</sup> The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

### **Golden Parachute and Indemnification Payments.**

33. Effective immediately, the Association shall not make any golden parachute payment<sup>15</sup> or prohibited indemnification payment<sup>16</sup> unless, with respect to such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

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<sup>15</sup> The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

<sup>16</sup> The term “prohibited indemnification payment” is defined at 12 C.F.R. § 359.1(l).

### **Third Party Contracts.**

34. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association<sup>17</sup> or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract and a written determination that the arrangement or contract complies with the standards and guidelines set forth in Thrift Bulletin 82a (TB 82a); and (b) received written notice of non-objection from the Regional Director.

### **Transactions with Affiliates.**

35. Effective immediately, the Association shall not engage in any new transaction with an affiliate unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which shall include the information set forth in 12 C.F.R. § 563.41(c)(3).

36. Within sixty (60) days, the Association shall revise its transaction with affiliates policies to ensure that all transactions with an affiliate comply with all applicable laws, regulations, and regulatory guidance, including the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223.

### **Board Oversight of Compliance with Agreement.**

37. Within thirty (30) days, the Board shall designate a committee to monitor and coordinate the Association's compliance with the provisions of this Agreement and the completion of all corrective actions required in the 2010 ROE (Oversight Committee). The Oversight Committee shall be comprised

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<sup>17</sup> A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital, where there is a foreign service provider, or where it involves information technology that is critical to the Association's daily operations without regard to the contract amount.

of four (4) or more directors, the majority of whom shall be independent<sup>18</sup> directors.

38. Within thirty (30) days after the end of each quarter, beginning with the quarter ending September 30, 2011, the Oversight Committee shall submit a written compliance progress report to the Board (Compliance Tracking Report). The Compliance Tracking Report shall, at a minimum:

- (a) separately list each corrective action required by this Agreement and the 2010 ROE;
- (b) identify the required or anticipated completion date for each corrective action; and
- (c) discuss the current status of each corrective action, including the action(s) taken or to be taken to comply with each corrective action.

39. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending September 30, 2011, the Board shall review the Compliance Tracking Report and all reports required to be prepared by this Agreement. Following its review, the Board shall adopt a resolution: (a) certifying that each director has reviewed the Compliance Tracking Report and all required reports; and (b) documenting any corrective actions adopted by the Board. A copy of the Compliance Tracking Report and the Board resolution shall be provided to the Regional Director within fifteen (15) days after the Board meeting.

40. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Agreement. The Board shall review and adopt all

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<sup>18</sup> For purposes of this Agreement, an individual who is "independent" with respect to the Association shall be any individual who:

- (a) is not employed in any capacity by the Association, its subsidiaries, or its affiliates, other than as a director;
- (b) does not own or control more than ten percent (10%) of the outstanding shares of the Association or any of its affiliates;
- (c) is not related by blood or marriage to any officer or director of the Association or any of its affiliates, or to any shareholder owning more than ten percent (10%) of the outstanding shares of the Association or any of its affiliates, and who does not otherwise share a common financial interest with any such officer, director or shareholder;
- (d) is not indebted, directly or indirectly, to the Association or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 15 percent (15%) of the Association's total Tier 1 (Core) capital; and
- (e) has not served as a consultant, advisor, underwriter, or legal counsel to the Association or any of its affiliates.

policies and procedures required by this Agreement prior to submission to the OTS.

**Effective Date.**

41. This Agreement is effective on the Effective Date as shown on the first page.

**Duration.**

42. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

**Time Calculations.**

43. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

**Submissions and Notices.**

44. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

45. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- (a) To the OTS19:  
James G. Price, Regional Director  
Attn: Robert A. Mitchell, Assistant Director  
Office of Thrift Supervision  
1475 Peachtree Street, NE  
Atlanta, Georgia 30309  
404.897.1861 (Facsimile)
  
- (b) To the Association:  
Phillip C. Bowman, CEO  
The Washington Savings Bank, FSB  
4201 Mitchellville Road, Suite 200  
Bowie, Maryland 20716  
301.352.3121 (Facsimile)

**No Violations Authorized.**

46. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

47. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

48. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 47 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

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<sup>19</sup> Following the Transfer Date, *see* Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. Law No. 111-203, § 311, 124 Stat. 1520 – 21 (2010), all submissions, requests, communications, consents or other documents relating to this Agreement shall be directed to the Comptroller of the Currency, or to the individual, division, or office designated by the Comptroller of the Currency.

**Miscellaneous.**

49. The laws of the United States of America shall govern the construction and validity of this Agreement.

50. If any provision of this Agreement is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

51. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

52. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

53. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

**Enforceability of Agreement.**

54. This Agreement is a "written agreement" entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

**Signature of Directors/Board Resolution.**

55. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

**WHEREFORE**, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

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THE WASHINGTON SAVINGS BANK, FSB  
Bowie, Maryland

OFFICE OF THRIFT SUPERVISION

By: \_\_\_\_\_/s/\_\_\_\_\_

William J. Harnett  
Chairman

By: \_\_\_\_\_/s/\_\_\_\_\_

James G. Price  
Regional Director, Southeast Region

Date: See Effective Date on Page 1

\_\_\_\_\_/s/\_\_\_\_\_

Phillip C. Bowman  
Director

\_\_\_\_\_/s/\_\_\_\_\_

George Q. Conover  
Director

\_\_\_\_\_/s/\_\_\_\_\_

Charles A. Dukes  
Director

\_\_\_\_\_/s/\_\_\_\_\_

Kevin P. Huffman  
Director

\_\_\_\_\_/s/\_\_\_\_\_

Eric S. Lodge  
Director

\_\_\_\_\_/s/\_\_\_\_\_

Charles W. McPherson  
Director

\_\_\_\_\_/s/\_\_\_\_\_

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 quarterly report on Form 10-Q 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: August 12, 2011

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

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

I, Carol A. Ramey, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 12, 2011

By: /s/ Carol A. Ramey  
Carol A. Ramey  
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 Principal Financial Officer of WSB Holdings, Inc. (the “**Company**”), each hereby certifies that, to his or her knowledge on the date hereof:

- (a) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2011 (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  
August 12, 2011

By: /s/ Carol A. Ramey  
Carol A. Ramey  
Sr. Vice President/Chief Financial Officer  
August 12, 2011

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-Q 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.