MARYLAND FINANCIAL BANK

Your Partner in Correspondent Banking

2007 Annual Report

always your partner… never your competition

DIRECTORS, OFFICERS, AND EMPLOYEES

BOARD OF DIRECTORS

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Partner
Foundos Realty

Joseph J. Bouffard
President & CEO
Baltimore County Savings Bank

John E. Bowen
Senior Vice President
Cantor Fitzgerald

Robert R. Chafey
President & COO
Maryland Financial Bank

Jan W. Clark
President
County National, a div. of Sandy Spring Bank

James W. Cornelsen
President & CEO
Old Line Bank

Earl R. Gieseman, III
President & CEO
County First Bank

Jack H. Goldstein
Chairman & CEO
NBRS Financial Bank

Richard E. Hook, IV
Chairman & CEO
Maryland Financial Bank

Charles H. Jacobs, Jr.
President & CEO
Harford Bank

Ernest A. Moretti
Director
Baltimore County Savings Bank

Martin J. Saturn
Executive Vice President
Meisel Capital Partners

Raymond M. Thompson
President & CEO
Calvin B. Taylor Bank

H. L. Ward
President & CEO
Monument Bank

OFFICERS AND EMPLOYEES

Rachel N. Barnhouser
Loan Administration Coordinator

Doug P. Carnes
Correspondence Services Coordinator

Robert R. Chafey
President & COO

Michael L. Derr
Senior Vice President/Operations

Richard E. Hook, IV
Chairman & CEO

Glenn W. Kirchner, CPA
Senior Vice President /CFO

Jennifer A. Kopajtic
Executive Coordinator

John S. Mazzocchi, Jr.
Senior Vice President /CCO

Joyce K. Miller
Operations Coordinator

Raymond L. Sleater
Associate Director, MFB Advisory

Bonnie H. Slebodnick
Vice President/Business Development

Phyllis L. Testerman
Accounting Services Coordinator

MARYLAND FINANCIAL BANK

LETTER TO SHAREHOLDERS
April 2, 2008

Dear Fellow Shareholders,

Your bank has just completed its third full year of operation, and according to most any industry observer, it was a successful year; we made money! The primary reason we were profitable in our third year of operation is that we were able to convert more of our liquid and lower earning assets (Federal Funds) into loans. Loans were up $10.4 million or 31 percent. Total liabilities (deposits, FHLBB advances, and Federal Funds purchased) actually decreased slightly, by $4.6 million or 8.7 percent, because of better management of our balance sheet. We are now up to 78 community-based financial institutions that have chosen to do business with our Bank.

MISSION

Our mission remains the same: *"Maximize shareholder and client value by being the premier provider of correspondent banking services in the mid-Atlantic region with a focus on buying and selling loan participations."*

EARNINGS

We earned a profit in 10 out of 12 months in 2007, which resulted in net earnings for the year of $218,000. As noted above, the profit was mainly a result of an increase in our commercial loan outstandings and expense control. We anticipate sustained profitability in our fourth year of operation.

ASSET QUALITY

The asset quality of your bank's loan portfolio remains strong, despite the adverse conditions of the surrounding credit and housing markets. We experienced no charge-offs since our inception, and we had no non-performing loans at year-end 2007.

MARKET

Your bank continues to operate in one of the strongest markets in the country: Maryland, the District of Columbia, Virginia, Pennsylvania, and Delaware. While consolidations continue in our market, they have created new opportunities for existing community based financial institutions and De Novo banks. In fact, MFB is currently in discussions with at least four De Novo banks.

CAPITAL

We continue to be well capitalized. At year-end 2007, our total risk-based capital ratio was 11.33 percent. Our book value at December 31, 2007, was $14.80.

MARYLAND FINANCIAL BANK

OUR PEOPLE

Our business is based on trust, character, and personal relationships. Our staff consists of 12 very hard working and dedicated individuals and two credit consultants, who have been a tremendous help as well. We added six highly qualified bankers: Michael Derr (Senior Vice President, Operations), Glenn Kirchner (Senior Vice President & CFO), Raymond Sleater (Associate Director, MFB Advisory Services, LLC), Bonnie Slebodnick (Vice President, Business Development), and William Lucas and Salvatore Ranieri as Credit Consultants.

Our Board of Directors, at their meeting held on December 31, 2007, named Richard Hook as its first Chairman. Rick will also continue to serve as Chief Executive Officer of the Bank. The Board also named Robert Chafey as the Bank's President and Chief Operating Officer and its newest member of the board.

During 2007, one of our founding directors retired from our Board of Directors. Herb Moltzan, President/CEO of BUCS Federal Bank, retired after BUCS merged with Community Banks, now Susquehanna Bank. From all of us associated with Maryland Financial Bank, we not only thank Herb for his valuable council and support in helping our Bank get chartered, organized, and profitable, but also for his friendship. We wish him well in his future endeavors.

Our Board of Advisors, under the continued leadership of Edmond Nolley, increased to 29 members with the additions of Debbie Dutterer (New Windsor State Bank), Teresa Greider (NBRS Financial Bank), and Larry Singer (Harvest Bank of Maryland).

OUR TEAM

Our past and future success has been and will continue to be a result of Maryland Financial Bank's team. This team consists of our clients, employees, directors, advisors, and shareholders. We thank all of you for your business, hard work, guidance, and support.

Please feel free to contact either of us, any time or for any reason. Rick can be reached by phone at 410-296-1533 or e-mail rhook@mdfinbank.com. Contact Bob at 410-296-8306 or at rchafey@mdfinbank.com.

Very truly yours,

Rick

Richard E. Hook, IV
Chairman & CEO

Bob

Robert R. Chafey
President & COO

MISSION

Maximize stockholder and client value by being the premier provider of correspondent banking services in the mid-Atlantic Region with a focus on buying and selling loan participations.

HISTORY

In 2002, a number of community bankers recognized that correspondent banking services in Maryland and the mid-Atlantic were in a state of change and fragmentation. Community banks were forced to rely on competitors' services, and these providers were often headquartered out-of-state. Maryland Financial Bank, Maryland's first "Bankers' Bank", was started for the sole purpose of creating a pre-eminent correspondent bank in the market and filling the void.

From our Towson headquarters, Maryland Financial Bank offers traditional correspondent banking services and products with an emphasis on loan participations and/or loans to officers and directors. As we have identified additional needs in the financial institutions industry, we have rolled out new product offerings and services.

ACCOMPLISHMENTS

June 1, 2002	⇒*Original business plan drafted*
January 31, 2003	⇒*First formal board meeting*
August 31, 2003	⇒*Founders capital round closes $1.5 million*
March 31, 2004	⇒*Private Placement Stock offering completed $7.5 million*
October 14, 2004	⇒*FDIC approval*
October 25, 2004	⇒*Bank opens for business*
December 31, 2005	⇒*First full year in business, loss of $750,000, loans of $19.3 million*
December 31, 2006	⇒*Second full year in business, loss of $494,000, loans of $33.2 million*
March 31, 2007	⇒*First profitable month*
December 31, 2007	⇒*Completed first profitable year, profit of $218,000, loans of $43.6 million*

FUTURE

We think the future of community-based financial institutions is very bright. For the most part, community banks are not involved in the sub-prime market, nor do they invest in exotic investment vehicles that have lost significant value in the past six months. Community-based financial institutions take in local deposits and lend in their communities. We think some of the problems in the larger banks will push customers to local institutions. Therefore, as the bigger banks suffer losses, lose focus, and consolidations continue in the banking industry, those community banks that still effectively serve their markets will flourish. As the community banks grow and as they see more and larger deals, it should bode well for Maryland Financial Bank.

MARYLAND FINANCIAL BANK

PRODUCTS AND SERVICES

BANK PRODUCT LIST

Loan Participations (Buy & Sell)
DDA & Federal Funds
Term CDs/Fed Funds
Holding Company Loans
Director & Officer Loans
Organizational/DeNovo Loans
Federal Reserve Settlement
Fixed Asset Sale Leaseback
Trust Preferred Pools

Profitability & Merger Analysis
Trust Preferred Pools and/or Sub. Debt.
Employee Benefits Plan (BOLI)
Asset Disposition
Overdraft Privilege
Car & Equipment Leasing
Construction Monitoring
Card Services
Mortgage Processing & Servicing

MFB ADVISORY SERVICES, LLC

Independent Loan Review
Policy and Procedure Evaluation
Loan Portfolio Due Diligence
Documentation Review
Loan Workout Assistance

Credit Analysis Outsourcing
Commercial Credit Training
Appraisal Review and Real Estate Evaluation
SBA Review and Evaluation
Asset-Based Lending Review

FINANCIAL INSTITUTION AND CORPORATE SHAREHOLDERS

Calvin B. Taylor Bank, Berlin, MD
Carrollton Bank, Baltimore, MD
CommerceFirst Bank, Annapolis, MD
Congressional Bank, Potomac, MD
County First Bank, LaPlata, MD
Delmarva Data Center, Inc., Easton, MD
Farmers & Merchants Bank, Upperco, MD
Fidelity & Trust Bank, Bethesda, MD
1st Mariner Bancorp, Baltimore, MD
Frederick County Bancorp, Frederick, MD
Harford Bank, Aberdeen, MD
Impact Financial Services, Inc., Rock Hill, SC

K Capital Corporation, Owings Mills, MD
NBRS Financial Bank, Rising Sun, MD
Northwest Savings Bank, Warren, PA
OBA Bank, Germantown, MD
Old Line Bank, Bowie, MD
The Bank of Delmarva, Salisbury, MD
The Bank of Glen Burnie, Glen Burnie, MD
The Patapsco Bank, Dundalk, MD
Sandy Spring Bancorp, Olney MD
Susquehanna Bancshares, Lititz, PA
Shore Bank, Olney, VA
St. Casimir's Savings Bank, Baltimore, MD
Woodsboro Bank, Woodsboro, MD

STRATEGIC PARTNERS

BANK FINANCIAL SERVICES (BFS)

BFS creates, implements, and manages benefit plans for community banks.

BANK REALTY LP

Bank Realty works with community banks in their efforts to sell their fixed assets (i.e. headquarters and branches) with a sale leaseback arrangement.

BROADLANDS FINANCIAL GROUP, LLC

Broadlands works with community banks who want assistance from a third party managing construction projects.

COHEN BROS. & COMPANY

Cohen is an investment bank that specializes in working with community banks seeking to gain access to the capital markets, in particular, Trust Preferred Pools.

EXPRESS REAL ESTATE AUCTIONS

Express works with community banks in their need to either move Real Estate Owned off their own balance sheet, or with their clients who might want to sell their own real estate.

THE KAFAFIAN GROUP, INC.

TKG specializes in the finance, strategy, and operational areas of the financial institution industry, which includes performance measurement, strategic planning, and investment banking advisory.

IMPACT FINANCIAL SERVICES

IMPACT provides overdraft protection services to community banks.

MADISON CAPITAL

Madison provides community banks the ability to offer leasing options to their clients, while gaining fee income and avoiding traditional risks associated with holding leases in house.

THE IDENTITY PROTECTION COMPANY

The Identity Production Company works with community banks to offer their employees and customers protection from identity theft.

TIB

TIB provides community banks with a competitive rate and multiple rewards credit card product.

MORTGAGE DEPARTMENT SERVICES, LLC

MDS provides complete, turn-key mortgage banking services for the financial institutions allowing them to achieve the financial rewards of selling residential mortgage loans on the secondary market.

Maryland Financial Bank and Subsidiary

Financial Report

December 31, 2007

Maryland Financial Bank and Subsidiary

Table of Contents
December 31, 2007 and 2006

Independent Auditor's Report

To the Board of Directors and Stockholders
Maryland Financial Bank and Subsidiary
Towson, Maryland

We have audited the accompanying consolidated balance sheets of Maryland Financial Bank and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated 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 audit 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Maryland Financial Bank and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Baltimore, Maryland
March 12, 2008

Consolidated Balance Sheets
December 31, 2007 and 2006

	2007	2006
Assets	(Dollars in Thousands, Except Share Data)	
Cash and due from banks	**$ 1,283**	$ 284
Federal funds sold	**2,745**	18,582
Cash and Cash Equivalents	**4,028**	18,866
Interest-bearing deposits in other banks	**198**	99
Securities available for sale	**5,410**	5,766
Federal Home Loan Bank stock	**184**	106
Loans, net of allowance for loan losses of $418 and $302	**43,640**	33,246
Bank premises and equipment, net	**110**	157
Accrued interest receivable	**333**	209
Deferred taxes	**134**	-
Other assets	**131**	84
Total Assets	**$54,168**	$58,533
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	**$ 2,092**	$ 1,833
Interest bearing	**31,799**	5,271
Total Deposits	**33,891**	7,104
Advances from the Federal Home Loan Bank of Atlanta	**1,750**	-
Federal funds purchased	**12,464**	45,990
Other liabilities	**531**	182
Total Liabilities	**48,636**	53,276
Stockholders' Equity		
Common stock, $10 par value; authorized 5,000,000 shares; issued and outstanding 373,688 shares	**3,737**	3,737
Paid-in capital	**3,662**	3,668
Accumulated deficit	**(1,812)**	(2,030)
Accumulated other comprehensive loss	**(55)**	(118)
Total Stockholders' Equity	**5,532**	5,257
Total Liabilities and Stockholders' Equity	**$54,168**	$58,533

See notes to consolidated financial statements.

Consolidated Statements of Operations
Years Ended December 31, 2007 and 2006

	2007	2006
	(Dollars in Thousands)	
Interest and Dividend Income		
Loans, including fees	**$3,234**	$1,935
Securities	**253**	298
Federal funds sold	**648**	813
Other	**17**	23
Total Interest Income	**4,152**	3,069
Interest Expense		
Interest on borrowings	**54**	-
Deposits	**745**	193
Federal funds purchased	**1,801**	1,859
Total Interest Expense	**2,600**	2,052
Net Interest Income	**1,552**	1,017
Provision for Loan Losses	**116**	54
Net Interest Income after Provision for Loan Losses	**1,436**	963
Other Income		
Consulting fees	**162**	230
Other	**96**	42
Total Other Income	**258**	272
Other Expenses		
Salaries and employee benefits	**971**	1,092
Occupancy and equipment	**172**	154
Data processing	**112**	101
Marketing and promotion	**50**	101
Professional fees	**163**	155
Other	**142**	126
Total Other Expenses	**1,610**	1,729
Net Income (Loss) before Income Tax Benefit	**84**	(494)
Income Tax Benefit	**(134)**	-
Net Income (Loss)	**$ 218**	$ (494)

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2007 and 2006

	Common Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
			(Dollars in Thousands)		
Balance - December 31, 2005	$3,737	$3,659	$(1,536)	$(128)	$5,732
Comprehensive loss:					
Net loss	-	-	(494)	-	(494)
Unrealized gain on available for sale securities	-	-	-	10	10
Total Comprehensive Loss					(484)
Stock compensation	-	9	-	-	9
Balance - December 31, 2006	3,737	3,668	(2,030)	(118)	5,257
Comprehensive income:					
Net income	-	-	**218**	-	**218**
Unrealized gain on available for sale securities	-	-	-	**63**	**63**
Total Comprehensive Income					**281**
Stock compensation (forfeiture), net	-	**(6)**	-	-	**(6)**
Balance - December 31, 2007	**$3,737**	**$3,662**	**$(1,812)**	**$ (55)**	**$5,532**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
	(In Thousands)	
Cash Flows from Operating Activities		
Net income (loss)	**$ 218**	$ (494)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for loan losses	**116**	54
Depreciation and amortization	**64**	58
Net amortization (accretion) of investment securities premiums	**(3)**	10
Stock-based compensation (forfeitures), net	**(6)**	9
Deferred tax benefit	**(134)**	-
Increase in accrued interest receivable	**(124)**	(77)
Increase in other assets	**(47)**	(7)
Increase in other liabilities	**349**	16
Net Cash Provided by (Used in) Operating Activities	**433**	(431)
Cash Flows from Investing Activities		
Purchase of certificate of deposit	**(99)**	(99)
Proceeds from maturities and call of securities available for sale	**422**	2,924
Purchases of securities available for sale	**-**	(2,500)
Net purchase of Federal Home Loan Bank stock	**(78)**	(81)
Net increase in loans	**(10,510)**	(14,017)
Purchases of premises and equipment	**(17)**	(42)
Net Cash Used in Investing Activities	**(10,282)**	(13,815)
Cash Flows from Financing Activities		
Net increase in advances from the Federal Home Loan Bank of Atlanta	**1,750**	-
Net increase (decrease) in federal funds purchased	**(33,526)**	4,771
Net increase in deposits	**26,787**	5,644
Net Cash Provided by (Used in) Financing Activities	**(4,989)**	10,415
Net Decrease in Cash and Cash Equivalents	**(14,838)**	(3,831)
Cash and Cash Equivalents - Beginning	**18,866**	22,697
Cash and Cash Equivalents - Ending	**$ 4,028**	$18,866
Supplementary Cash Flows Information		
Interest paid	**$ 2,236**	$ 1,995

See notes to consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies

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.

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 and training for other banking institutions.

As a state chartered bank, the Bank is subject to regulations by the FDIC and the Maryland State Banking Commission.

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant 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.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within the state of Maryland and contiguous states. Note 2 discusses the types of securities that the Bank invests in. Note 3 discusses the types of lending that the Bank engages in.

The Bank has two certificates of deposit with one institution, the total of which exceeds the FDIC insurance limitations. This constitutes a concentration of credit risk.

Presentation of Cash Flows

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

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 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 (FHLB) stock is carried at cost. Federal law requires a member institution of the FHLB to hold stock according to predetermined formulas.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances and any deferred fees or costs, net of an 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 of the yield (interest income) of the related loans. The Bank is generally amortizing 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 or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. 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. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility 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 collectibility of the total contractual principal and interest is no longer in doubt.

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses

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

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, general, and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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 over 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

Marketing and Promotion Expense

The Bank follows the policy of charging the costs of marketing and promotion to expense as incurred.

Income Taxes

Deferred income taxes are provided on the 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 uncertain if the deferred tax asset will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Effective January 1, 2007, the Bank adopted the provisions of Financial Accounting Standards (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." The Interpretation provides clarification on accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Adoption did not have a significant impact on the consolidated balance sheet or statement of operations. The tax years subject to examination by the taxing authorities are the years ended December 31, 2006, 2005, 2004 and 2003.

Stock Based Compensation

Effective January 1, 2006, the Bank adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation as revised by SFAS No. 123(R), "Share-Based Payment," using the prospective method. Under this method, the share-based compensation cost recognized beginning January 1, 2006, includes compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Compensation cost under SFAS No. 123(R) is recognized ratable 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.

As a result of adopting SFAS No. 123(R) on January 1, 2006, the Bank's salaries expense was $9,000 higher for the year ended December 31, 2006. Net expense of $6,000 was reversed in 2007 due to unanticipated forfeitures, exceeding expense associated with option grants.

Note 1 - Summary of Significant Accounting Policies (Continued)

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income (loss). Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income (loss), are components of 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.

Reclassifications

Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation.

Note 2 - Securities Available for Sale

Amortized cost and fair value were as follows:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
U. S. Government agencies	**$4,000**	**$ -**	**$ 5**	**$3,995**
Mortgage-backed securities	**1,465**	**-**	**50**	**1,415**
	$5,465	**$ -**	**$55**	**$5,410**

	December 31, 2006			
	(In Thousands)			
U. S. Government agencies	$4,000	$ -	$ 52	$3,948
Mortgage-backed security	1,884	-	66	1,818
	$5,884	$ -	$118	$5,766

Note 2 - Securities Available for Sale (Continued)

The following table shows the Bank's investments' gross unrealized losses and fair value, aggregated by investment category at December 31:

	2007		2006	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)			
U.S. Government agencies	**$3,995**	**$ 5**	$3,948	$ 52
Mortgage-backed securities	**1,415**	**50**	1,818	66
	$5,410	**$55**	$5,766	$118

The investment securities presented above have been in an unrealized loss position for more than twelve months.

Gross unrealized losses of $55,000 at December 31, 2007 pertain to three securities. Management believes that unrealized losses on debt securities were primarily the result of changes in market interest rates. No credit risk issues have been identified that cause management to believe the declines in fair value are other than temporary. Management has the intent and ability to hold impaired securities until maturity or recovery in value.

Amortized cost and fair value at December 31, 2007 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

	Available For Sale	
	Amortized Cost	Fair Value
	(In Thousands)	
Less than one year	**$4,000**	**$3,995**
Mortgage-backed securities	**1,465**	**1,415**
	$5,465	**$5,410**

The Bank had no realized gains or losses on sales of securities available for sale during 2007 or 2006.

At December 31, 2007, U.S. Government obligations and mortgage-backed securities with carrying values of $3,995,000 and $1,175,000, respectively, were pledged to secure Federal Home Loan Bank advances. At December 31, 2007, a mortgage-backed security with a carrying value of $240,000 was pledged to secure Federal Reserve Bank daylight overdrafts. At December 31, 2006, there were no securities pledged as collateral for any purposes.

Note 3 - Loans

The composition of loans receivable at December 31 is as follows:

	2007	2006
	(In Thousands)	
Commercial real estate	**$36,530**	$25,724
Commercial	**4,567**	4,109
Residential construction	**3,053**	3,746
Total Loans	**44,150**	33,579
Less:		
Deferred loan fees and costs, net	**92**	31
Allowance for loan losses	**418**	302
Net Loans	**$43,640**	$33,246

The changes in the allowance for loan losses for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
	(In Thousands)	
Balance, beginning	**$302**	$248
Provision for loan losses	**116**	54
Balance, ending	**$418**	$302

As of December 31, 2007 the Bank had no impaired loans with a valuation allowance. Impaired loans with no valuation allowance were $2,034,000 at December 31, 2007. The average investment in impaired loans was $1,597,000 and interest income recognized on impaired loans under the accrual basis was $383,000. $1,000 is committed to be advanced in connection with impaired loans.

As of December 31, 2007 and 2006, the Bank had no nonaccrual loans, and no loans past due ninety days or more and still accruing. At December 31, 2006, the Bank had no impaired loans.

Note 4 - Bank Premises and Equipment

The components of premises and equipment at December 31, 2007 and 2006 are as follows:

	2007	2006
	(In Thousands)	
Furniture, fixtures and equipment	**$142**	$138
Computer equipment and data processing software	**145**	132
	287	270
Accumulated depreciation	**(177)**	(113)
	$110	$157

Note 5 - Deposits

The aggregate amount of interest-bearing deposits in denominations of $100,000 or more was $15,789,000 and $300,000 as of December 31, 2007 and 2006, respectively.

At December 31, 2007, the scheduled maturities of certificates of deposit are as follows (in thousands):

2008	**$24,152**
2009	**3,407**
2010	**99**
2011	**2,472**
	$30,130

Note 6 - 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. Federal funds purchased had interest rates ranging from 4.33% to 5.29% throughout the year ended December 31, 2007. Federal funds purchased mature daily.

Note 7 - Borrowings

The Bank has a $5,000,000 line of credit available through the Federal Home Loan Bank of Atlanta (FHLB) secured by a blanket floating lien on all assets. At December 31, 2007, the Bank has a balance outstanding of $1,750,000 with interest charged at 4.40%. At December 31, 2007, the Bank also had $3,500,000 available under line of credit agreements with other financial institutions. There were no advances outstanding on these lines at December 31, 2007.

Note 8 - Lease Commitments

In August 2004, the Bank entered into a five-year operating lease agreement for its banking office that commenced in October 2004. The Bank has the option to extend the lease agreement for five additional five-year periods. 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. Rent expense for the office and equipment leases for the years ended December 31, 2007 and 2006 totaled $104,000 and $101,000, respectively.

Future minimum lease payments by year and in the aggregate, under these lease agreements, are as follows (in thousands):

2008	**$ 98**
2009	**82**
	$180

Note 9 - Income Taxes

A deferred tax benefit of $134,000 was recognized in 2007 for the portion of the net deferred tax asset for which realization was more likely than not.

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

	2007	**2006**
	(In Thousands)	
Deferred tax assets:		
Net operating loss carryforwards	**$704**	$641
Allowance for loan losses	**82**	39
Organization and start-up costs	**72**	108
Unrealized holding losses on available for sale securities	**21**	46
Other	**2**	15
	881	849
Valuation allowance	**(619)**	(815)
Total Deferred Tax Assets, Net of Valuation Allowance	**262**	34
Deferred tax liability, other	**(128)**	(34)
Net Deferred Tax Asset	**$134**	$ -

Note 9 - Income Taxes (Continued)

The Bank has net operating loss carryforwards available for federal and state income tax purposes of approximately $1.8 million which begin to expire in 2024.

Note 10 - Stock Grants 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 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 10 years. Vesting periods range from 5 to 7 years from date of grant.

Information regarding the stock options is presented below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2005	63,458	$20.00	10.0
Granted	1,500	20.00	
Forfeited	-	-	
Outstanding at December 31, 2006	64,958	20.00	9.0
Granted	**5,000**	**20.00**	
Forfeited	**(20,600)**	**-**	
Outstanding at December 31, 2007	**49,358**	**$20.00**	**8.2**
Options exercisable at December 31, 2007	**32,646**	**$20.00**	**8.5**

The intrinsic value of options outstanding at December 31, 2007 and 2006 is not significant. As of December 31, 2007, unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan is $28,000 and will be recognized over 4.6 years.

Note 10 - Stock Grants and Equity Incentive Plan (Continued)

The weighted-average grant-date fair value for stock options granted was $6.03 in 2007 and $5.81 in 2006. The Bank used the Black-Scholes option pricing model for both years to calculate the grant-date fair value. The following significant weighted-average assumptions were used for the years ended December 31:

	2007	2006
Risk-free interest rate	**5.03%**	4.7%
Expected life	**7 years**	7 years
Expected volatility	**10%**	10%
Expected dividends	**0%**	0%

The expected volatility for 2007 and 2006 is based on historical volatility of similar entities. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is estimated based on the vesting period and contractual life. The dividend yield is assumed to be zero based on the Company's history and no current expectation of dividend payouts.

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 are exercisable within 10 years from the date of issuance.

Note 11 - Transactions with Executive Officers, Directors and Principal Stockholders

The Bank has had, and may be expected to have in the future, transactions in the ordinary course of business with its directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. The Bank had no deposits or loans or commitments to lend to related parties at or during the years ended December 31, 2007 and 2006.

Note 12 - 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.

Note 12 - Financial Instruments with Off-Balance Sheet Risk (Continued)

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 personal or commercial real estate, accounts receivable, inventory and equipment.

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

	Contract Amount	
	2007	**2006**
	(In Thousands)	
Commitments to grant loans	**$ 7,900**	$8,781
Unfunded commitments under lines of credit	**10,160**	8,966

Note 13 - 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 (set forth below) 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, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

Note 13 - Regulatory Matters (Continued)

As of December 31, 2007, 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. The FDIC requires that the Bank maintain a ratio of Tier 1 leverage capital to total average assets of at least 8% during the first three years of operations. There are no conditions or events since the notification that Management believes to have changed the Bank's category.

The Bank's actual capital amounts and ratios at December 31, 2007 and 2006 are presented below:

	Actual			For Capital Adequacy Purposes			To be Well Capitalized under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
	(Dollar Amounts in Thousands)								
2007:									
Total capital (to risk-weighted assets)	**$5,905**	**11.33**	**%**	**$≥4,170**	**≥8.0**	**%**	**$≥5,213**	**≥10.0**	**%**
Tier 1 capital (to risk-weighted assets)	**5,487**	**10.53**		**≥2,085**	**≥4.0**		**≥3,128**	**≥ 6.0**	
Tier 1 capital (to average assets)	**5,487**	**10.00**		**≥2,173**	**≥4.0**		**≥2,717**	**≥ 5.0**	
2006:									
Total capital (to risk-weighted assets)	$5,675	13.03	%	$≥3,484	≥8.0	%	$≥4,355	≥10.0	%
Tier 1 capital (to risk-weighted assets)	5,373	12.34		≥1,742	≥4.0		≥2,613	≥ 6.0	
Tier 1 capital (to average assets)	5,373	9.47		≥4,682	≥8.0		≥4,682	≥ 8.0	

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.

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