MFB

MARYLAND FINANCIAL BANK

Annual Report

2011

"Your Partner in Correspondent Banking"

MISSION AND VISION

Maximize stockholder and client value by being the premier provider of correspondent banking services in the Mid-Atlantic Region.

HISTORY OF
MARYLAND FINANCIAL BANK

In 2002, several community bankers in Maryland believed that the current correspondent banking service offerings in Maryland and the Mid Atlantic were in a state of change and fragmentation. Many community bankers found themselves having to deal with competitors to provide the needed services and often these providers were out of state institutions. These individuals believed there was a better way.

So Maryland Financial Bank, the first Maryland Bankers Bank, was born for the sole purpose of creating a preeminent correspondent bank in the market. After successfully raising $7.5 million in capital, Maryland Financial Bank opened its doors on October 25, 2004.

From our Towson headquarters, Maryland Financial Bank offers traditional correspondent banking services and products with an emphasis on lending and depository products. As we find new offerings where the demand is in the financial institutions industry where we can add value and/or benefits to the offerings, we will roll out new offerings in the Mid Atlantic region.

Maryland Financial Bank ("MFB") is a Maryland State chartered, FDIC insured special purpose bank operating as a Bankers Bank that will operate within the state of Maryland, Northern Virginia, West Virginia, Washington D.C., Southern Pennsylvania, and Delaware. Our stockholder base is comprised of community-based financial institutions and individuals within those financial institutions.

Board of Directors

Richard E. Hook, IV
Chairman of the Board, Maryland Financial Bank

Richard J. Armbruster, Partner, Foundos Realty
Joseph J. Bouffard, President & CEO, Baltimore County S.B.
John E. Bowen, Senior Vice President, Cantor Fitzgerald
David E. Brock, President & CEO, Provident State Bank
Robert R. Chafey, President & CEO, Maryland Financial Bank
James W. Cornelsen, President & CEO, Old Line Bank
Earl R. Gieseman, III, President & CEO, County First Bank
Jack H. Goldstein, Managing Director, Strategic Risk Assoc.
Charles H. Jacobs, Jr., President & CEO, Harford Bank
Ernest A. Moretti, Director, Baltimore County Savings Bank
Thomas P. O'Neill, Hertzbach & Company, P.A.
Martin J. Saturn, Executive VP, Meisel Capital Partners
Raymond M. Thompson, President & CEO, Calvin B. Taylor Bank
H.L. Ward, President & CEO, Monument Bank

Director Emeritus
Jan W. Clark, Retired President & CEO, County National Bank

Senior Management

Robert R. Chafey, President & CEO
Richard E. Hook, IV, Chairman of the Board
Andrew J. Hines, Executive Vice President, Chief Credit Officer
Glenn W. Kirchner, Senior Vice President, Chief Financial Officer
John S. Mazzocchi, Jr., SVP & Managing Director,
MFB Advisory Services, LLC

MARYLAND FINANCIAL BANK

Your Partner In Correspondent Banking

April 30, 2012

Dear Fellow Stockholder:

This past year was both difficult and transitional for your Bank. It was difficult in that we sustained a net loss of $784,000. All of these losses were attributable to loan loss provisions and OREO charges. It was transitional because we took significant steps to improve asset quality and we raised additional capital to position the Bank for future loan growth.

While the economic outlook was starting to look better last spring, collateral write-downs continued through year end. We are cautiously optimistic in 2012 for several reasons. Our capital ratios are very strong, loan demand is improving, asset quality is showing positive trends, and we've taken on more Advisory engagements.

We continue to expand the services offered in our consulting company, MFB Advisory LLC. We provide independent loan review and other consulting services for approximately 45 community based financial institutions. Our offerings include: loan policy evaluation, loan quality and concentration reporting, risk management reviews, credit analysis, loan portfolio due diligence, documentation reviews, SBA portfolio reviews, and stress testing.

We added two new Directors this year, Dave Brock, President and CEO of Provident State Bank; and, Tom O'Neill, Chairman of the Board of The Patapsco Bank. Tom is a CPA with the firm of Hertzbach & Co.

We would personally like to thank you for your patience and support during the past several years. Please feel free to call Rick at (410-296-1533) or Bob at (410-296-8306) if you have any questions or comments.

Sincerely,

Richard E. Hook, IV
Chairman of the Board
410-296-1533
rhook@mdfinbank.com

Robert R. Chafey
President & CEO
410-296-8306
rchafey@mdfinbank.com

502 Washington Avenue • Suite 300 • Towson, Maryland 21204 • 1-888-501-BANK (2265)
Phone 410-825-4440 • Fax 410-821-8722 • www.mdfinbank.com

Maryland Financial Bank and Subsidiary

Consolidated Financial Statements

December 31, 2011

ROWLES
& Company, LLP
Certified Public Accountants

Report of Independent Auditors

The Board of Directors and Stockholders
Maryland Financial Bank
Towson, Maryland

We have audited the accompanying consolidated balance sheets of Maryland Financial Bank and Subsidiary as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Maryland Financial Bank and Subsidiary as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
March 26, 2012

101 E. Chesapeake Avenue, Suite 300, Baltimore, Maryland 21286
410-583-6990 FAX 410-583-7061
Website: www.Rowles.com

Maryland Financial Bank and Subsidiary

Consolidated Balance Sheets

December 31,	**2011**	2010
Assets		
Cash and due from banks	**$ 127,724**	$ 116,776
Interest-bearing deposits in other banks	**13,619,530**	14,097,351
Federal Home Loan Bank deposit	**25,000**	178,760
Cash and cash equivalents	**13,772,254**	14,392,887
Time deposits in other banks	**198,000**	198,000
Securities available for sale	**7,392,915**	5,145,482
Federal Home Loan Bank stock, at cost	**135,700**	157,300
Loans, net of allowance for loan losses of **$530,151** and $1,181,331	**46,016,901**	54,638,619
Bank premises and equipment	**14,878**	37,419
Accrued interest receivable	**213,660**	255,458
Deferred income taxes	**91,372**	133,620
Foreclosed real estate	**1,659,006**	2,196,647
Other assets	**300,441**	389,428
	$ 69,795,127	$ 77,544,860
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	**$ 2,413,278**	$ 2,225,169
Interest-bearing time deposits	**44,082,048**	48,145,367
Total deposits	**46,495,326**	50,370,536
Federal funds purchased	**16,399,742**	20,327,719
Other liabilities	**146,304**	459,873
	63,041,372	71,158,128
Stockholders' equity		
Preferred stock and additional paid-in capital; authorized 5,000,000 shares, issued and outstanding 1,785 shares in 2011 and 2010	**1,742,414**	1,723,487
Common stock, $10 par value; authorized 5,000,000 shares; issued and outstanding 578,424 shares in 2011 and 374,850 shares in 2010	**5,784,240**	3,748,500
Additional paid-in capital	**2,845,088**	3,688,954
Accumulated deficit	**(3,683,416)**	(2,774,792)
Accumulated other comprehensive income	**65,429**	583
	6,753,755	6,386,732
	$ 69,795,127	$ 77,544,860

The accompanying notes are an integral part of these consolidated financial statements.

Maryland Financial Bank and Subsidiary

Consolidated Statements of Income

Years Ended December 31,	**2011**	2010
Interest and dividend revenue		
Loans, including fees	**$ 3,003,891**	$ 3,303,496
Securities available for sale	**115,077**	89,245
Federal Home Loan Bank and other bank deposits	**53,747**	47,315
Dividends	**1,240**	467
Total interest and dividend revenue	**3,173,955**	3,440,523
Interest expense		
Deposits	**859,878**	1,027,252
Federal funds purchased and other borrowings	**50,420**	61,174
Total interest expense	**910,298**	1,088,426
Net interest income	**2,263,657**	2,352,097
Provision for loan losses	**627,361**	1,035,117
Net interest income after provision for loan losses	**1,636,296**	1,316,980
Noninterest revenue		
Consulting fees	**419,273**	351,950
Other	**53,923**	64,318
Total noninterest revenue	**473,196**	416,268
Noninterest expenses		
Salaries and employee benefits	**1,379,035**	1,332,097
Occupancy and equipment	**136,929**	155,037
Data processing	**100,194**	93,169
Marketing and promotion	**14,850**	13,757
Professional fees	**184,922**	174,525
Federal deposit insurance premiums	**121,111**	115,115
Foreclosed real estate losses, write-downs and costs	**761,038**	71,569
Other	**196,900**	210,268
Total noninterest expenses	**2,894,979**	2,165,537
Loss before income taxes	**(785,487)**	(432,289)
Income taxes	**3,840**	-
Net loss	**(789,327)**	(432,289)
Preferred stock dividends and discount accretion	**119,297**	42,089
Net loss to common shareholders	**$ (908,624)**	$ (474,378)
Loss per common share	**$ (1.84)**	$ (1.27)

The accompanying notes are an integral part of these consolidated financial statements.

Maryland Financial Bank and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31,	**2011**	2010
Net loss	**$(789,327)**	$ (432,289)
Other comprehensive income		
Unrealized gain (loss) on securities available for sale	**107,095**	(40,874)
Income tax relating to unrealized gain (loss) on securities available for sale	**42,249**	(16,123)
Other comprehensive income	**64,846**	(24,751)
Total comprehensive loss	**$(724,481)**	$ (457,040)

The accompanying notes are an integral part of these consolidated financial statements.

Maryland Financial Bank and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

	Preferred stock	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance, December 31, 2009	$ 1,704,560	$ 3,736,880	$ 3,673,824	$ (2,300,414)	$ 25,334	$ 6,840,184
Net loss	-	-	-	(432,289)	-	(432,289)
Unrealized loss on securities available for sale net of income taxes of $16,123	-	-	-	-	(24,751)	(24,751)
Preferred stock dividend and discount accretion	18,927	-	-	(42,089)	-	(23,162)
Proceeds from issuance of common stock, net of costs	-	11,620	9,130	-	-	20,750
Stock-based compensation	-	-	6,000	-	-	6,000
Balance, December 31, 2010	1,723,487	3,748,500	3,688,954	(2,774,792)	583	6,386,732
Net loss	-	-	-	(789,327)	-	(789,327)
Unrealized gain on securities available for sale net of income taxes of $42,249	-	-	-	-	64,846	64,846
Preferred stock dividend and discount accretion	18,927	-	-	(119,297)	-	(100,370)
Proceeds from issuance of common stock, net of costs	-	2,035,740	(849,926)	-	-	1,185,814
Stock-based compensation	-	-	6,060	-	-	6,060
Balance, December 31, 2011	$ 1,742,414	$ 5,784,240	$ 2,845,088	$ (3,683,416)	$ 65,429	$ 6,753,755

The accompanying notes are an integral part of these consolidated financial statements.

Maryland Financial Bank and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31,	**2011**	2010
Cash flows from operating activities		
Interest received	**$ 3,242,066**	$ 3,490,702
Fees and commissions received	**111,576**	416,268
Interest paid	**(1,209,945)**	(1,030,026)
Cash paid to suppliers and employees	**(1,798,687)**	(2,013,047)
Income taxes paid	**(3,840)**	-
	341,170	863,897
Cash flows from investing activities		
Proceeds from maturity of securities available for sale	**4,088,420**	3,839,203
Purchases of securities available for sale	**(6,249,612)**	(4,100,928)
(Purchase) redemption of Federal Home Loan Bank stock	**21,600**	(34,700)
Net decrease in loans	**7,491,747**	2,365,362
Purchases of premises, equipment, and software	**(3,102)**	(12,264)
Proceeds from sale of foreclosed real estate	**399,165**	-
	5,748,218	2,056,673
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	**(3,875,210)**	484,663
Federal funds purchased	**(3,927,977)**	(5,749,156)
Preferred stock dividend paid	**(92,648)**	(23,162)
Proceeds from issuance of common stock	**1,185,814**	20,750
	(6,710,021)	(5,266,905)
Net decrease in cash and cash equivalents	**(620,633)**	(2,346,335)
Cash and cash equivalents at beginning of year	**14,392,887**	16,739,222
Cash and cash equivalents at end of year	**$ 13,772,254**	$ 14,392,887

The accompanying notes are an integral part of these consolidated financial statements.

Maryland Financial Bank and Subsidiary

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31,	**2011**	2010
Reconciliation of net loss to net cash provided by operating activities		
Net loss	**$(789,327)**	$ (432,289)
Adjustments to reconcile net loss to net cash provided by operating activities		
Provision for loan losses	**627,361**	1,035,117
Depreciation and amortization	**28,126**	42,985
Net amortization of investment securities premiums	**20,853**	58,311
Stock-based compensation	**6,060**	6,000
Loss on sale of foreclosed real estate	**361,620**	-
Write-down of foreclosed real estate	**274,006**	-
Decrease (increase) in		
Accrued interest receivable	**41,798**	(3,585)
Other assets	**86,504**	54,142
Increase (decrease) in		
Deferred loan fees, net	**5,460**	(4,547)
Accrued interest payable	**(299,647)**	58,400
Other liabilities	**(21,644)**	49,363
	$ 341,170	$ 863,897
Supplemental information		
Noncash investing activity		
Transfer from loans receivable to foreclosed real estate	**$ 497,150**	$ 2,196,647

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies

Organization and nature of operations

Maryland Financial Bank (the Bank) was incorporated on July 7, 2004, under the laws of the State of Maryland and commenced operations on October 25, 2004. On March 1, 2005, MFB Advisory Services LLC was formed as a wholly-owned subsidiary of the Bank to provide consulting and advisory services, primarily credit reviews for other financial institutions.

As a state chartered bank, the Bank is subject to regulation by the FDIC and the Maryland Commissioner of Financial Regulation.

The Bank participates, through purchases, in commercial and commercial real estate loans with other financial institutions throughout Maryland and contiguous states and makes direct loans to officers and directors of financial institutions. The loan portfolio is generally collateralized by assets of the borrowers. A substantial portion of the Bank's loan portfolio is concentrated in the real estate industry. Therefore, its debtors' ability to repay their loans is dependent upon the real estate sector of the economy. The Bank accepts deposits and purchases federal funds from financial institutions.

Principles of consolidation

The consolidated financial statements include the accounts of Maryland Financial Bank and its wholly-owned subsidiary, MFB Advisory Services LLC. All intercompany accounts and transactions are eliminated in the consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the evaluation of other than temporary impairment of securities, and the valuation of deferred tax assets.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in other banks, and federal funds sold, all of which have initial maturities of 90 days or less. Generally, federal funds are purchased or sold for one-day periods.

Subsequent events

The Bank has evaluated events and transactions subsequent to December 31, 2011 through March 26, 2012, the date these financial statements were issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

1. **Summary of Significant Accounting Policies** (Continued)

Time deposits in other banks

Time deposits in other banks mature within one year and are carried at cost.

Concentration of credit risk

Most of the Bank's activities are with customers located within Maryland and contiguous states.

Securities available for sale

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income (loss). Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank of Atlanta stock

Federal Home Loan Bank of Atlanta (FHLB) stock is carried at cost. The Bank is required to maintain an investment in the stock of the FHLB based on its total assets and any outstanding advances from the FHLB.

Loans

Loans are stated at their outstanding unpaid principal balances and any deferred fees or costs, net of the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment to the yield of the related loans. The Bank generally amortizes these amounts over the contractual life of the loan.

The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due and collateral is insufficient to discharge the debt in full. Past due status is based on the contractual terms of the loan. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for loan losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectable are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

1. **Summary of Significant Accounting Policies** (Continued)

Allowance for loan losses (Continued)

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The allowance consists of specific and general components. The specific component relates to loans that are classified as either doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers loans that are not adversely classified, and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

Transfers of financial assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control of the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank premises and equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

1. **Summary of Significant Accounting Policies** (Continued)

Foreclosed real estate

Real estate acquired through foreclosure is recorded at the lower of cost or fair value less estimated selling costs on the date acquired. In general, cost equals the Bank's investment in the property at the time of foreclosure. Losses incurred at the time of acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated value of the property are included in noninterest expense.

Marketing and promotion expense

The Bank expenses marketing and promotion costs as they are incurred.

Income taxes

Deferred income taxes are provided on the asset/liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carryforwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Stock-based compensation

Stock-based compensation includes the cost of all stock-based payments granted subsequent to December 31, 2005, based on the grant date estimated fair value. Compensation cost is recognized ratably using the straight-line attribution method over the expected vesting period or to the retirement eligibility date, if less than the vesting period when vesting is not contingent upon any future performance.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income (loss). Changes in the unrealized gains and losses on securities available for sale are reported as a separate component of the equity section of the balance sheet and included in comprehensive income (loss).

Off-balance-sheet financial instruments

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the balance sheet when they are funded.

Loss per common share

Loss per common share is computed by dividing net loss to common shareholders by the weighted average number of shares outstanding. The number of shares used to compute basic and diluted loss per share are reconciled as follows:

	2011	2010
Average shares outstanding	**492,711**	373,834
Dilutive effect to stock options	**-**	-
Diluted shares	**492,711**	373,834
Anti-dilutive shares	**49,358**	49,358

1. **Summary of Significant Accounting Policies** (Continued)

Reclassifications

Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation. The reclassifications had no impact on net loss.

2. **Cash and Cash Equivalents**

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

The Bank normally carries balances with the Federal Home Loan Bank of Atlanta that are not insured by the Federal Deposit Insurance Corporation. The average balance carried was **$346,435** and $229,963 for the years ended December 31, 2011 and 2010, respectively.

3. **Securities Available for Sale**

The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses were as follows:

December 31, 2011	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed	**$7,284,858**	**$ 108,057**	**$ -**	**$ 7,392,915**
December 31, 2010				
U.S. Treasury	$ 1,000,546	$ 1,409	$ -	$ 1,001,955
U.S. government agency	1,605,865	5,784	-	1,611,649
Mortgage-backed	2,538,108	22,710	28,940	2,531,878
	$ 5,144,519	$ 29,903	$ 28,940	$ 5,145,482

Mortgage-backed securities are payable in monthly installments.

The Bank had no sales of securities available for sale during 2011 or 2010.

There were no pledged securities as of December 31, 2011 or 2010.

Maryland Financial Bank and Subsidiary

Notes to Consolidated Financial Statements (Continued)

4. Loans

The composition of loans receivable at December 31, 2011 and 2010, is as follows:

	2011	2010
Commercial real estate	**$ 32,822,671**	$ 34,551,828
Construction and land development	**3,619,709**	9,430,506
Commercial	**3,446,922**	4,327,682
Consumer	**6,710,098**	7,556,822
Total loans	**46,599,400**	55,866,838
Less:		
Deferred loan fees and costs, net	**52,348**	46,888
Allowance for loan losses	**530,151**	1,181,331
	$ 46,016,901	$ 54,638,619

A summary of transactions in the allowance for loan losses, by loan classification, during the year ended December 31, 2011, follows:

	December 31, 2010 balance	Provision for loan losses	Charge offs	Recoveries	December 31, 2011 balance
Commercial real estate	$ 507,242	$ 132,566	$ (300,805)	$ -	$ 339,003
Construction and land development	543,802	90,180	(560,736)	-	73,246
Commercial	40,013	417,710	(417,000)	-	40,723
Consumer	90,274	(13,095)	-	-	77,179
	$ 1,181,331	$ 627,361	$ (1,278,541)	$ -	$ 530,151

The changes in the allowance for loan losses for the year ended December 31, 2010, were as follows:

	2010
Balance, beginning	$ 1,693,199
Provision for loan losses	1,035,117
Recoveries	70,000
	2,798,316
Charge offs	1,616,985
Balance, ending	$ 1,181,331

4. **Loans** (Continued)

Past due loans, segregated by age and class of loans, as of December 31, 2011, were as follows:

	Loans 30-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Totals loans	Accruing loans 90 or more days past due
Commercial real estate	$ 236,043	$ 991,015	$1,227,058	$ 31,595,613	$ 32,822,671	$ -
Construction and land development	-	1,143,251	1,143,251	2,476,458	3,619,709	-
Commercial	-	300,686	300,686	3,146,236	3,446,922	-
Consumer	-	-	-	6,710,098	6,710,098	-
	$ 236,043	$ 2,434,952	$2,670,995	$ 43,928,405	$ 46,599,400	$ -

Impaired loans are defined as loans that have been assessed for impairment, although management may determine that the loan does not require a specific reserve. Impaired loans as of December 31, 2011, were as follows:

	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized	Interest not accrued on nonaccrual loans
Commercial real estate	$3,082,832	$ 991,015	$ 1,806,012	$ 2,797,027	$104,447	$3,074,908	$ 49,282	$ 58,355
Construction and land development	2,111,252	1,143,251	750,000	1,893,251	40,500	2,122,651	32,661	98,636
Commercial	717,686	300,686	-	300,686	-	717,686	-	49,341
Consumer	-	-	-	-	-	-	-	-
	$5,911,770	$2,434,952	$ 2,556,012	$ 4,990,964	$144,947	$5,915,245	$ 81,943	$206,332

The Bank was not committed to advance any funds in connection with impaired loans at December 31, 2011.

Credit quality indicators

As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of loans, the level of classified loans, net charge offs, nonperforming loans, and the general economic conditions in the Bank's market.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of loans characterized as watch list or classified is as follows:

Pass/Watch

Loans graded as Pass/Watch are secured by generally acceptable assets which reflect above-average risk. The loans warrant closer scrutiny by management than is routine, due to circumstances affecting the borrower, the borrower's industry or the overall economic environment. Borrowers may reflect weaknesses such as inconsistent or weak earnings, break even or moderately deficit cash flow, thin liquidity, minimal capacity to increase leverage, or volatile market fundamentals or other industry risks. Such loans are typically secured by acceptable collateral, at or near appropriate margins, with realizable liquidation values.

4. **Loans** (Continued)

Special Mention

A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in earnings. Access to alternative financing may be limited to finance companies for business borrowers and may be unavailable for commercial real estate borrowers.

Substandard

A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt service coverage ratio, or marginal liquidity and capitalization. These loans require more intense supervision by Bank management.

Doubtful

A doubtful loan has all the weaknesses inherent as a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the December 31, 2011 balances of classified loans based on the risk grade. Classified loans includes Pass/Watch, Special Mention, Substandard, and Doubtful loans.

	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
Commercial real estate	$3,142,733	$ -	$3,108,723	$222,937	$6,474,393
Construction and land development	-	-	1,505,127	388,124	1,893,251
Commercial	-	-	300,686	-	300,686
Consumer	250,891	24,498	-	-	275,389
	$ 3,393,624	$ 24,498	$ 4,914,536	$ 611,061	$ 8,943,719

4. **Loans** (Continued)

Classified loans also include certain loans that have been modified in trouble debt restructurings (TDR) where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

A summary of TDR loans as of December 31, 2011, follows:

December 31, 2011	Performing	Nonperforming	Total
Commercial real estate	$1,806,012	$ -	$1,806,012
Construction and land development	750,000	-	750,000
Commercial	-	-	-
Consumer	-	-	-
	$ 2,556,012	$ -	$ 2,556,012

The following is a summary of information pertaining to impaired and nonaccrual loans as of and for the year ended December 31, 2010:

	2010
Impaired loans without a valuation allowance	$ 2,235,371
Impaired loans with a valuation allowance	2,245,206
Total impaired loans	$ 4,480,577
Valuation allowance related to impaired loans	$ 433,187
Total nonaccrual loans	3,778,682
Interest not accrued on nonaccrual loans	234,543
Total loans past due 90 days or more and still accruing	-
Average investment in impaired loans	4,922,099

The Bank was not committed to advance any funds in connection with impaired loans at December 31, 2011 or 2010.

5. Bank Premises and Equipment

The components of bank premises and equipment at December 31, 2011 and 2010, are as follows:

	Useful lives	**2011**	2010
Furniture, fixtures, and equipment	5 to 7 years	**$ 157,200**	$ 154,098
Computer equipment	3 years	**138,154**	138,154
		295,354	292,252
Accumulated depreciation		**280,476**	254,833
		$ 14,878	$ 37,419
Depreciation expense		**$ 25,643**	$ 40,615

Included in other assets at December 31, 2011 and 2010, is computer software carried at an amortized cost of **$2,712** and $5,195, respectively. Software amortization expense was **$2,483** and $2,370 in 2011 and 2010, respectively.

6. Interest-Bearing Time Deposits

The aggregate amount of interest-bearing time deposits in denominations of $100,000 or more were **$39,571,491** and $37,356,020 as of December 31, 2011 and 2010, respectively.

At December 31, 2011, the scheduled maturities of certificates of deposit were as follows:

Year	Amount
2012	$ 17,716,384
2013	15,464,446
2014	7,721,218
2015	249,000
2016	2,931,000
	$ 44,082,048

Included in certificates of deposit as of December 31, 2011 and 2010, are wholesale certificates of deposit of **$402,446** and $4,402,714, respectfully. As of December 31, 2010, $694,000 of brokered certificates of deposits were included in certificates of deposit. There were no brokered certificates of deposit as of December 31, 2011.

7. Federal Funds

Federal funds are reported on a gross basis. Federal funds sold are stated as assets and federal funds purchased are stated as liabilities. The average interest rate paid on federal funds purchased was **0.22%** and 0.25% for the years ended December 31, 2011 and 2010, respectively. Federal funds purchased mature daily.

8. Borrowings

As of December 31, 2011, the Bank has pledged real estate loans totaling **$22,525,714** to the Federal Reserve Bank of Richmond to provide a borrowing capacity of **$13,012,897** under its discount window program.

The Bank has a **$8,300,000** line of credit available through the FHLB. The Bank would be required to pledge investment securities in its portfolio to draw upon the line of credit. There were no advances outstanding on these lines at December 31, 2011 or 2010.

9. TARP Capital Purchase Program

On March 27, 2009, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP"), the Bank entered into a Letter Agreement and the related Securities Purchase Agreement - Standard Terms (collectively, the "Purchase Agreement") with the United States Department of the Treasury ("Treasury"), pursuant to which the Bank issued (1) 1,700 shares of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A with liquidation preference of $1,000 per share ("Series A Preferred Stock"), and (2) a warrant to purchase an additional 85 shares of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B ("Series B Preferred Stock"), for an aggregate purchase price of $1.7 million. The Series A Preferred Stock qualifies as Tier 1 capital and pays dividends at a rate of 5% per annum until May 15, 2014. Beginning May 15, 2014, the dividend rate will increase to 9% per annum. On and after May 15, 2012, the Bank may, at its option, redeem shares of Series A Preferred Stock, in whole or in part, at any time and from time to time, for cash at a per share amount equal to the sum of the liquidation preference per share plus any accrued and unpaid dividends to but excluding the redemption date. Prior to May 15, 2012, the Bank may redeem shares of Series A Preferred Stock only if it has received aggregate gross proceeds of not less than $425,000 from one or more qualified equity offerings, and the aggregate redemption price may not exceed the net proceeds received by the Bank from such offerings. The redemption of the Series A Preferred Stock requires prior regulatory approval. On March 27, 2009, the Treasury exercised all of the warrants on the Series B Preferred Stock at the liquidation price of $1,000 per share. The Series B Preferred Stock qualifies as Tier 1 capital and pays dividends at a rate of 9% per annum. The Series B Preferred Stock may not be redeemed until all the Series A Preferred Stock has been redeemed. The Series A Preferred Stock and Series B Preferred Stock were issued in a transaction exempt from registration pursuant to the Securities Act of 1933, as amended.

The Board of Directors declared and the Bank paid the dividend on the Series A and Series B preferred stock payable on November 15, 2010 and for all four payments in 2011. The Bank had not declared or paid the dividend on the Series A and Series B preferred stock for four consecutive quarterly payments starting with the November 15, 2009 payment. In accordance with the Purchase Agreement, whenever the dividends payable on the shares have not been paid for an aggregate of six quarterly dividend periods or more, whether or not consecutive, the authorized number of directors of the Bank shall automatically be increased by two and the holders of the shares may elect two directors to fill the newly created directorships at the Bank's next annual meeting and at each subsequent annual meeting until full dividends have been paid on the shares for four consecutive quarters.

10. Lease Commitments

In 2004, the Bank entered into a five-year operating lease agreement for its banking office. The Bank exercised its first renewal option effective November 1, 2009, which extended the lease term through January 31, 2015. The Bank has the option to extend the lease agreement for one additional five-year period. The Bank is also required to pay a monthly fee for its portion of certain operating expenses, including real estate taxes, insurance, utilities, maintenance, and repairs above a base year amount in addition to the base rent.

The lease requires the following minimum payments:

Year	Payments
2012	$ 97,001
2013	99,669
2014	102,410
2015	8,729
	$307,809

Rent expense for the office and equipment leases for the years ended December 31, 2011 and 2010, totaled **$94,209** and $92,464, respectively.

11. Income Taxes

The Bank did not incur federal income tax expense during the years ended December 31, 2011 and 2010.

A reconciliation of the statutory income tax rate of 34% to the income tax expense (benefit) included in the statements of income is as follows for the years ended December 31, 2011 and 2010:

	2011	2010
Federal income tax at statutory rate	**34.0 %**	34.0 %
Nondeductible expenses	**0.9**	2.3
State income tax	**0.5**	-
Change in valuation allowance	**(34.9)**	(36.3)
Effective income tax rate	**0.5 %**	- %

11. **Income Taxes** (Continued)

The components of the net deferred tax asset at December 31, are as follows:

	2011	2010
Deferred tax assets		
Net operating loss and charitable contribution carryforwards	**$ 1,451,678**	$ 784,362
Allowance for loan losses	**17,207**	326,986
Depreciation	**4,501**	3,809
Foreclosed real estate write-downs and holding costs	**147,638**	-
	1,621,024	1,115,157
Valuation allowance	**(1,324,535)**	(904,177)
Total deferred tax assets, net of valuation allowance	**296,489**	210,980
Deferred tax liabilities		
Unrealized gain on securities available for sale	**42,629**	380
Cash basis accounting	**149,981**	61,981
Deferred loan costs	**12,507**	14,999
Total deferred tax liability	**205,117**	77,360
Net deferred tax asset	**$ 91,372**	$ 133,620

The Bank has net operating loss carryforwards available for federal and state income tax purposes of approximately $3,673,127, which will begin to expire in 2024.

12. **Stock Options and Equity Incentive Plan**

Under the 2005 Equity Incentive Plan (the Plan), the Bank is permitted to grant stock options (including incentive stock options within the meaning of Internal Revenue Code Section 422 and nonstatutory stock options), stock appreciation rights, restricted or unrestricted stock awards, phantom stock, performance awards, other stock-based awards, or any combination of the foregoing. The shares of common stock that may be issued with respect to awards granted under the Plan shall not exceed an aggregate of 75,000 shares of common stock over the life of the Plan. To date, only options have been granted under this plan. The exercise price of each option equals the fair value of the stock on the date of grant and an option's maximum term is ten years. Vesting periods range from five to seven years from date of grant.

12. **Stock Options and Equity Incentive Plan** (Continued)

Information regarding the stock options is presented below:

	Options	Weighted average exercise price	Weighted average remaining contractual life
Outstanding at December 31, 2009	49,358	$ 20	6.2
Granted in 2010	-	-	-
Exercised in 2010	-	-	-
Forfeited in 2010	-	-	-
Outstanding at December 31, 2010	49,358	20	5.0
Granted in 2011	-	-	-
Exercised in 2011	-	-	-
Forfeited in 2011	-	-	-
Outstanding at December 31, 2011	49,358	$ 20	3.9
Options exercisable at December 31, 2011	48,775	$ 20	3.9

The intrinsic value of options outstanding at December 31, 2011 and 2010 is $0. As of December 31, 2011, unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan is $3,515, which will be recognized in 2012.

	Number of options	Weighted average grant date fair value
Nonvested options at January 1, 2011	1,583	$ 6.05
Vested	1,000	6.05
Nonvested options at December 31, 2011	583	$ 6.05

There were no stock options granted in 2011 or 2010.

In connection with a Rights Offering in 2011, the Bank issued 202,039 Units at $6.00 per Unit. Each Unit consisted of one share of common stock, one warrant to purchase one share of common stock at $6.00 per share, which is exercisable up to three years after the date of the offering, and one warrant to purchase one-half of one share of common stock at $6.00 per share, which is exercisable up to six years after the date of the offering.

In connection with the initial private placement offering of the Bank, warrants were issued to purchase 1.5 shares of common stock at $20 per share for every share that the stockholder purchased in the offering. As a result, the Bank issued 110,250 warrants. The warrants were issued in recognition of the financial and organizational risk undertaken by the purchasers in the offering. The warrants, which are exercisable within ten years from the date of issuance, will expire in 2014.

13. Transactions with Related Parties

The Bank has transactions in the ordinary course of business with its directors, principal stockholders, and affiliated companies, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Affiliated companies include financial institutions with which a director of the Bank is affiliated. At December 31, 2011 and 2010, the total amount of loans outstanding to related parties were **$483,002** and $488,985, respectively.

Activity in these loans during the years ended December 31, 2011 and 2010, was as follows:

	2011	2010
Beginning balance	**$ 488,985**	$ 198,000
Advances	**-**	344,079
Payments	**(5,983)**	(53,094)
Ending balance	**$ 483,002**	$ 488,985

Deposits and federal funds purchased from related parties held by the Bank at December 31, 2011 and 2010, amounted to **$3,504,011** and $8,567,287, respectively.

14. Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include residential or commercial real estate, accounts receivable, inventory, and equipment.

14. **Financial Instruments with Off-Balance-Sheet Risk** (Continued)

The following financial instruments were outstanding whose contract amounts represent credit risk at December 31:

	Contract amount	
	2011	2010
Unfunded commitments under lines of credit:		
Fixed rate	**$ 226,984**	$ -
Variable rate	**1,986,723**	1,113,284

There were no commitments to originate loans as of December 31, 2011 or 2010.

15. **Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2011 and 2010, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2011, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes to have changed the Bank's category.

15. **Regulatory Matters** (Continued)

The Bank's actual capital amounts and ratios at December 31, 2011 and 2010, are presented below:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
(dollar amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2011						
Total capital (to risk-weighted assets)	**$7,185**	**15.22%**	**$3,776**	**8.00%**	**$4,721**	**10.00%**
Tier 1 capital (to risk-weighted assets)	**6,688**	**14.17%**	**1,888**	**4.00%**	**2,832**	**6.00%**
Tier 1 capital (to average assets)	**6,688**	**8.66%**	**3,090**	**4.00%**	**3,863**	**5.00%**
December 31, 2010						
Total capital (to risk-weighted assets)	$ 7,135	11.99%	$ 4,774	8.00%	$ 5,968	10.00%
Tier 1 capital (to risk-weighted assets)	6,386	10.73%	2,387	4.00%	3,581	6.00%
Tier 1 capital (to average assets)	6,386	8.18%	3,124	4.00%	3,905	5.00%

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Maryland Banking Code provides that cash dividends may be declared and paid out of accumulated net earnings.

16. **Fair Value of Financial Instruments**

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Generally accepted accounting principles define fair value, establish a framework for measuring fair value, require certain disclosures about fair values, and establish a hierarchy for determining fair value measurements. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs that reflect the Bank's own assumptions about the asset or liability, in situations in which there is little, if any, market activity for the asset or liability at the measurement date.

16. **Fair Value of Financial Instruments** (Continued)

Fair value measurements on a recurring basis

Securities available for sale - The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges. If quoted prices are not available, fair value is determined using quoted prices for similar securities.

The Bank has categorized its securities available for sale as follows:

	Total	Quoted prices in active markets identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2011				
Investment securities available for sale	$ 7,392,915	$ -	$ 7,392,915	$ -
December 31, 2010				
Investment securities available for sale	$ 5,145,482	$ -	$ 5,145,482	$ -

Fair value measurements on a nonrecurring basis

Impaired loans - The Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. As of December 31, 2011 and 2010, the fair values consist of loan balances of **$4,990,964** and $4,480,577, net of valuation allowances of **$144,947** and $433,187, respectively.

Foreclosed real estate - The Bank's foreclosed real estate is measured at fair value less cost to sell on a nonrecurring basis. As of December 31, 2011, the fair value of foreclosed real estate was estimated to be **$1,659,006**. Fair value was determined based on offers and/or appraisals. Cost to sell the real estate was based on standard market factors. The Bank has categorized its foreclosed real estate as Level 3. For the years ended December 31, 2011 and 2010, the Bank recorded charge offs of **$192,736** and $1,482,655, respectively, to the allowance for loan losses when the Bank transferred property from loans receivable to foreclosed real estate.

	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
December 31, 2011				
Impaired loans	$ 4,846,017	$ -	$ -	$ 4,846,017
Foreclosed real estate	$ 1,659,006	$ -	$ -	$ 1,659,006
December 31, 2010				
Impaired loans	$ 4,047,390	$ -	$ -	$ 4,047,390
Foreclosed real estate	$ 2,196,647	$ -	$ -	$ 2,196,647

16. **Fair Value of Financial Instruments** (Continued)

Fair value measurements on a nonrecurring basis (Continued)

Transactions in foreclosed real estate during the years ended December 31, 2011 and 2010, were as follows:

	2011	2010
Beginning of year balance	**$ 2,196,647**	$ -
Improvements and additions	**497,150**	2,196,647
Write-downs	**(274,006)**	-
Proceeds from sale	**(399,165)**	-
Loss on sale	**(361,620)**	-
End of year balance	**$ 1,659,006**	$ 2,196,647

MFB Product List

Loan Participations (Buy, Sell, Syndicate)
Financial Institution Lines of Credit
Holding Company Loans
Director & Officer Loans
Demand Deposit & Federal Funds Sweep Accounts
Term Jumbo CDs
Fixed Asset Sale Leasebacks
OREO Asset Sales & Dispositions
Construction Monitoring
Credit Card Services
Mortgage Processing Services
Equity, Debt & Loan Work Out Assistance
Funding, Liquidity, Interest Rate & Investment Risk Management
Independent Loan Review
Credit Asset Quality Management Reporting
Commercial & Business Loan Training
Car & Equipment Leasing
Loan Policy, Procedure & Practice Review
Commercial Loan Portfolio Stress Testing

Strategic Partners

Bank Realty LP
Broadlands Financial Group, LLC
FIS Corporation
Fox Residential Auctions, LLC
MacKenzie Commerical Real Estate Services
Madison Capital LLC
Mortgage Department Services, LLC
TIB

Networking Partners

American Bankers Association
Chatham Financial
Computer Services, Inc.
Danielson Associates/Ambassador Financial
Diamond Business Credit
Federal Home Loan of Atlanta
FIS Bankway Hosted Solutions
Hofmeister Breza & Leavers
Independent Community Bankers of America
Isabella Associates
The Kafafian Group, Inc.
Long Term Financial
MACHA – The Mid-Atlantic Payments Association
Mackenzie Commercial
Madison Capital
The Mergis Group
Mortgage Department Services, LLC
Nolan, Plumhoff & Williams
Ober Kaler
Optimum Systems Plus
Overton & Associates
Pacific Coast Bankers Bank
ParenteBeard LLC
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Sandler O'Neill + Partners, L.P.
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MARYLAND FINANCIAL BANK

502 Washington Avenue, Suite 300
Towson, MD 21204

410.825.4440 (p) 410.821.8722 (f)

www.mdfinbank.com