

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, 2010**

() 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)

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 7,896,232 shares of Common Stock (\$0.0001 Par Value) outstanding as of August 2, 2010.

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, 2010	December 31, 2009
ASSETS		
Cash	\$ 1,368,137	\$ 660,334
Federal funds sold and interest bearing deposits at FHLB - Atlanta	10,339,655	8,408,530
Total cash and cash equivalents	<u>11,707,792</u>	<u>9,068,864</u>
Loans receivable - net:		
Held for sale	7,223,096	8,303,880
Held for investment (net of allowance for loan losses of \$9,313,241 and \$8,181,687 respectively)	234,632,968	241,054,538
Total loans receivable - net	<u>241,856,064</u>	<u>249,358,418</u>
Investment securities - available for sale at fair value	14,113,688	31,052,804
Investment securities - held to maturity	22,719,491	
Mortgage-backed securities - available for sale at fair value	80,684,456	101,728,191
Mortgage-backed securities - held to maturity	1,846,693	3,680,814
Investment in Federal Home Loan Bank stock, at cost	6,158,000	5,910,500
Accrued interest receivable on loans	1,377,163	1,274,608
Accrued interest receivable on investments	716,363	736,281
Real estate acquired in settlement of loans	6,802,388	5,653,114
Bank owned life insurance	11,672,399	11,435,003
Premises and equipment - net	4,942,949	5,167,911
Income taxes receivable	676,090	676,090
Deferred income taxes	9,400,757	8,853,252
Other assets	<u>3,032,277</u>	<u>3,358,281</u>
TOTAL ASSETS	\$ <u>417,706,570</u>	\$ <u>437,954,131</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 11,090,745	\$ 9,633,496
Interest bearing	250,452,893	244,187,986
Total deposits	<u>261,543,638</u>	<u>253,821,482</u>
Federal Home Loan Bank borrowings	91,000,000	99,000,000
Other borrowings	-	30,000,000
Advances from borrowers for taxes and insurance	881,969	471,863
Accounts payable, accrued expenses and other liabilities	<u>12,114,904</u>	<u>1,804,069</u>
TOTAL LIABILITIES	<u>365,540,511</u>	<u>385,097,414</u>
STOCKHOLDERS' EQUITY:		
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, 7,896,232 and 7,855,732 issued and outstanding as of June 30, 2010 and December 31, 2009, respectively	790	785
Additional paid-in capital	10,808,752	10,717,631
Retained earnings - substantially restricted	42,686,759	44,854,805
Accumulated other comprehensive loss	<u>(1,330,242)</u>	<u>(2,716,504)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>52,166,059</u>	<u>52,856,717</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>417,706,570</u>	\$ <u>437,954,131</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,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
INTEREST INCOME:				
Interest and fees on loans	\$ 3,930,511	\$ 4,039,038	7,784,539	\$ 7,895,599
Interest on mortgage-backed securities	1,186,758	1,899,439	2,532,894	3,762,625
Interest and dividends on investments	444,263	394,820	826,314	1,024,691
Total interest income	<u>5,561,532</u>	<u>6,333,297</u>	<u>11,143,747</u>	<u>12,682,915</u>
INTEREST EXPENSE:				
Interest on deposits	1,279,075	2,137,196	2,594,627	4,282,882
Interest on other borrowings	1,020,577	1,478,948	2,264,658	2,933,108
Total interest expense	<u>2,299,652</u>	<u>3,616,144</u>	<u>4,859,285</u>	<u>7,215,990</u>
NET INTEREST INCOME	3,261,880	2,717,153	6,284,462	5,466,925
Provision for loan losses	2,400,000	250,000	2,400,000	2,750,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>861,880</u>	<u>2,467,153</u>	<u>3,884,462</u>	<u>2,716,925</u>
NON-INTEREST INCOME:				
Loan related fees	90,301	142,967	177,907	212,652
Gain on sale of loans	258,645	230,618	381,790	472,902
Gain on sale of investment securities - available for sale	769,170	-	769,170	23,344
Loss on sale of real estate acquired in settlement of loans	(6,802)	(28,998)	(43,202)	(114,846)
Loss on disposal of premises and equipment	-	-	-	(12,045)
Service charges on deposits	34,446	35,081	69,442	65,232
Rental income	104,617	101,433	206,056	202,865
Other income	162,847	166,564	318,076	310,452
Total non-interest income	<u>1,413,224</u>	<u>647,665</u>	<u>1,879,239</u>	<u>1,160,556</u>
NON-INTEREST EXPENSE:				
Salaries and benefits	1,694,985	1,395,719	3,255,980	2,811,071
Occupancy expense	171,577	173,970	348,617	361,185
Depreciation	126,766	167,274	264,492	345,896
Advertising	74,373	69,118	157,265	134,789
Service bureau charges	139,118	144,089	272,176	280,088
Service charges from banks	9,015	8,581	17,663	15,953
Stationary, printing and supplies	49,521	43,792	82,882	85,130
Professional services	162,622	202,729	393,674	391,158
FDIC Insurance	312,561	283,807	614,489	331,975
Debt pre-payment penalty	1,967,187	-	1,967,187	-
Provision for losses on real estate acquired in settlement of loans	439,173	82,710	499,414	132,738
Other taxes	71,003	66,869	152,232	281,186
Other	833,350	610,031	1,454,128	1,232,465
Total non-interest expense	<u>6,051,251</u>	<u>3,248,689</u>	<u>9,480,199</u>	<u>6,403,634</u>
LOSS BEFORE INCOME TAXES	(3,776,147)	(133,871)	(3,716,498)	(2,526,153)
INCOME TAX BENEFIT	<u>(1,354,358)</u>	<u>(92,847)</u>	<u>(1,548,453)</u>	<u>(952,127)</u>
NET LOSS	<u>\$ (2,421,789)</u>	<u>\$ (41,024)</u>	<u>(2,168,045)</u>	<u>\$ (1,574,026)</u>
BASIC LOSS PER COMMON SHARE	<u>\$ (0.31)</u>	<u>\$ (0.01)</u>	<u>(0.28)</u>	<u>\$ (0.20)</u>
DILUTED LOSS PER COMMON SHARE	<u>\$ (0.31)</u>	<u>\$ (0.01)</u>	<u>(0.28)</u>	<u>\$ (0.20)</u>
CASH DIVIDENDS DECLARED PER COMMON SHARE	<u>\$ 0.00</u>	<u>\$ 0.04</u>	<u>0.00</u>	<u>\$ 0.08</u>
AVERAGE COMMON SHARES OUTSTANDING	<u>7,876,610</u>	<u>7,849,732</u>	<u>7,866,171</u>	<u>7,847,516</u>
AVERAGE DILUTED COMMON SHARES OUTSTANDING	<u>7,876,610</u>	<u>7,849,732</u>	<u>7,866,171</u>	<u>7,847,516</u>

See notes to consolidated financial statements.

WSB HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
BALANCE, JANUARY 1, 2009	\$ 782	\$ 10,629,489	\$ 51,513,227	\$ (8,453,273)	\$ 53,690,225
Exercise of Stock Options	3	64,117	-	-	64,120
Tax effect of Stock Option Exercised	-	8,432	-	-	8,432
Stock-based Compensation	-	2,344	-	-	2,344
Comprehensive Income:					
Net loss	-	-	(1,574,025)	-	(1,574,025)
Other comprehensive income (loss) Reclassification adjustment for gains, net of taxes of \$9,207	-	-	-	(14,137)	(14,137)
Net changes in unrealized appreciation on available for sale securities	-	-	-	2,816,408	2,816,408
Total comprehensive Loss					1,228,246
Cash dividend declared (0.08 per common share)	-	-	(627,978)	-	(627,978)
BALANCE, JUNE 30, 2009	<u>\$ 785</u>	<u>\$ 10,704,382</u>	<u>\$ 49,311,224</u>	<u>\$ (5,651,002)</u>	<u>\$ 54,365,389</u>
BALANCE, JANUARY 1, 2010	\$ 785	\$ 10,717,631	\$ 44,854,805	\$ (2,716,504)	\$ 52,856,717
Exercise of Stock Options	5	91,120	-	-	91,125
Comprehensive Income:					
Net loss	-	-	(2,168,045)	-	(2,168,045)
Other comprehensive income (loss) 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>\$ 42,686,760</u>	<u>\$ (1,330,242)</u>	<u>\$ 52,166,059</u>

See notes to consolidated financial statements

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

	Six months ended June 30,	
	2010	2009
OPERATING ACTIVITIES:		
Net loss	\$ (2,168,045)	\$ (1,574,026)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Provision for loan losses	2,400,000	2,750,000
Stock-based compensation	-	2,344
Depreciation	264,492	345,896
Loss on disposal of premises and equipment	-	12,045
Accretion of discounts on investment securities	17,477	1,888
Gain on sale of investment securities	(769,170)	(23,344)
Loss on sale of real estate acquired in settlement of loans	43,202	114,846
Gain on sale of loans	(381,790)	(472,902)
Loans originated for sale	(34,330,730)	(62,455,420)
Proceeds from sale of loans originated for sale	35,793,302	61,556,081
Increase in cash surrender value of bank owned life insurance	(237,396)	(245,629)
Deferred income taxes	(1,450,315)	(282,218)
Excess tax benefit from stock-based compensation	-	(8,432)
(Increase) decrease in accrued interest receivable	(82,637)	45,126
Decrease (increase) in other assets	326,005	(48,801)
(Decrease) increase in net deferred loan fees	(57,277)	33,355
Change in income taxes payable/receivable	-	(679,930)
(Decrease) increase in accrued interest payable	(12,047)	23,163
Increase (decrease) in accounts payable, accrued expenses and other liabilities	10,310,835	(213,196)
	9,665,906	(1,119,154)
Net cash provided by (used in) operating activities		
INVESTING ACTIVITIES:		
Net decrease (increase) in loans	631,187	(17,485,945)
Redemption (purchase) of mortgage-backed securities - available for sale	75,186	(25,619,447)
Repayment of mortgage-backed securities - available for sale	25,499,354	19,559,968
(Purchase) redemption of Federal Home Loan Bank Stock	(247,500)	175,200
Purchase of investment securities - available for sale	(62,748)	(64,055)
Purchase of investment securities - held to maturity	(22,735,000)	-
Repayment of investment securities - available for sale	2,375,709	20,592,780
Purchase of premises and equipment	(39,530)	(114,326)
Sale of investment securities - available for sale	14,985,745	-
Development of real estate acquired in settlement of loans	(48,777)	(37,735)
Proceeds from sale of real estate acquired in settlement of loans	2,303,963	2,158,119
	22,737,589	(835,441)
Net cash provided by (used in) investing activities		
FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts and savings accounts	11,571,432	9,068,787
Proceeds from issuance of certificates of deposit	16,675,685	36,493,271
Payments for maturing certificates of deposit	(20,512,915)	(39,039,586)
Net increase in advance payments by borrowers for taxes and insurance	410,106	439,846
Cash dividend paid	-	(627,978)
Decrease in advance from the Federal Home Loan Bank	(8,000,000)	(4,100,000)
Decrease in other borrowings	(30,000,000)	-
Excess tax benefit from stock-based compensation	-	8,432
Proceeds from exercise of stock options	91,125	64,120
	(29,764,567)	2,306,892
Net cash (used in) provided by financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,638,928	352,297
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,068,864	4,050,612
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,707,792	\$ 4,402,909
CASH PAID DURING THE PERIOD FOR:		
Income taxes	\$ -	\$ -
Interest	\$ 5,053,790	\$ 7,199,822
Non-cash transactions:		
Transfer from loans to foreclosed real estate	\$ 3,447,661	\$ 3,395,559

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, 2010 AND 2009
(unaudited)

1. Financial Statements

The Consolidated Financial Statements for the three and six months ended June 30, 2010 and 2009 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, 2010, 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, 2009 (the "2009 Annual Report"), a copy of which is available at www.twsb.com and www.sec.gov. The results of operations for the period ended June 30, 2010, 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>2010</u>			<u>2009</u>		
	<u>Net Loss</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 loss available to Common Stockholders	\$ <u>(2,421,789)</u>	7,876,610	\$ <u>(0.31)</u>	\$ <u>(41,024)</u>	7,849,732	\$ <u>(0.01)</u>
Effect of Dilutive Options Incremental Shares		<u>0</u>			<u>0</u>	
Diluted EPS						
Netloss available to Common Stockholders	\$ <u>(2,421,789)</u>	<u>7,876,610</u>	\$ <u>(0.31)</u>	\$ <u>(41,024)</u>	<u>7,849,732</u>	\$ <u>(0.01)</u>

WSB HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(unaudited)

	Six Months Ended June 30,					
	2010			2009		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Net loss available to Common Stockholders	\$ <u>(2,168,045)</u>	7,866,171	\$ <u>(0.28)</u>	\$ <u>(1,574,026)</u>	7,847,516	\$ <u>(0.20)</u>
Effect of Dilutive Options Incremental Shares		0			0	
Diluted EPS						
Net loss available to Common Stockholders	\$ <u>(2,168,045)</u>	<u>7,866,171</u>	\$ <u>(0.28)</u>	\$ <u>(1,574,026)</u>	<u>7,847,516</u>	\$ <u>(0.20)</u>

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.

For the three and six month periods ended June 30, 2009, there was no dilutive effect on EPS as we experienced a loss for the periods. Options to purchase 454,475 and 325,375 shares of common stock were not included in the computation of diluted EPS for the three and six months ended June 30, 2009 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 2010 or 2009. In April 2007, 5,000 shares were awarded under the 1997 Plan to the Bank's Chief Executive Officer, which have a ten-year contractual term and vested over a two year period. There was no pre-tax stock-based compensation during the six months ending June 30, 2010 compared to \$2,344 pre-tax stock-based compensation recognized in the Statement of Operations for the six months ending June 30, 2009.

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

WSB HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Stock Option Plans - We have five stock option plans, which reserve shares of common stock for issuance to certain key employees and non-employee directors. Collectively, these plans reserve 2,310,000 shares for issuance pursuant to options as of June 30, 2010, 1,899,125 options have been granted or expired and 410,875 options remain available for grant. Options granted generally expire ten years after grant date and are exercisable at 50% one year after the date of grant and the remaining 50% two years after the date of grant, with the exceptions of (1) options granted under the Non-Employee Directors' Plan, which options are exercisable at 25% on the first and second anniversary dates and the remaining 50% three years after the date of grant and (2) the 5,000 option grant to WSB's CEO in September 2005, which were fully vested at time of grant and expire 5 years after the date of grant. The exercise price of the options granted pursuant to these plans is in each case the fair market value of the shares on the date of grant.

The following table summarizes stock option activity for the six month period ended June 30, 2010:

4. Uncertain Income Tax Positions

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	445,475	\$3.33		
Exercised	(40,500)	2.25		
Granted	-	-		
Forfeited	-	-		
Outstanding at June 30, 2010	404,975	\$3.43	1.04	\$93,469
Exercisable at June 30, 2010	404,975	\$3.43	1.04	\$93,469

We have recorded a liability for uncertain income tax positions as required by guidance issued by the Financial Accounting Standards Board ("FASB"). We were scheduled to begin trial on this matter on February 1, 2010. After exchanging expert reports and filing an extensive pretrial memorandum, the IRS conceded all of the legal issues in the case and agreed to a valuation of the easement in the amount of \$1,300,000 (no penalties will be imposed). The final Decision has been signed and filed with the court. As previously noted, we initially recorded a liability of approximately \$405,600, as a result of this pending issue. The liability has been completely de-recognized and favorably impacted the effective tax rate for the period ending June 30, 2010.

5. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(unaudited)

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.

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

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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 allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At June 30, 2010, substantially all of the totally impaired loans were evaluated based upon the fair value of the collateral. In accordance with guidance regarding fair value measurements, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, we record the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, we record the loan as nonrecurring Level 3.

Loans Held for Sale- Loans held for sale are valued based on quotations from the secondary market for similar instruments and are 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, 2010 and December 31, 2009:

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At June 30, 2010 (In thousands)

	Carrying Value June 30, 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	\$ 7,223		\$ 7,223	\$	
Available-for-sale, FHLB Agencies callable	11,753	-	11,753	-	-
Available-for-Sale, Municipal Bonds	2,361	-	2,361	-	-
Available-for-Sale Residential MBS	80,684	-	47,572	33,112	-
	<u>\$ 102,021</u>	<u>\$ -</u>	<u>\$ 68,909</u>	<u>\$ 33,112</u>	<u>\$ -</u>

At December 31, 2009 (In thousands)

	Carrying Value December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Changes in Fair Values Included in Period Earnings
Loans Held-for-sale	\$ 8,304		\$ 8,304	\$	
Available-for-sale, FHLB Agencies callable	28,694	-	28,694	-	-
Available-for-Sale, Municipal Bonds	2,359	-	2,359	-	-
Available-for-Sale Residential MBS	101,728	-	66,671	35,057	-
	<u>\$ 141,085</u>	<u>\$ -</u>	<u>\$ 106,028</u>	<u>\$ 35,057</u>	<u>\$ -</u>

Loans held-for-sale, which are carried at the lower of cost or market, did not have any impairment charge at June 30, 2010.

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, 2010. The change in the assets included in Level 3 was due to principal repayments and the change in unrealized gains/losses for the six month period ending June 30, 2010.

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, 2010 and December 31, 2009 is included in the tables below:

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	At June 30, 2010 (In thousands)			
	Carrying Value June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans	\$ 26,180	\$ -	\$ 26,180	\$ -
Real estate acquired in settlement of loans	<u>6,802</u>	<u>-</u>	<u>6,802</u>	<u>-</u>
	<u>\$ 32,982</u>	<u>\$ -</u>	<u>\$ 32,982</u>	<u>\$ -</u>

	At December 31, 2009 (In thousands)			
	Carrying Value December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans	\$ 25,524	\$ -	\$ 25,524	\$ -
Real estate acquired in settlement of loans	<u>5,653</u>	<u>-</u>	<u>5,653</u>	<u>-</u>
	<u>\$ 31,177</u>	<u>\$ -</u>	<u>\$ 31,177</u>	<u>\$ -</u>

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$30,182,000, with a related valuation allowance of \$4,002,000 at June 30, 2010 compared to principal balance of \$30,110,000, with a related valuation allowance of \$4,586,000 at December 31, 2009.

Real estate acquired in settlement of loans is carried at the lower of our recorded investment or fair value at the date of acquisition. Write-downs to fair value at the date of acquisition are charged to the allowance for loan losses. Subsequent write downs are included in non-interest expense. Costs relating to the development and improvement of a property are capitalized, whereas those relating to holding the property are charged to expense when incurred. The real estate is carried at the lower of acquisition or fair value net of estimated costs to sell subsequent to acquisition. Operating expenses of real estate owned are reflected in other non-interest expenses. The value of REO properties held due to foreclosures at June 30, 2010 was \$6.8 million compared to \$5.7 million at December 31, 2009.

Impaired loans, 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, 2010		December 31, 2009	
	Carrying Amount (000's)	Estimated Fair Value (000's)	Carrying Amount (000's)	Estimated Fair Value (000's)
Assets:				
Cash and cash equivalents	\$ 11,708	\$ 11,708	\$ 9,069	\$ 9,069
Loans receivable, net	241,856	242,226	249,358	249,861
Mortgage-backed securities:				
Held to maturity	1,847	1,976	3,681	3,846
Available for sale	80,684	80,684	101,728	101,728
Investment securities:				
Held to maturity	22,719	22,920	-	-
Available for sale	14,114	14,114	31,053	31,053
Investment in Federal Home				
Loan Bank stock	6,158	6,158	5,911	5,911
Bank Owned Life Insurance	11,672	11,672	11,435	11,435
Liabilities:				
Deposits:				
Non-interest-bearing	11,091	11,091	9,633	9,633
Interest bearing	250,453	255,803	244,188	245,677
Borrowings	91,000	92,023	129,000	130,138

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, 2010 and December 31, 2009. 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, 2010 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

6. Investments and Mortgage-Backed Securities

Investment securities consist of the following:

	June 30, 2010			
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
AVAILABLE FOR SALE:				
FHLB Agencies	\$ 11,028,145	\$ 724,620	\$ -	\$ 11,752,765
Municipal Bonds	2,297,766	63,157	-	2,360,923
	\$ 13,325,911	\$ 787,777	\$ -	\$ 14,113,688
HELD TO MATURITY:				
FHLB Agencies	\$ 22,719,491	\$ 200,432	\$ -	\$ 22,919,923

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

Mortgage-backed securities consisted of the following:

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
AVAILABLE FOR SALE:				
FHLMC pass-through certificates	\$ 22,179,477	\$ 436,175	\$ 7,333	\$ 22,608,319
FNMA pass-through certificates	4,911,594	216,367	-	5,127,961
Other pass-through certificates	57,270,496	833,712	5,156,032	52,948,176
	\$ 84,361,567	\$ 1,486,254	\$ 5,163,365	\$ 80,684,456
Weighted average interest rate	5.35%			
HELD TO MATURITY:				
Other pass-through certificates	\$ 1,846,693	\$ 129,730	\$ -	\$ 1,976,423
Weighted average interest rate	8.70%			

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	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
AVAILABLE FOR SALE:				
FHLMC pass-through certificates	\$ 28,660,008	\$ 156,856	\$ 54,229	\$ 28,762,635
FNMA pass-through certificates	5,868,343	241,266	-	6,109,609
Other pass-through certificates	72,880,834	515,709	6,540,596	66,855,947
	<u>\$ 107,409,185</u>	<u>\$ 913,831</u>	<u>\$ 6,594,825</u>	<u>\$ 101,728,191</u>
Weighted average interest rate	5.42%			
HELD TO MATURITY:				
Other pass-through certificates	\$ 3,680,814	\$ 165,370	\$ 571	\$ 3,845,613
Weighted average interest rate	6.84%			

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 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, 2010		December 31, 2009	
	Fair Value	Continuous Unrealized Losses	Fair Value	Continuous Unrealized Losses
Less than 12 months				
FHLMC	\$ 6,200,911	\$ 7,333	\$ 11,582,768	\$ 59,977
Other pass-through	-	-	-	-
More than 12 months				
Other pass-through	37,798,592	5,156,032	39,501,637	6,534,848
Total	<u>\$ 43,999,503</u>	<u>\$ 5,163,365</u>	<u>\$ 51,084,405</u>	<u>\$ 6,594,825</u>

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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, other than those included in the table above, are not other-than-temporary. The unrealized losses are driven by market illiquidity causing price deterioration. Because our intention is not to sell the 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, 2010.

During the third quarter of 2009, we recognized total non-cash other than temporary impairment (“OTTI”) charges to the consolidated statement of operations for \$693,000 for one of our private-labeled MBS. The OTTI charge relates to a credit loss. Credit losses reflect the difference between the present value of the cash flows expected to be collected and the amortized cost. The credit loss was determined through an income approach using prepayment speeds, default rates and default percentages.

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

There were no sales of mortgage-backed securities during the three and six month periods ending June 30, 2010.

Proceeds from the sale of investment securities available-for-sale were as follows for the six months ending June 30, 2010:

	June 30, 2010		
Carrying Value	Proceeds	Gross Realized Gain on sales	
FHLB Agencies- called	\$ 5,140,000	\$ 5,140,000	\$ -
FHLB Agencies- sales	9,076,575	9,845,745	769,170
	\$ 14,216,575	\$ 14,985,745	\$ 769,170

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	June 30, 2009		
	Carrying Value	Proceeds	Gross Realized Gain on sales
FHLB Agencies- called	\$ 5,000,000	\$ 5,023,344	\$ 23,344

Approximately \$5.1 million short term investments, callable agencies, were called during the six month period ending June 30, 2010. Also, during the three month period ending June 30, 2010, we sold approximately \$9.1 million in short term agencies. The proceeds of these securities were used to partially pay off and unwind our outstanding borrowings that we had with a third party. The gain realized of \$769,000 on the sale of these securities offset the \$1.9 million pre-payment penalty expense recognized for unwinding other borrowings. This was part of management's efforts this year to continue to strengthen the balance sheet for the future.

The gain from the same period of the prior fiscal year is the result of called short term investments within the Company's portfolio.

7. New Accounting Pronouncements

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

In January 2010, FASB issued amended guidance on fair value measurements and disclosures. The new guidance requires additional disclosures regarding fair value measurements, amends disclosures about postretirement benefit plan assets, and provides clarification regarding the level of disaggregation of fair value disclosures by investment class. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for certain Level 3 activity disclosure requirements that will be effective for reporting periods beginning after December 15, 2010. These new disclosure requirements were adopted by WSB during the current periods, with the exception of the additional Level 3 requirements which is effective for fiscal years beginning after December 15, 2010. With the respect of portions of this guidance adopted during the current period, the adoption did not have a material impact on our financial position, results of operations, cash flows or disclosures. We do not believe that the adoption of the remaining portion of this guidance will have a material impact on our financial position, results of operations, cash flows or disclosures.

ASU No. 2010-20, "Receivables (Topic 830) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality

indicators. ASU 2010-20 will be effective for our financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required for our financial statements that include periods beginning on or after January 1, 2011.

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”), and 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 on residential mortgage, commercial and construction lending. Our results of operations are primarily determined by the difference between the interest income and fees earned on loans, investments and other interest-earning assets and the interest expense paid on deposits and other interest-bearing liabilities. The difference between the average yield earned on interest-earning assets and the average cost of interest-bearing liabilities is known as net interest-rate spread. Our principal expense 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, and gain on sale of loans, as well as our non-interest and tax expenses.

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. Management continues efforts to ensure diversity in our loan portfolio which includes residential lending, commercial real estate and commercial and industrial lending (more commonly referred to as business lending). Management believes that such diversification will be appropriate and beneficial in dealing with interest rate spread compression and portfolio risk management, although such diversification continues to be significantly hampered by the current economic slowdown. As part of maintaining a more diversified loan portfolio, we have established commercial business and commercial real estate lending departments staffed with experienced lenders in an effort to ensure that we have in place the necessary structure to expand our nonresidential loan portfolio. This change is particularly important given the current state of the residential housing markets and our prior reliance on residential construction and mortgage origination. To expand our commercial customer deposit base, we implemented remote deposit capture services for commercial customers. This service compliments the Bank's PC Banking platform and provides us a commercially viable means to serve the depository needs of businesses beyond our branch network. We believe that the expansion of our commercial base is significant to the profitability of the Bank in that commercial customers provide lower cost deposit funding, with commercial loan borrowings structures that re-price to interest rate changes under terms that are favorable to the Bank. Management believes that interest rates and general economic conditions nationally and in our market area are most likely to have a significant impact on our results of operations. We carefully evaluate all loan applications in our 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. Additionally, management reviews models and has established benchmark interest rate risk measures, and maintains procedures to assure

that our interest rate risk remains within the established limits. If our interest rate risk under these models exceeds the established benchmark rate, management develops a plan to bring interest rate risk back within the established limits.

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.

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, 2009 (“2009 Form 10-K”). There were no significant changes in this accounting policy during the six months ending June 30, 2010.

Consolidated Results of Operations

Net loss for the three and six months ended June 30, 2010 was \$2.4 million, or (\$0.31) per basic and diluted share, and \$2.2 million, or (\$0.28) per basic and diluted share, respectively, compared to net loss of \$41,000 or (\$0.01) per basic share and diluted share and \$1.6 million or (\$0.20) per basic share and diluted share, respectively, for the corresponding 2009 periods. Net loss for the three and six month periods ended June 30, 2010, represents increases of \$2.4 million, or 5807% and \$594,000, or 38%, over the same periods last year.

The increase in net loss for the three month period ending June 30, 2010, is primarily the result of a \$2.4 million loan loss provision compared to providing \$250,000 to our Allowance for Loan Losses during the corresponding 2009 period and an increase in non-interest expense, primarily as a result of a \$2.0 million one-time pre-payment penalty as a result of unwinding \$30.0 million in other borrowings compared to the same three month period last year.

The increase in net loss for the six month period ending June 30, 2010, is primarily the result of an increase in non-interest expense during the period as of result of the \$2.0 million one-time pre-payment penalty discussed above.

The increase in net loss for the three and six month periods ending June 30, 2010 reflects a 20% and 15% increase in net-interest income and a 118% and 62% increase in non-interest income, respectively, partially offsetting the 86% and 48% increase in non-interest expense for the three and six month periods ending June 30, 2010 compared to the same periods last year. The increase in net interest income for the three and six month periods reflects a 36% and 33% decrease in our cost of funds, primarily as a result of a decrease in the average

balance and average yield on interest-bearing liabilities. The increase in non-interest income is primarily the result of increase on gain on sales of investments.

Gain on the sale of investments for the three and six month periods ending June 30, 2010, included approximately \$769,000 pretax, \$508,000 net of tax, compared to no gains for the three month period last year and approximately \$23,000 pretax, \$15,000 net of tax, for the six month period last year. Gain on the sale of investments is the result of the Bank selling approximately \$9.1 million of our callable agencies to offset the one-time pre-payment penalty that we recognized in non-interest expenses due to the payoff of \$30.0 million in other borrowings that we had to a third party.

While the investment portfolio continues to be in a net unrealized loss position as of June 30, 2010, most of the securities are either U.S. Government agency securities or highly rated. However, as of June 30, 2010, there are seven MBS that have been rated less than investment grade by at least one agency. We continue to aggressively monitor the performance of these securities and the underlying collateral, and reported an other-than-temporary impairment of \$692,800 on only one of these downgraded MBS, which was reported during third quarter of 2009 relating to credit loss. See Note 6 to our consolidated financial statements for a full explanation. At the present time, no other investments have been designated as other than temporarily impaired.

Interest Income/Expense

Total interest income decreased \$772,000, or 12.2%, and \$1.5 million, or 12.1% for the three and six month periods ending June 30, 2010, compared to the corresponding periods last year, due primarily to a decrease in the average volume and average yield on interest-earning assets.

The average six month balance of interest-earning assets decreased to \$400.3 million for the six months ending June 30, 2010 from \$431.0 million for the six months ending June 30, 2009, due primarily to a decrease in MBS, offsetting the increase in federal funds. The decrease on MBS is primarily the result of principal pay-downs. The average yield on our interest-earning assets decreased to 5.57% from 5.89%. The decrease is primarily the result of lower interest rates on our loan portfolio and mortgage-backed securities compared to the same period last year due to a lower interest rate environment. In addition, we experienced a slight increase in non-accrual loans compared to the same period last year, which also negatively impacted the yield on our interest-earning assets.

Total interest expense decreased \$1.3 million, or 36.4%, and \$2.4 million, or 32.7%, respectively, for the three and six month periods ended June 30, 2010, compared to the same periods in the prior year. The decrease was attributable to both a decrease in the average balance and average interest rate on our interest-bearing liabilities. For the six month period ended June 30, 2010, our average interest-bearing liabilities were \$367.1 million with an average rate of 2.67%, compared to \$392.9 million with an average rate of 3.70%, for the corresponding period last year.

Net interest income increased \$545,000, or 20.1%, and \$818,000, or 15.0%, respectively, for the three and six month periods ended June 30, 2010, 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 2.90% for the six month period ended June 30, 2010 from 2.54% for the same period in the prior year. The ratio of our interest-earning assets to interest-bearing liabilities decreased to 109.04% from 109.69%.

We are currently experiencing a compression of our interest rate margins due to slowing demand for loans and lower yields on loan originations and investment security offerings. This lower interest rate environment for loans and investment securities compresses the interest rate spread by reducing interest income. We believe that the continued decline of prevailing rates on fixed rate deposits and FHLB advance funding structures will be

favorable to us as existing fixed rate instruments re-price to lower market rates, reducing interest expense. During the first quarter of 2010, a \$28.0 million FHLB borrowing with a rate of 6.28% matured which was replaced with lower rate FHLB borrowings of \$12 million with a rate set at 1.85% and \$8 million with a rate set at 1.18%. Interest rate margins will 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. During the current quarter, \$30.0 million of our other borrowings, which consisted of reverse repurchase agreement with a third party was paid off.

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.

Compared to the same period last year, the current economic environment has led to an increased volume in loan delinquencies, an increase of internally criticized loans, and the devaluation of real estate collateral used to secure some of these loans; however, these types of loans have remained stable since year ended December 31, 2009. 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. As a result of higher levels of charge-offs during the preceding twelve-month period, this change in the look back period required us to increase our loan loss reserves during the quarter ended June 30, 2010 despite decreases in charge-offs and in our loans held-for-investment during 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.

During the six months ended June 30, 2010, the allowance increased in net by \$1.1 million or 13.8%, to \$9.3 million at June 30, 2010 from \$8.2 million at December 31, 2009, as a result of net charge-offs of approximately \$1.2 million. At June 30, 2010, the allowance was 3.82% of total loans held-for-investment, compared to 3.28% of total loans held-for-investment, at December 31, 2009.

As noted above during the six months ended June 30, 2010, we experienced a decrease in charge-offs in our loan portfolio as well as a decrease in our loans held-for-investment portfolio. The fair value of impaired loans is

estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At June 30, 2010, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Management's analysis of our impaired loans represents a level of reserves of approximately \$4.0 million for the period ending June 30, 2010 compared to approximately \$4.2 million at December 31, 2009. As discussed above, recent conditions caused us to change our loss history look back period used for the allowance for loan loss estimates, resulting in an increase to our loan loss reserves during the second quarter of 2010.

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 \$243.9 million loans-held for investment portfolio as of June 30, 2010. The \$7.2 million loan held-for-sale portfolio has been committed to be purchased by investors at June 30, 2010 and will be settled subsequent to that date.

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 2009 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 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, 2010.

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, 2010, which impacted the allowance analysis:

- We experienced defaults in 1-4 family residential loans of approximately \$510,000.
- We experienced defaults in 1-4 construction loans of approximately \$232,000
- We experienced defaults in lot loans of approximately \$399,000.
- We experienced defaults in commercial loans of approximately \$127,000.

All of the above-referenced loan defaults were charged off to the allowance during the six months ended June 30, 2010.

We believe our evaluation as to the adequacy of the allowance as of June 30, 2010 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. For a better understanding and a more complete description of the allowance and the evaluation process, refer to the 2009 Form 10-K.

As shown below in tabular format, there was a decrease in charge-offs compared to the comparable period last year. While there has been a decrease in loan charge-offs, 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.

	2010		2009	
	2nd Qtr	1st Qtr	2nd Qtr	1st Qtr
Provision for loan losses	\$ <u>2,400,000</u>	\$ <u>0</u>	\$ <u>250,000</u>	\$ <u>2,500,000</u>
Loan charge-offs	\$ 560,091	\$ 1,024,081	\$ 673,138	\$ 2,482,050
Loan recoveries	311,797	3,929	12,048	27,268
Net Charge-offs	\$ <u>248,294</u>	\$ <u>1,020,152</u>	\$ <u>661,090</u>	\$ <u>2,454,782</u>
Allowance for loan losses at period end	\$ <u>9,313,241</u>	\$ <u>7,161,535</u>	\$ <u>4,579,656</u>	\$ <u>4,990,746</u>
Total loans held for investment at at period end	<u>243,946,209</u>	<u>248,337,943</u>	<u>252,853,842</u>	<u>248,240,555</u>
Allowance to total loans held for investment at period end	3.82%	2.88%	1.81%	2.01%

At June 30, 2010, total impaired loans were \$30.2 million, or 12.38% of total loans held for investment, compared to \$30.1 million, or 12.08% of total loans held-for-investment, at December 31, 2009. Non-performing loans consisted of \$19.4 million that were non-accrual loans at June 30, 2010 and approximately \$10.8 million of 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> 2010	<u>At December 31,</u> 2009
	(dollars in thousands)	
Loans accounted for on a non-accrual basis:		
Mortgage loans:		
Single family	\$ 7,524	\$ 6,278
Land	6,410	4,529
Construction	-	3,446
Non-mortgage loans:		
Consumer	1	-
Commercial	4,826	11,655
Non-residential	643	1,046
Total non-accrual loans	<u>19,404</u>	<u>26,954</u>
Foreclosed real estate	<u>6,802</u>	<u>5,653</u>
Total non-performing assets	<u>\$ 26,206</u>	<u>\$ 32,607</u>
Total non-performing loans to total loans held-for-investment	<u>7.95%</u>	<u>10.80%</u>
Allowance for loan losses to total non-performing loans	<u>48.00%</u>	<u>30.36%</u>
Total non-performing loans to total assets	<u>4.65%</u>	<u>6.15%</u>
Total non-performing assets to total assets	<u>6.27%</u>	<u>7.45%</u>

Our policy is to charge off all or that portion of its investment in an impaired loan upon a determination that it is probable the full amount will not be collected. Impaired loans totaled \$30.2 million at June 30, 2010 and \$30.1 million at December 31, 2009.

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, 2010, we had \$12.3 million in TDRs, of which \$1.4 million were on non-accrual status, compared to \$6.9 million in TDRs, of which \$3.9 million were on non-accrual status as of December 31, 2009.

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. Recent Maryland legislation intended to provide extended notice periods and other protections to defaulting mortgagors will further delay the resolution of defaulting loans secured by residential properties, both owner and non-owner occupied. 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. As a result of our current practice, our TDR loans have increased to \$10.8 million at June 30, 2010, compared to \$4.0 million at December 31, 2009.

We did not actively participate in "subprime" lending. However, we may be affected by proposed national legislation being considered that would impact the entire financial services industry. This legislation, among other things, is aimed at addressing problems caused by "subprime" borrowers and lenders. If adopted, such legislation may have a negative impact on other areas of residential real estate lending and default resolution, further decreasing real estate values.

Non-Interest Income

Total non-interest income increased \$766,000, or 118.2%, and \$719,000, or 61.9% for the three and six month periods ended June 30, 2010, compared to the same periods in the prior year. The increases for the three and six month periods are primarily attributable to an increase in the gain on sale of investment securities

Gain on the sale of investments for the three month period ending June 30, 2010, included approximately \$769,000 pretax, \$508,000 net of tax, compared to no gains for the same period last year. Gain on the sale of investments for the six month period included approximately \$769,000 pretax, \$508,000 net of tax, compared to \$23,000 pretax, \$15,000 net of tax, for the six month period last year. Gain on the sale of investments is the result of the bank selling approximately \$9.1 million of our callable agencies to offset the one-time pre-payment penalty that we recognized in non-interest expenses due to the payoff of \$30.0 million in other borrowings that we had to a third party. The gain during the 2009 period resulted from one of our investments being called prior to maturity.

Gain on the sale of loans increased \$28,000 for the three months ending June 30, 2010, but decreased \$91,000 for the six month period ended June 30, 2010 as compared to the same periods last year due to both a decrease in new originations and in 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. Loan related fees also decreased \$53,000 and \$35,000 for the three and six month periods ending June 30, 2010, as a result of fewer loan originations compared to the same periods last year.

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 loss on sale of real estate acquired in settlement of loans for the six month period ending June 30, 2010 is the result of the sale of six properties for which we recorded a net loss of \$43,000 in the 2010 period compared to the sale of twelve properties for a net loss of \$115,000 during the same period last year. These losses are a result of falling property values resulting in our generally selling the properties for less than the value we had assigned to them as real estate owned in settlement of loans; however, management determined it was in our best interests to sell the properties at the lower prices at the current time 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 increased \$2.8 million, or 86.3% and \$3.1 million, or 48.1% for the three and six month periods ending June 30, 2010, as compared to the corresponding prior fiscal year periods.

The increase in non-interest expenses for the three and six month periods ended June 30, 2010 compared to the same periods last year was primarily due to a \$2.0 million pre-payment penalty paid during the second

quarter, for which there was no corresponding expense during the 2009 periods. The increase in non-interest expenses during the three month period was also impacted by increases of \$356,000 in provision for losses on real estate acquired in settlement of loans, \$299,000 in salaries and benefits and \$223,000 in other expenses, partially offset by decreases of \$41,000 in depreciation expenses and \$40,000 in professional services. In addition to the \$2.0 million pre-payment penalty, the increase in non-interest expenses for the six month period ending June 30, 2010 compared to the same period last year was impacted by increases of \$445,000 in salaries and benefits, \$367,000 in provision for loss on real estate acquired in settlement of loans, \$283,000 in deposit insurance premiums and assessments and \$222,000 in other expense, partially offset by a decrease of \$81,000 in depreciation expenses.

The \$2.0 million pre-payment penalty is the result on 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 pre-payment penalty and therefore increased the net loss for the quarter, the reduction of the debt as well as the release of the remaining securities that were used to collateralize this borrowing will allow the Bank to reduce its cost of funds going forward. This reduction in borrowings was part of management's efforts this year to continue to strengthen the balance sheet for the future.

The increase in salaries and benefits is the result of annual increases and increased employee benefits expenses partially offset by a reduction in the costs associated with origination of loans as a result of decreased loan originations in the 2010 periods compared to the prior year. Benefit costs also increased due to higher medical and life insurance premiums.

We recognized an expense of \$439,000 and \$499,00 for the three and six month periods ending June 30, 2010, respectively, for the provision for losses on real estate acquired in settlement of loans. We obtained 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 increase in other expenses is primarily the result of costs associated with foreclosure of loans as a result of higher taxes we had to pay in connection with foreclosures during the 2010 periods.

The increase in deposit insurance premiums is the result of an overall increase in FDIC assessment rates.

The decrease of \$41,000 and \$81,000 in depreciation expense for the three and six months periods ending June 30, 2010, compared to the same three and six month period last year is the due to back office consolidation in 2009, which resulted in disposal of assets.

Professional services decreased \$40,000 during the three month period ended June 30, 2010, as a result of a reduction in fees paid as a result of the pending IRS litigation compared to the same period last year. See Part II, Legal Proceedings for a full explanation of the IRS litigation.

Income Taxes

A tax benefit of \$1.5 million occurred for the six months ended June 30, 2010, compared to a tax benefit of \$952,000 for the same period last year. The tax benefit was the result our net loss and the exclusion of income for the bank owned life insurance, and a tax benefit attributable to our investment portfolio of which a significant portion is not subject to Maryland state taxes as well as the reversal of a portion of a reserve established for an uncertain tax position resulting from a settlement of an IRS examination. See Part II, Item 1, Legal Proceeding for further explanation. The effective tax rates were (41.7%) and (37.7%) for the respective six month periods ended June 30, 2010 and 2009.

Liquidity and Capital Resources

Total assets were \$417.7 million and \$438.0 million at June 30, 2010 and December 31, 2009, respectively. The decrease in assets at June 30, 2010, compared to December 31, 2009, was primarily attributable to a decrease in the available for sale MBS and total net loans receivable, offset by increases in the held for investment portfolio.

Deposits were \$261.5 million at June 30, 2010, compared to \$253.8 million at December 31, 2009. The increase in deposits at June 30, 2010, compared to December 31, 2009, was primarily due to 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 deposits. Management anticipates continuing to utilize excess funding liquidity to offset a runoff of higher cost certificates of deposit which were previously originated to fund loan production.

Borrowings at June 30, 2010 and December 31, 2009 are as follows:

	Balance as of			
	June 31, 2010	Weighted Avg Rate	December 31, 2009	Weighted Avg Rate
FHLB-advances -fixed	\$ 91,000,000	3.37%	\$ 99,000,000	4.56%
Reverse Repurchase Agreement	-	-	30,000,000	3.82%
	<u>\$ 91,000,000</u>		<u>\$ 129,000,000</u>	

At December 31, 2009, FHLB advances totaled \$99.0 million. During the quarter ending March 31, 2010, a FHLB advance for \$28.0 million with a fixed rate of 6.28% matured, which we replaced with two FHLB advances, which included a \$12.0 million advance with a fixed rate of 1.85% and an \$8.0 million advance with a fixed rate of 1.18% bringing the FHLB advance balance to \$91.0 million. During the current quarter ending June 30, 2010, \$30.0 million of our other borrowings, which consisted of reverse repurchases with a third-party was unwound and paid off bringing our other borrowings balance to zero at June 30, 2010 compared to \$30.0 million at December 31, 2009.

Total borrowings are \$91.0 million as of June 30, 2010. 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.

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 increases of \$1.3 million and \$2.1 million, respectively, which represents unrealized losses (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 \$3.2 million in the general loan loss reserve. 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, 2010.

Capital Category	Regulatory Ratios Required	Bank's Amount and Ratio	Bank's Excess of Requirements	Calculations	Based Upon
Leverage	\$16,508,264 4.00%	\$44,782,158 10.85%	\$28,273,894 6.85%	\$44,782,158 \$412,706,606	Regulatory Capital Regulatory Assets
Tangible	\$6,190,599 1.50%	\$44,782,158 10.85%	\$38,591,559 9.35%	\$44,782,158 \$412,706,606	Regulatory Capital Regulatory Assets
Risk-Based	\$20,533,963 8.00%	\$44,157,739 17.20%	\$23,623,776 9.20%	\$44,157,739 \$256,674,537	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, 2010, our ratio was approximately 81% 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	\$ 3,713,831
Unfunded commitments to extend credit under existing construction, equity line and commercial lines of credit	21,738,068
Standby letters of credit	673,090
Commitments to sell loans held-for-sale	7,223,096

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, the impact of recent accounting pronouncements, our expectations regarding increasing our nonresidential loan portfolios, expansion of our commercial base and the impact of such expansion, the impact of future potential economic conditions, future interest rates and their impact on us, the allowance for loan losses, the collectability of non-accrual loans, the impact of new and potential legislation, , the Bank's continuing to meet its capital requirements and future sources and uses of liquidity and capital resources 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; (f) changes in interests rates; (g) further deterioration of economic conditions or a recovery that is slower than anticipated; (h) credit or other risks of lending activity, such as changes in real estate values and changes in the quality or composition of our loan portfolio; (i) the impact of any legal or regulatory proceedings; and (j) other expectations, assessments and risks that are specifically mentioned in this report and in such other reports we have filed with the Securities and Exchange Commission. We wish to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including those described above, could affect our financial performance and could cause our actual results or circumstances for future periods to differ materially from those anticipated or projected. Unless required by law, we do not undertake, and specifically disclaim any 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, 2010.

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, 2010, other than as discussed below, we were not involved in any legal proceedings the outcome of which, in management's opinion, would be material to our financial condition or results of operations.

During 2003 we donated land we had foreclosed upon to the Maryland Environmental Trust and took a tax deduction for a conservation easement charitable donation. On April 6, 2006, the Internal Revenue Service issued a notice attributable to the disallowance of the conservation easement charitable donation. We had valued the donation at \$2.1 million based on an appraisal of the land, and the deduction netted us a tax benefit of \$745,000. The IRS disagreed with the appraisal and asserted that it would not allow the deduction. On May 8, 2006, we filed a timely Protest appealing an Internal Revenue Service proposed adjustment on the valuation of the conservation easement donated to the Maryland Environmental Trust. We initially recorded a liability in the amount of \$405,600 for uncertain income tax positions as required by guidance issued by the Financial Accounting Standards Board ("FASB"). We were scheduled to begin trial on this matter on February 1, 2010. After exchanging expert reports and filing an extensive pretrial memorandum, the IRS conceded all of the legal issues in the case and agreed to a valuation of the easement in the amount of \$1,300,000 (no penalties will be imposed). The final Decision has been signed and filed with the court. As previously noted, we recorded a liability of approximately \$405,600, as a result of this pending issue. Approximately \$305,000, which represents interest due was issued from the recorded liability to the IRS and the remaining balance of \$101,000 favorably impacted the effective tax rate for the period ending June 30, 2010, exhausting the recorded liability.

Item 1A. Risk Factors

The following supplements the discussion under, and should be read in conjunction with, the risk factors disclosed in Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2009.

The recently enacted Dodd-Frank Act may adversely impact our results of operations, liquidity or financial condition.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”). The Dodd-Frank Act represents a comprehensive overhaul of the U.S. financial services industry. Among other things, the Dodd-Frank Act establishes the new federal Bureau of Consumer Financial Protection (the “BCFP”), and includes provisions that impact corporate governance and executive compensation disclosure by all SEC reporting companies, impose new capital requirements on bank and thrift holding companies, allow financial institutions to pay interest on business checking accounts, broaden the base for FDIC insurance assessments, impose additional duties and limitations on mortgage lending activities and restrict how mortgage brokers and loan originators may be compensated. The Dodd-Frank Act also will eliminate the OTS. The Office of the Comptroller of the Currency (the primary federal regulator for national banks) will become the Bank’s primary federal regulator. The Board of Governors of the Federal Reserve System (the “Federal Reserve”) will have exclusive authority to regulate all bank and thrift holding companies. As a result, WSB will become subject to supervision by the Federal Reserve Board as opposed to the OTS. These changes to our regulators will occur on the “transfer date” as defined in the Dodd-Frank Act, which is expected to be one year from its enactment (unless extended by up to six months).

The Dodd-Frank Act will require the BCFP and other federal agencies to implement many new and significant rules and regulations to implement its various provisions, and the full impact of the Dodd-Frank Act on our business will not be known for years until regulations implementing the various provisions of the statute are adopted and implemented. As a result, we cannot at this time predict the extent to which the Dodd-Frank Act will impact our business, operations or financial condition. However, compliance with these new laws and regulations may require us to make changes to our business and operations and will likely result in additional costs and may decrease revenues by, for example, limiting the fees we can charge, any of which may adversely impact our results of operations, liquidity or financial condition. We may also experience increased expenses as a result of having a different regulator for each of WSB and the Bank and as a result of switching regulators.

Item 5. Other Information

In our proxy statement for 2010 annual meeting of stockholders, we disclosed that Mr. Bowman and the Bank had agreed to extend the period by which the Board must determine whether to renew Mr. Bowman’s employment agreement from March 2010 to April 20, 2010, or else the agreement would expire in March 2011. In June 2010 Mr. Bowman and the Bank renewed Mr. Bowman’s employment agreement.

Item 6. Exhibits

- 10.6 Amended and Restated Employment Agreement dated June 11, 2010 by and Among The Washington Savings Bank and Phillip C. Bowman
- 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).

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 13, 2010

EXHIBIT 10.6

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement" or "Amended Agreement") is made as of this 11th day of June, 2010 by and among THE WASHINGTON SAVINGS BANK, a federally chartered stock savings bank (the "Bank" or the "Employer") and **PHILLIP C. BOWMAN**, an individual residing in Arnold, Maryland (the "Executive").

WHEREAS, effective March 21, 2005 the parties hereto entered into an Employment Agreement (the "Prior Agreement"); and

WHEREAS, the parties hereto desire to amend and restate the Prior Agreement as provided herein. NOW, THEREFORE, in consideration of the foregoing and the mutual promises, covenants and agreements set forth in this Amended Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. Employment.

(a) Term. The initial term of employment under this Amended Agreement shall be for the period commencing on the date hereof and ending on April 30, 2011 (the "Initial Term"). Subject to annual review and approval by the Board of Directors of the Employer, this Amended Agreement may be extended by written notice from the Employer to the Executive for an additional consecutive 12-month period (the "Extended Term") with such written notice being given no later than March 31, 2011 and every subsequent March 31st thereafter. Failure of Employer to give such written notice shall result in a termination of this Agreement effective on the following April 30th of any year this Agreement is in effect. The Initial Term and all such Extended Terms are collectively referred to herein as the "Employment Term."

(b) Duties. The Executive is employed as chief executive officer during the Employment Term. As chief executive officer, the Executive shall render executive, policy and other management services to the Employer consistent with the Executive's position and experience and of the type customarily performed by persons serving in a similar capacity, and shall be responsible for all aspects of the management and operations of the Employer (including without limitation development and implementation of a revised business plan, supervision of the Employer's lending function, and development of an executive management team consistent with the Employer's business plan and the policies and direction of the Board of Directors) and shall report to the Employer's Board of Directors or such committee thereof as shall be designated by the Board of Directors. During the Employment Term, there shall be no material decrease in the duties and responsibilities of the Executive otherwise than as provided herein, unless the parties otherwise agree in writing. During the Employment Term, the Executive shall not be required to relocate, without his consent, his place of employment to a location more than 50 miles away from the Employer's Bowie, Maryland headquarters location to perform his duties hereunder, except for reasonably required travel by the Executive on the business of the Employer. The Executive is encouraged to affiliate with professional associations, business and

civic organizations in support of his role as chief executive officer, provided that Executive's involvement in such activities does not adversely affect the performance of his duties on behalf of the Employer.

2. Compensation and Benefits.

(a) Base Salary. The Executive shall initially be paid a base salary at an annualized rate of \$282,000 (as may be adjusted from time to time in accordance with this Amended Agreement, "Base Salary"), payable in accordance with the Employer's regular payroll practices for its executive employees. On an annual basis, prior to November 30 of each year during the Employment Term, the Executive's Base Salary shall be reviewed by the independent members of the Board of Directors (or a committee comprised exclusively of independent members, as set forth in the listing standards of the NASDAQ Stock Market LLC) and may be increased in the discretion of the Board of Directors of the Employer or such committee. In reviewing the Executive's Base Salary, the Chief Executive Officer and Board of Directors of the Employer shall consider the Executive's performance, scope of responsibility, and such other matters as they deem appropriate. The Base Salary of the Executive shall not be decreased at any time during the Employment Term from the amount then in effect, unless the Executive otherwise agrees in writing.

(b) Bonuses and Incentive Compensation. The Executive shall be eligible to receive an annual bonus as may be determined by the independent members of the Board of Directors (or a committee comprised exclusively of independent members) in their discretion. No other compensation provided for in this Amended Agreement shall be deemed a substitute for the Executive's right to participate in such bonus when and as declared by the Board of Directors of the Employer. This provision shall not preclude the grant of any other bonus or incentive compensation to the Executive as determined by the Board of Directors of the Employer. The Employer must pay any declared bonus to the Executive no later than the 15th day of the third month after the close of the year for which the Employer awarded the bonus and for which the Executive has a vested right.

(c) Employee Stock Options. Any grant of employee stock options after the date hereof shall be subject to the discretion of the independent members of the Board of Directors.

(d) Benefit Plans. The Executive shall be eligible to participate in any employee pension benefit plans (as that term is defined under Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended), group life insurance plans, medical plans, dental plans, long-term disability plans, business travel insurance programs and other fringe benefit plans or programs maintained by the Employer for the benefit of its executive employees. The Executive's participation in any such benefit plans and programs shall be based on, and subject to satisfaction of, the eligibility requirements and other conditions of such plans and programs. If the Executive's employment by the Employer shall cease for any reason other than by voluntary termination (as described in Section 3(b) below) or for "Cause" (defined in Section 3(e) below), the Executive shall receive continued group life, health, dental, accident and long term disability insurance coverage for the remaining Employment Term, equivalent to the coverage to which he would have been entitled under such plans (as in effect on the date of his

termination of employment, or, if his termination of employment occurs after a “Change of Control” (defined in Section 4(b) below), on the date of such Change of Control, whichever benefits are greater, if he had continued working for the Employer during the remaining Employment Term at the highest rate of salary achieved during the Employment Term, but taking into account any coverage provided from any subsequent employer.

(e) Expenses. Subject to the policies of the Employer and oversight by the Board of Directors, the Executive is authorized to incur reasonable expenses in the performance of his duties hereunder, including the costs of business entertainment, travel, and attendance at conventions and meetings. The Employer (subject to oversight by the Board of Directors) shall reimburse the Executive for all such expenses promptly upon periodic presentation by the Executive of an itemized account of such expenses.

(f) Other Benefits. During the period of employment, the Executive shall also be entitled to receive the following benefits:

(i) Paid vacation of at least four weeks during each calendar year (prorated for partial years) (with no carry over of unused vacation to a subsequent year) and any holidays that may be provided to substantially all employees of the Employer in accordance with the Employer’s holiday policy;

(ii) Reasonable sick leave consistent with the Employer’s policy in that regard for other executive officers;

(iii) Reimbursement of monthly dues and related fees (but not personal expenses) for one country club membership as may be beneficial to the Executive’s roles with the Employer. The choice of club shall be subject to prior review and approval by the Board of Directors, and shall be subject to subsequent review and disapproval by the Board of Directors; and

(iv) A company automobile for business use. In lieu thereof, at the Employer’s option, the Executive may receive the lease of an automobile for business use for up to \$500 monthly and reasonable associated repair and maintenance costs.

3. Termination.

Prior to a Change of Control, the Executive’s employment by the Employer shall be subject to termination as follows:

(a) Expiration of the Employment Term. The Executive’s employment with the Employer shall not terminate prior to the expiration of the established term, except as provided below in Section 3.

(b) Voluntary Termination. The Executive may terminate this Amended Agreement upon not less than 30 days prior written notice delivered to the Employer, in which event the Executive shall be entitled only to the compensation and benefits the Executive has earned or accrued through the effective date of the voluntary termination.

(c) Termination Upon Death. This Amended Agreement shall terminate upon the Executive's death. In the event this Amended Agreement is terminated as a result of the Executive's death, the Employer shall continue payments of the Executive's Base Salary which should have otherwise been due for a period of 30 days following the Executive's death to the Executive's estate.

(d) Termination Upon Disability. The Employer may terminate this Amended Agreement upon the Executive's disability. For purposes of this Amended Agreement, the Executive's inability to perform the Executive's duties hereunder by reason of physical or mental illness or injury for a period of 26 consecutive weeks that follows the Executive's use of all available sick leave (the "Disability Period") shall constitute disability. The determination of disability shall be made by a physician selected by the Employer. During the Disability Period, the Executive shall be entitled to 100% of the Executive's Base Salary otherwise payable during that period, reduced by any other Employer provided benefits to which the Executive may be entitled with respect to the Disability Period which benefits are specifically payable solely on account of such disability (including, but not limited to, benefits provided under any disability insurance policy or program, worker's compensation law, or any other benefit program or arrangement then in effect, it being acknowledged that the Employer does not currently maintain any group disability coverage).

(e) Termination for Cause. Subject to the provisions of Section 3(k) of this Amended Agreement, the Employer may terminate Executive's employment for Cause. For the purposes of this Amended Agreement, the Employer shall have "Cause" to terminate Executive's employment under this Amended Agreement upon: (i) the failure by Executive to perform his duties under this Amended Agreement (other than any such failure resulting from Executive's incapacity due to physical or mental illness), after a written demand for performance is delivered to Executive by the Board, which demand specifically identifies the manner in which the Board believes that Executive has not performed his duties; (ii) the engaging by Executive in acts of dishonesty, incompetence, fraud, gross negligence, breach of fiduciary duty involving personal profit, willful misconduct or other gross misconduct injurious to the Employer; (iii) the violation by Executive of any law, rule or regulation (other than traffic violations or similar offenses) or formal or informal enforcement action of any governmental regulatory agency applicable to the Employer or its personnel and injurious to the Bank; or (iv) the breach of this Amended Agreement by Executive.

Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to him a copy of a resolution duly adopted by the affirmative vote of a majority of the entire membership of the Board at a meeting of the Board called and held for the purpose (after reasonable written notice to Executive and an opportunity for Executive, together with his counsel, to be heard before the Board at such meeting), finding that in the good faith opinion of the Board, Executive was guilty of conduct set forth above in any of clauses (i), (ii), (iii) or (iv) of this Section 3(e) and describing such conduct.

(f) Termination Without Cause. The Employer may terminate the Executive's employment for reasons other than Cause upon not less than 60 days prior written notice delivered to the Executive, in which event the Employer shall pay to the Executive an amount equal to the Base Salary for the remaining Term plus eight months Base Salary, which

amounts shall be paid in consecutive monthly installments following the date the Executive's employment is terminated. If the Executive terminates his employment with the Employer during the Employment Term for "Good Reason" (defined in Section 4(c) below), other than following a Change of Control, such termination shall be deemed to have been a termination by the Employer of the Executive's employment without Cause.

(g) Change of Control. If the Executive's employment by the Employer shall cease for any reason other than Cause within 12 months following a Change of Control that occurs during the Employment Term, the provisions of paragraph 4 below shall apply.

(h) Termination as the Result of Non-Renewal. If the Employer does not extend the Employment Term under Section 1(a) then, upon the expiration of the Employment Term, the Employer shall pay to the Executive an amount equal to eight months Base Salary, which amount shall be paid in eight consecutive monthly installments commencing on the month following the month the Employment Term expires with the understanding that there will be no interruption in normal salary payments received by Employee. However, at Employer's option, Employer may release Executive from the provisions of Section 5(b) by providing written notice of such release to Executive, upon which Executive shall be deemed to have waived and released any right to severance under this Section 3(h).

(i) Resignation. Effective upon the Executive's termination of employment for any reason, the Executive hereby resigns from any and all offices and positions including but not limited to directorship, related to the Executive's employment with the Employer and any subsidiaries or affiliates thereof, and held by the Executive at the time of termination.

(j) Regulatory Limits. Notwithstanding any other provision in this Amended Agreement, (i) the Employer may terminate or suspend this Amended Agreement and the employment of the Executive hereunder, as if such termination were for Cause under Section 3(e) hereof, to the extent required by the applicable Federal or state related to banking, deposit insurance or bank or savings institution holding companies or by regulations or orders issued by the Office of Thrift Supervision, the Federal Deposit Insurance Corporation or any other state or federal banking regulatory agency having jurisdiction over the Employer and (ii) no payment shall be required to be made to or for the benefit of the Executive under this Amended Agreement to the extent such payment is prohibited by applicable law, regulation or order issued by a banking agency or a court of competent jurisdiction; provided, that it shall be the Employer's burden to prove that any such action was so required.

(k) Notice of Termination. Any termination by the Employer or by Executive pursuant to the terms and provisions of this Amended Agreement shall be communicated by written Notice of Termination, as defined in this Amended Agreement, to the other party to this Amended Agreement. For purposes of this Amended Agreement, a "Notice of Termination" shall mean a written notice, given in accordance with the provisions of Section 15 of this Amended Agreement, which shall indicate the specific termination provision in this Amended Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

(l) Offset. If Executive's employment shall cease for any reason, including pursuant to non-renewal of this Amended Agreement, and Executive secures other employment with an entity that competes with Employer for loans and/or deposits during the period that the Executive is entitled to any payments pursuant to this Amended Agreement, such payments shall be reduced by the amount of any compensation or other payments received as a result of such other employment. For purposes of this section "other employment" includes employment on an at-will basis or services provided as an independent contractor.

4. Termination Following a Change of Control.

(a) (i) In the event the Employee is employed and Employer terminates the Executive's employment, or the Executive terminates employment with Good Reason, in either case within 12 months after a Change of Control, the Employer shall, within 60 days of termination, pay to the Executive a lump sum cash payment equal to 1.5 times the average annual compensation paid to the Executive by Employer and included in the Executive's gross income for income tax purposes during the five full calendar years, or shorter period of employment, that immediately precede the year during which the Change of Control occurs, subject to the limitation in subparagraph (a)(ii) below.

(ii) The Employer must withhold from the payment described in subparagraph (a)(i) the difference between the lump sum described in subparagraph (a)(i) and two times the compensation limit described in Section 401(a)(17) of the Internal Revenue Code, (the "Code") as adjusted for inflation. The difference withheld must be paid in a lump sum on the first business day of the seventh calendar month after the Executive's Severance From Employment.

(b) For purposes of this Amended Agreement, a "Change of Control" shall mean:

(1) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d) (2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either (i) the then outstanding shares of common stock of the Employer or WSB Holdings, Inc., the parent of the Bank (the "Company") (the "Outstanding Common Stock"), or (ii) the combined voting power of the then outstanding voting securities of the Employer or the Company entitled to vote generally in the election of directors (the "Outstanding Voting Securities"); provided, however, that for purposes of this subsection (1), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Employer or the Company, (ii) any acquisition by the Employer or the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Employer, the Company or any other corporation controlled by, or controlling, the Employer or the Company, or (iv) any acquisition by any corporation pursuant to a transaction that complies with clauses (i), (ii) and (iii) of subsection (3) of this Section 4(c); or

(2) The date any one person, or more than one person acting as a group, acquires, or has acquired during the 12-month period ending on the day the most recent acquisition by such person or persons, ownership of stock of the Employer or the Company

possessing 30% or more of the total voting power of the stock of the Employer or the Company;
or

(3) Individuals who, as of the date hereof, constitute the Board of Directors (the “Incumbent Board”) of either the Employer or the Company cease for any reason to constitute at least a majority of such Board of Directors during a 12-month period; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board of the Employer or the Company, as the case may be, shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors of the Employer or the Company; or

(4) Consummation of a reorganization, merger or consolidation or sale or other disposition during a 12-month period of all or substantially all (i.e. 40% of the total gross fair market value) of the assets of the Employer or the Company (a “Business Combination”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Common Stock and Outstanding Voting Securities of the Employer or the Company, as the case may be, immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Employer or the Company or all or substantially all of the Employer’s or the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Common Stock and Outstanding Voting Securities of the Employer or the Company, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Employer or the Company, the Employer or the Company, as the case may be, such corporation resulting from such Business Combination or a corporation controlled by any of them) beneficially owns, directly or indirectly, 25% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(5) Approval by the shareholders of the Employer or the Company, as the case may be, of a complete liquidation or dissolution of the Employer or the Company without the establishment of a successor corporation. Notwithstanding the foregoing, liquidation or dissolution is not a Change of Control Event for Code Section 409A purposes unless the Company complies with Section 4(f) herein.

(c) “Good Reason” shall mean:

(i) without Executive’s written consent, a material change in the nature or scope of the authorities, powers, functions or duties of Executive or the assignment to Executive of any duties inconsistent with his positions, duties, responsibilities and status with the Employer, or a change in his reporting responsibilities, titles or offices, or any removal of Executive from any of such positions, except: (1) in connection with the termination by the Employer of his employment for Cause or disability; or (2) in connection with the termination by Executive of his employment other than for Good Reason; or (3) as a result of his death; or

(ii) any purported termination of Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3(k) (and for purposes of this Amended Agreement, no such purported termination shall be effective).

(d) It is the intention of the parties hereto that the payments and other compensation provided for herein are reasonable compensation for Executive’s services to the Employer and shall not constitute an “excess parachute payment” within the meaning of Section 280G of the Code and any regulations thereunder. In the event that the Employer’s independent accountants acting as auditors for the Employer determine that the payments provided for herein under Section 4 hereof constitute an “excess parachute payment” within the meaning of Section 280G of the Code and any regulations thereunder, then the compensation payable under Section 4 hereof shall be reduced by the Employer in its sole discretion to the point that such compensation shall not qualify as an “excess parachute payment” within the meaning of Section 280G of the Code and any regulations thereunder.

(e) For purposes of this Amended Agreement, “Severance from Employment” means the cessation of the Executive’s employment with the Employer, including death, disability, retirement, resignation or discharge. Any reference in this Amended Agreement to “termination” or “severance” in the context of employment means Severance from Employment.

(f) If the Employer decides to terminate the Amended Agreement as a result of a dissolution of the Employer under Code Section 331, or with the approval of a bankruptcy court, the Employer must pay the severance or deferred compensation benefits in a single lump sum within 24 months after termination. In addition, the Employer must aggregate any other deferred compensation arrangements as one undertaking and terminate them in the foregoing manner, and the Employer must not adopt a new arrangement with the Executive that would be aggregated with any terminated arrangements for three years following the date of termination.

5. Covenants.

(a) Confidentiality. The Executive shall not, without the prior written consent of the Employer, disclose or use in any way, either during the Employment Term or thereafter, except as required in the course of his employment by Employer, any confidential business or technical information or trade secret acquired in the course of the Executive’s employment by the Employer. The Executive acknowledges and agrees that it would be difficult to fully compensate the Employer for damages resulting from the breach or threatened breach of the foregoing provision and, accordingly, that the Employer shall be entitled to temporary

preliminary injunctions and permanent injunctions to enforce such provision. This provision with respect to injunctive relief shall not, however, diminish the Employer's right to claim and recover damages. The Executive covenants to use his best efforts to prevent the publication or disclosure of any trade secret or any confidential information concerning the business or finances of Employer or Employer's affiliates, or any of their dealings, transactions or affairs which may come to the Executive's knowledge in the pursuance of his duties or employment.

(b) Non-Solicitation.

(i) For a period during which Employee receives payments from Employer after the termination of Executive's employment with the Employer for any reason (the "Date of Termination"), Executive will not contact or solicit, whether personally or indirectly through agents or representatives, any employee, consultant or service provider of the Employer, the Company, any subsidiary of the Employer or the Company, any affiliate of the Employer or the Company or any parent corporation of the Employer or the Company (the "Employer Group") for the purpose of terminating his or her employment, consulting or service providing relationship with any member of the Employer Group. For purposes of this Section 5(b), employee, consultant or service provider shall include any employee, consultant or service provider who has performed any service or other work for any member of the Employer Group, or entered into a written agreement to so perform any such service or other work, at any time within six months prior to the Date of Termination.

(ii) For a period during which Employee receives payments from Employer after the Date of Termination, Executive will not contact or solicit, whether personally or indirectly through agents or representatives, any current customer of the Employer Group for the purposes of soliciting, diverting, or taking away or attempting to so solicit, divert or take away from the Employer Group, the banking or lending business of any customer of the Employer Group.

(iii) Executive agrees to provide a copy, or accurate written summary, of any of these restrictive covenants, still then applicable, to any person, firm, company or corporation from whom he seeks employment if that person, firm, company or corporation is a competitor of any member of the Employer Group. Employer acknowledges that it has received a copy of the restrictive covenants of its immediately prior employer.

(iv) Executive represents to the Employer that the restrictions on his future business opportunities as provided in this Amended Agreement are fair and protect legitimate business interests of the Employer Group. He further represents that, even considering the restrictive covenants in this Amended Agreement, he expects to be able to earn a good and reasonable living from those activities, areas, and opportunities not restricted by this Amended Agreement.

(c) Termination of Payments. Upon the breach by the Executive of any covenant under this Section 5, the Employer may terminate, offset or recover from the Executive immediately any and all benefits paid to the Executive pursuant to this Amended Agreement, in addition to any and all other remedies available to the Employer under the law or in equity.

(d) Modification. Although the parties consider the restrictions contained in this Section 5 reasonable as to protected business, duration, and geographic area, in the event that any court of competent jurisdiction deems them to be unreasonable, then such restrictions shall apply to the broadest business, longest period, and largest geographic territory as may be considered reasonable by such court, and this Section 5, as so amended, shall be enforced.

(e) Other Agreements. The Executive represents and warrants that neither the Executive's employment with the Employer nor the Executive's performance of his obligations hereunder will conflict with or violate the Executive's obligations under the terms of any agreement with a previous employer or other party including agreements to refrain from competing, directly or indirectly, with the business of such previous employer or any other party.

6. Withholding.

The Employer shall deduct and withhold from compensation and benefits provided under this Amended Agreement all necessary income and employment taxes and any other similar sums required by law to be withheld.

7. Rules, Regulations and Policies.

The Executive shall use his best efforts to abide by and comply with all of the rules, regulations, and policies of the Employer, including without limitation the Employer's policy of strict adherence to, and compliance with, any and all requirements of the banking, securities, and antitrust laws and regulations.

8. Return of Employer's Property.

After the Executive has received notice of termination or at the end of his period of employment with Employer, whichever first occurs, the Executive shall immediately return to Employer all documents and other property in his possession belonging to Employer.

9. Construction and Severability.

The invalidity of any one or more provisions of this Amended Agreement or any part thereof, all of which are inserted conditionally upon their being valid in law, shall not affect the validity of any other provisions to this Amended Agreement; and in the event that one or more provisions contained herein shall be invalid, as determined by a court of competent jurisdiction, this Amended Agreement shall be construed as if such invalid provisions had not been inserted.

10. Governing Law.

This Amended Agreement shall be governed by the laws of the United States, where applicable, and otherwise by the laws of the State of Maryland other than the choice of law rules thereof.

11. Assignability and Successors.

This Amended Agreement may not be assigned by the Executive or the Employer, except that this Amended Agreement shall be binding upon and shall inure to the benefit of the successor of the Employer through merger or corporate reorganization.

12. Counterparts.

This Amended Agreement may be executed in counterparts (each of which need not be executed by each of the parties), which together shall constitute one and the same instrument.

13. Jurisdiction and Venue.

The jurisdiction of any proceeding between the parties arising out of, or with respect to, this Amended Agreement shall be in a court of competent jurisdiction in the State of Maryland, and venue shall be in Prince George's County. Each party shall be subject to the personal jurisdiction of the courts of the State of Maryland.

14. Indemnification and Insurance.

During the Employment Term and for a period of six years thereafter, the Employer shall cause the Executive to be covered by and named as an insured under any policy or contract of insurance obtained to insure officers against personal liability for acts or omissions in connection with service as a director or officer of the Employer or any subsidiary or affiliate thereof or service in other capacities at the request of the Employer. The coverage provided to the Executive pursuant to this section shall be of the same scope and on the same terms and conditions as the coverage (if any) provided to other officers of the Employer.

To the maximum extent permitted under applicable law, during the Employment Term and for a period of 6 years thereafter, the Employer shall indemnify the Executive against and hold him harmless from any costs, liabilities, losses and exposures to the fullest extent and on the most favorable terms and conditions that similar indemnification is offered to any officer of the Employer or any subsidiary or affiliate thereof.

15. Notices.

All notices, demands, requests, or other communications which may be or are required to be given, served, or sent by any party to any other party pursuant to this Amended Agreement shall be in writing and shall be hand delivered, sent by overnight courier or mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, or transmitted by telegram, telecopy or telex, addressed as follows:

- (i) If to the Employer:

The Washington Savings Bank
4201 Mitchellville Road
Bowie, MD 20716
Attn: Chair, Board of Directors

with a copy (which shall not constitute notice) to:

Frank C. Bonaventure, Esq.
Ober, Kaler, Grimes & Shriver, P.C.
120 E. Baltimore Street
Baltimore, MD 21202
Fax: 443-263-7505

(ii) If to the Executive:

Phillip C. Bowman
636 Cove Terrace
Arnold, MD 21012

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may thereafter be so given, served or sent. Each notice, demand, request, or communication which shall be hand delivered, sent, mailed, telecopied or telexed in the manner described above, or which shall be delivered to a telegraph company, shall be deemed sufficiently given, served, sent, received or delivered for all purposes at such time as it is delivered to the addressee (with the return receipt, the delivery receipt, or (with respect to a telecopy or telex) the answerback being deemed conclusive, but not exclusive, evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

16. Compliance with Internal Revenue Code Section 409A.

(a) If the implementation of any of the provisions of the Amended Agreement would subject the Executive to taxes or penalties under Code Section 409A, the parties agree that the implementation of such provision shall be modified, or the Amended Agreement will be amended, to avoid such taxes and penalties while preserving the benefits intended to be provided to the Executive under the Amended Agreement to the maximum extent possible.

(b) The payment of any benefit hereunder may not be deferred or accelerated in a manner that is inconsistent with the requirements of Code Section 409A.

17. Dispute Resolution.

Executive and Employer hereby agree that any and all disputes between the parties shall be resolved exclusively by the Complaint Resolution Procedures of the Bank's Employee Policy Manual ("Handbook") and, if such dispute cannot be resolved internally and involves a claim for money damages, by binding arbitration under the then applicable rules of JAMS (Judicial Arbitration & Mediation Services, of Washington D.C.) for the resolution of employment disputes. The arbitration shall be held in Bowie, Maryland or such other location as the parties may mutually agree. The administrative costs and arbitrator fees associated with the arbitration will be paid by the Employer to the extent any controlling judicial precedent or statute requires an employer to bear such costs in order to enforce this section of the Agreement to arbitrate.

This obligation to arbitrate rather than seeking official judicial relief shall apply regardless of whether the dispute is grounded in contract, tort or statutory law. Without limiting the foregoing, this duty to arbitrate expressly covers claims under Title VII of the Civil Rights Act of 1964, as amended, the Maryland Fair Employment Practices Act, the Americans With Disabilities Act, the Age Discrimination in Employment Act and other similar statutes prohibiting discrimination on the basis of various personal characteristics. The arbitrator may award attorneys' fees to the prevailing party if, in the arbitrator's opinion, the losing party asserted an unreasonable position.

This Agreement does not alter the "at will" nature of the employment relationship between the parties, and Executive acknowledges that either party may terminate this Agreement as provided herein.

This pre-dispute resolution agreement covers all matters directly or indirectly related to Executive's recruitment, employment or termination of employment by the Banks but excluding Worker's Compensation Claims.

18. Miscellaneous.

This Amended Agreement constitutes the entire understanding and agreement between the parties with respect to the subject matter hereof and shall supersede all prior understandings and agreements.

This Amended Agreement cannot be amended, modified, or supplemented in any respect, except by a subsequent written agreement entered into by the parties hereto.

The services to be performed by the Executive are special and unique; it is agreed that any breach of this Amended Agreement by the Executive shall entitle the Employer (or any successors or assigns of the Employer), in addition to any other legal remedies available to them, to apply to any court of competent jurisdiction to enjoin such breach.

* * *

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, or caused this Agreement to be duly executed on their behalf, as of the date and year first above written.

Attest:

THE WASHINGTON SAVINGS BANK

/s/ Cheryl Golden

/s/ Kevin P. Huffman

By: Kevin P. Huffman

Its: President

/s/ Phillip C. Bowman

Phillip C. Bowman

Executive

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 13, 2010

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 13, 2010

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, 2010 (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 13, 2010

By: /s/ Carol A. Ramey
Carol A. Ramey
Sr. Vice President/Chief Financial Officer
August 13, 2010

This certification is made solely for the purpose of 18 U.S.C. Section 1350, and is not being filed as part of the Form 10-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.