MFB

MARYLAND FINANCIAL BANK

2008

ANNUAL REPORT

Your Partner In Correspondent Banking

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MARYLAND FINANCIAL BANK

LETTER TO SHAREHOLDERS

April 22, 2009

Dear Fellow Shareholder,

Thank you for your support throughout our four years in business. All of our financial institution shareholders have actively provided business opportunities for our Bank and all of the individual shareholders have been supportive with our growing process. The following outlines where we have been and where we are going.

When one gauges the success of a new bank charter, the typical barometer used is whether a bank was able to achieve profitability in its third year. While MFB was profitable in our third full year of existence, we were not able to post positive net income in 2008, specifically because we increased our allowance for loan losses by 89 percent or $372,000. We were successful at growing deposits and Federal Funds purchased by 34 percent and loans by 21 percent, but this was not significant enough to outweigh our belief that it was necessary and prudent to increase our allowance for loan losses. We did not have any charge offs this past year. Non-performing assets were 1.38% of total assets and our loan loss reserve was 1.48% of gross loans outstanding at year end. Our total risk based capital ratio at year end was 10.19% which is considered to be well capitalized by regulatory standards.

The year 2008 was also pivotal for our organization in that we needed to raise capital to continue growing. It was always in our plan to raise additional capital in our third or fourth year, but last year certainly was not a year conducive to raising capital. We were fortunate, however, to be eligible for the Treasury's Capital Purchase Program. This enabled us to receive $1,700,000, on March 27, 2009, in additional capital, effectively allowing us to maintain strong capital ratios, grow assets and provide positive earnings.

It is important to note, MFB needed to grow to a certain asset size in order to support the infrastructure of our Bank and our model. This model is designed to have a basic infrastructure that can support all of the regulatory requirements, as well as, the underwriting and maintenance of loan participations and syndications, while not requiring continued capital investment in this infrastructure. We do not need additional facilities or investment in technology to grow in both size and earnings. We believe we have hit that critical point in our development where we can now concentrate on making sound loans with profitable yields.

In 2009 and the immediate years ahead, MFB will be challenged to maintain a healthy loan portfolio, avoid charge offs and maintain controlled growth with a greater discipline towards pricing, margins and strong credit underwriting. We will also need to grow non-interest income through forming alliances, controlling expenses and maintaining strong liquidity ratios. If we can meet these challenges, we can increase earnings which will ultimately enable us to raise additional capital and create long term shareholder value.

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MARYLAND FINANCIAL BANK

We would like to keep you apprised of other developments since last year's annual report. We were able to bring onto our Board of Directors, Christopher Holt, who is a Regional President with Susquehanna Bank. Not only is Susquehanna a significant shareholder, but Chris brings with him a great deal of banking knowledge. We are delighted to have Chris on board. Edmond Nolley, the President of our Board of Advisors, has increased the number of Advisors by adding Barbara Elswick, The Bank of Glen Burnie; Andrew Hines, BankAnnapolis; Jack Turnbull, a retiree of the Federal Reserve Bank; and Paul Merritt, Jr., Capital Bank. We welcome their inclusion into this organization.

It is of interest to note we continue to grow the number of Strategic and Networking Partners affiliated with MFB. Our Strategic Partners are those organizations we have a joint marketing initiative, while our Networking Partners are more directly responsible for supporting educational and reception initiatives. A list of these organizations is included in this report.

We would like to take this opportunity to do some marketing, because after all, many of you are potential clients for new product offerings. Not new, but certainly pertinent in today's environment, MFB has been successful at marketing sale leasebacks of bank facilities. This is an excellent way for banks to turn non-earning assets into earning assets, to create revenue during lean times and to increase the allowance for loan losses. In addition, we have an arrangement with a company who helps to market and sell troubled assets. We are also delighted to report we have a new offering that enables banks to "Stress Test" their commercial real estate portfolios, which is becoming an essential part of a bank's regulatory requirement. Again, please review the information concerning our Strategic Partners.

And finally, let us remind you that our mission remains the same:

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

Should you have any questions, comments or recommendations, please feel free to contact either one of us. Again, thank you for your support.

Richard E. Hook, IV	Robert R. Chafey
Chairman & CEO	President & COO

STRATEGIC PARTNERS

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 Financial Group offers a nationwide, proactive, lower cost, single source all inclusive bond alternative program, which includes the Initial Project Evaluation, the Contractor Evaluation, the monthly site visits in conjunction with each GC draw request, and the disbursement of funds down to the sub-contractor and supplier level, thus ensuring that the money is going into the project.

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.

DELMARVA DATA CENTER

Delmarva is a full service technology provider for community banks' core and item processing needs, utilizing Metavante Bankway® and Metavante's other client-centric solutions, such as DirectMerchant® RDC, plus premier statement rendering services for any bank, regardless of their core provider.

FOX RESIDENTIAL AUCTIONS

Fox Residential Auctions is full service professional marketer of real estate that utilizes the auction method to maximize the sales value of all real estate in all markets in as little as 30 days.

THE KAFAFIAN GROUP, INC. (TKG)

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

MADISON CAPITAL LLC

Madison provides community bank clients the ability to offer lease financing options for vehicles and equipment. While gaining fee income, the bank avoids the traditional risks associated with holding this type of financing in house. While not competing with products, Madison can structure transactions to satisfy your client’s needs.

TIB

TIB is the nation’s largest bankers’ bank, serving more than 1,400 independent community banks from coast to coast. Its card programs are among the nation’s most trusted, as one in nine banks in the U.S. relies on TIB for one or more aspect of their card offering.

MORTGAGE DEPARTMENT SERVICES, LLC (MDS)

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

NETWORKING PARTNERS

Bank Realty, LP
www.bankrealtylp.com

Beard Miller Company LLP
www.bmc-llp.com

Bottom Line Connection
www.hireblc.com

Broadlands Financial Group, LLC
www.broadlandsfinancial.com

Cohen & Company
www.cohenandcompany.com

Delmarva Data Center
www.delmarvadatacenter.com

Fox Residential Auctions, LLC
www.fox-residential.com

The Kafafian Group, Inc.
www.kafafiangroup.com

LPL Financial Institution
www.lplfinancial.lpl.com

MACHA - The Mid-Atlantic Payments Association
www.macha.org

Madison Capital
www.madisoncapital.com

The Mergis Group
www.mergisgroup.com

Midlantic Financial Services
www.midlanticfinancialservices.com

Mortgage Department Services, LLC
www.mdsllcmd.com

neoSaej corp
www.neosaej.com

Ober Kaler
www.ober.com

Optimum Systems Plus
www.optimumsystem.com

Overton Associates
www.overtondesignbuild.com

Saratoga Insurance Brokers
www.sarabrokers.com

TIB
www.mybankersbank.com

Wells Fargo Business Credit
www.wellsfargo.com

FINANCIAL INSTITUTIONS & CORPORATE SHAREHOLDERS

Calvin B. Taylor Bank, Berlin, MD
Carrollton Bank, Baltimore, MD
Commerce First Bank, Annapolis, MD
Congressional Bank, Potomac, MD
County First Bank, LaPlata, MD
Delmarva Data Center, Inc., Easton, MD
EagleBank, Bethesda, MD
Farmers & Merchants Bank, Upperco, MD
1st Mariner Bancorp, Baltimore, MD
Frederick County Bancorp, Inc., Frederick, MD
Harford Bank, Aberdeen, MD
Impact Financial Services, Inc., Rock Hill, SC
K Capital Corporation, Owings Mills, MD
NBRS Financial, Rising Sun, MD
Northwest Savings Bank, Warren, PA
OBA Bank, Germantown, MD
Old Line Bank, Waldorf, MD
Shore Bank, Onley, VA
St. Casimir's Savings Bank, Baltimore, MD
Sandy Spring Bancorp, Olney MD
Susquehanna Bancshares, Inc., Lititz, PA
The Bank of Delmarva, Salisbury, MD
The Bank of Glen Burnie, Glen Burnie, MD
The Patapsco Bank, Dundalk, MD
Woodsboro Bank, Woodsboro, MD

MARYLAND FINANCIAL BANK PRODUCT LISTING

Loan Participations (Buy & Sell)

DDA & Federal Funds

Term Jumbo CD's

Fed Funds Lines of Credit/Client & MFB

Holding Company Loans

Director & Officer Loans

Organizational/DeNovo Loans

Federal Reserve Settlement & Balance Reporting

Profitability & Merger Analysis

Fixed Asset Sale Leaseback

Employee Benefits (BOLI)

Overdraft Privilege

Car & Equipment Leasing

Construction Monitoring

Card Services

Mortgage Processing

MFB ADVISORY SERVICES, LLC

Independent Loan Review

Policy and Procedure Evaluation

Loan Portfolio Due Diligence

Documentation Review

Credit Analysis Outsourcing

Commercial Credit Training

Appraisal Review and Real Estate Evaluation

SBA Review and Evaluation

Asset-Based Lending Review

Maryland Financial Bank and Subsidiary

Financial Report

December 31, 2008

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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, 2008 and 2007, 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 consolidated financial statements are free of material misstatement. An audit also 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, 2008 and 2007, 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
April 9, 2009

Maryland Financial Bank and Subsidiary

Consolidated Balance Sheets

December 31, 2008 and 2007

Assets	2008	2007
	(Dollars in Thousands, Except Share Data)	
Cash and due from banks	**$ 81**	$ 1,228
Interest-bearing deposits in other banks	**10,352**	55
Federal funds sold	**133**	2,745
Cash and Cash Equivalents	**10,566**	4,028
Time deposits in other banks	**198**	198
Securities available for sale	**3,863**	5,410
Federal Home Loan Bank stock	**98**	184
Loans, net of allowance for loan losses 2008 $790; 2007 $418	**52,722**	43,640
Bank premises and equipment, net	**105**	110
Accrued interest receivable	**264**	333
Deferred taxes	**118**	155
Other assets	**115**	131
Total Assets	**$68,049**	$54,189
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	**$ 2,505**	$ 2,092
Interest bearing	**36,043**	31,799
Total Deposits	**38,548**	33,891
Advances from the Federal Home Loan Bank of Atlanta	**-**	1,750
Federal funds purchased	**23,606**	12,464
Other liabilities	**520**	531
Total Liabilities	**62,674**	48,636
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	**3,668**	3,662
Accumulated deficit	**(2,055)**	(1,812)
Accumulated other comprehensive income (loss)	**25**	(34)
Total Stockholders' Equity	**5,375**	5,553
Total Liabilities and Stockholders' Equity	**$68,049**	$54,189

See notes to consolidated financial statements.

Maryland Financial Bank and Subsidiary

Consolidated Statements of Operations

Years Ended December 31, 2008 and 2007

	2008	2007
	(Dollars in Thousands)	
Interest and Dividend Income		
Loans, including fees	**$3,215**	$3,234
Securities	**159**	253
Federal funds sold	**193**	648
Other	**46**	17
Total Interest Income	**3,613**	4,152
Interest Expense		
Interest on borrowings	**2**	54
Deposits	**1,615**	745
Federal funds purchased	**459**	1,801
Total Interest Expense	**2,076**	2,600
Net Interest Income	**1,537**	1,552
Provision for Loan Losses	**372**	116
Net Interest Income after Provision for Loan Losses	**1,165**	1,436
Other Income		
Consulting fees	**203**	162
Other	**108**	96
Total Other Income	**311**	258
Other Expenses		
Salaries and employee benefits	**1,115**	971
Occupancy and equipment	**177**	172
Data processing	**99**	112
Marketing and promotion	**58**	50
Professional fees	**114**	163
Other	**156**	142
Total Other Expenses	**1,719**	1,610
Net Income (Loss) before Income Tax Benefit	**(243)**	84
Income Tax Benefit	**-**	(134)
Net Income (Loss)	**$ (243)**	$ 218

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2008 and 2007

	Common Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
			(Dollars in Thousands)		
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, net of tax benefit of $21	-	-	-	84	84
Total Comprehensive Income					302
Stock forfeiture, net	-	(6)	-	-	(6)
Balance - December 31, 2007	3,737	3,662	(1,812)	(34)	5,553
Comprehensive income:					
Net loss	**-**	**-**	**(243)**	**-**	**(243)**
Unrealized gain on available for sale securities, net of tax expense of $16	**-**	**-**	**-**	**59**	**59**
Total Comprehensive Loss					**(184)**
Stock compensation	**-**	**6**	**-**	**-**	**6**
Balance - December 31, 2008	**$3,737**	**$3,668**	**$(2,055)**	**$ 25**	**$5,375**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
	(In Thousands)	
Cash Flows from Operating Activities		
Net income (loss)	**$ (243)**	$ 218
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	**372**	116
Depreciation and amortization	**51**	64
Amortization of deferred loan fees	**(36)**	(87)
Net amortization (accretion) of investment securities premiums	**24**	(3)
Stock-based compensation (forfeitures), net	**6**	(6)
Deferred tax benefit	**-**	(134)
(Increase) decrease in accrued interest receivable	**69**	(124)
(Increase) decrease in other assets	**16**	(47)
Increase (decrease) in other liabilities	**(11)**	349
Net Cash Provided by Operating Activities	**248**	346
Cash Flows from Investing Activities		
Net change in time deposits in other banks	**-**	(99)
Proceeds from maturities and call of securities available for sale	**4,343**	422
Purchases of securities available for sale	**(2,724)**	-
Net change in Federal Home Loan Bank stock	**86**	(78)
Net increase in loans	**(9,418)**	(10,423)
Purchases of premises and equipment	**(46)**	(17)
Net Cash Used in Investing Activities	**(7,759)**	(10,195)
Cash Flows from Financing Activities		
Advances from the Federal Home Loan Bank of Atlanta	**-**	1,750
Repayment of advances from Federal Home Loan Bank of Atlanta	**(1,750)**	-
Net increase (decrease) in federal funds purchased	**11,142**	(33,526)
Net increase in deposits	**4,657**	26,787
Net Cash Provided by (Used in) Financing Activities	**14,049**	(4,989)
Net Increase (Decrease) in Cash and Cash Equivalents	**6,538**	(14,838)
Cash and Cash Equivalents - Beginning	**4,028**	18,866
Cash and Cash Equivalents - Ending	**$10,566**	$ 4,028
Supplementary Cash Flows Information		
Interest paid	**$ 2,218**	$ 2,236

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 financial institutions.

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

The Bank participates, through purchases, 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 borrowers. 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.

Presentation of Cash Flows

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 ninety days or less. Generally, federal funds are purchased or sold for one day periods.

Note 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.

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.

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.

Investment in Federal Home Loan Bank of Atlanta Stock

Investment in Federal Home Loan Bank of Atlanta stock is carried at cost. The Bank is required to maintain an investment in the stock of the Federal Home Loan Bank of Atlanta ("FHLB") based on two components. The first component is a stock requirement that is equal to 0.18% of the member's total assets as of the preceding year end. The second component is a stock requirement that is equal to 4.50% of the member's outstanding borrowings.

The Bank's management evaluates the restricted stock for impairment in accordance with Statement of Position (SOP) 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others.* Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB stock as of December 31, 2008.

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 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

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 consol 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 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). 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 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation. The reclassifications had no impact on net income.

Note 2 - 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, 2008			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
	(In Thousands)			
U. S. Treasury	**$ 494**	**$ 5**	**$ -**	**$ 499**
U.S. Government agency	**2,207**	**29**	**-**	**2,236**
Mortgage-backed	**1,121**	**7**	**-**	**1,128**
	$3,822	**$ 41**	**$ -**	**$3,863**

	December 31, 2007			
	(In Thousands)			
U. S. Government agency	$4,000	$ -	$ 5	$3,995
Mortgage-backed	1,465	-	50	1,415
	$5,465	$ -	$55	$5,410

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

	2008		**2007**	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
	(In Thousands)			
U.S. Government agency	**$ -**	**$ -**	$3,995	$ 5
Mortgage-backed	**-**	**-**	1,415	50
	$ -	**$ -**	$5,410	$ 55

Note 2 - Securities Available for Sale (Continued)

There were no investment securities in an unrealized loss position at December 31, 2008. At December 31, 2007, the investment securities presented above have been in an unrealized loss position for more than twelve months.

Amortized cost and fair value at December 31, 2008 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	**$ 494**	**$ 499**
After one year through five years	**2,207**	**2,236**
Mortgage-backed securities	**1,121**	**1,128**
	$3,822	**$3,863**

The Bank had no sales, realized gains or losses on sales of securities available for sale during 2008 or 2007.

At December 31, 2008, U.S. Treasury and U.S. Government obligations and mortgage-backed securities with carrying values of $499,000, $2,136,000 and $940,000, respectively, were pledged to secure Federal Home Loan Bank advances. At December 31, 2008, a U.S. Government obligation and mortgage-backed security with a carrying value of $100,000 and $188,000, respectively, were pledged to secure Federal Reserve Bank daylight overdrafts. At December 31, 2007, a mortgage-backed security with a carrying value of $240,000 was pledged to secure Federal Reserve Bank daylight overdrafts.

Note 3 - Loans

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

	2008	2007
	(In Thousands)	
Commercial real estate	**$25,669**	$21,781
Commercial	**4,046**	955
Residential construction	**18,752**	18,473
Direct	**5,118**	2,941
Total Loans	**53,585**	44,150
Less:		
Deferred loan fees and costs, net	**73**	92
Allowance for loan losses	**790**	418
Net Loans	**$52,722**	$43,640

The changes in the allowance for loan losses for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
	(In Thousands)	
Balance, beginning	**$418**	$302
Provision for loan losses	**372**	116
Balance, ending	**$790**	$418

Note 3 - Loans (Continued)

The following is a summary of information pertaining to impaired and non-accrual loans as of and for the years ended December 31:

	2008	2007
	(In Thousands)	
Impaired loans without a valuation allowance	**$ -**	$2,034
Impaired loans with a valuation allowance	**2,903**	-
Total Impaired Loans	**$2,903**	$2,034
Valuation allowance related to impaired loans	**$ 299**	$ -
Total non-accrual loans	**$ 935**	$ -
Total loans past due ninety days or more and still accruing	**$ -**	$ -
Average investment in impaired loans	**$3,416**	$1,597
Interest income recognized on impaired loans	**$ 170**	$ 383
Interest income recognized on a cash basis on impaired loans	**$ -**	$ -

Funds of $151,000 are committed to be advanced in connection with impaired loans at December 31, 2008.

Note 4 - Bank Premises and Equipment

The components of premises and equipment at December 31, 2008 and 2007 are as follows:

	2008	2007
	(In Thousands)	
Furniture, fixtures and equipment	**$152**	$142
Computer equipment and data processing software	**181**	145
	333	287
Accumulated depreciation	**(228)**	(177)
	$105	$110

Note 5 - Deposits

The aggregate amount of interest-bearing deposits in denominations of $100,000 or more was $14,653,000 and $15,789,000 as of December 31, 2008 and 2007, respectively.

At December 31, 2008, the scheduled maturities of certificates of deposit are as follows (in thousands):

2009	**$33,278**
2010	**392**
2011	**2,373**
	$36,043

Included in certificates of deposit are brokered certificates of deposit of $2,080,000 and wholesale certificates of deposit of $15,100,000.

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 0.10% to 4.20% throughout the year ended December 31, 2008. Federal funds purchased mature daily. The weighted average interest rate on federal funds purchased was 0.10% at December 31, 2008.

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, 2008 and 2007, the Bank has balances under the line outstanding of $-0- and $1,750,000, respectively. At December 31, 2008, the Bank also had $1,500,000 available under line of credit agreements with other financial institutions. There were no advances outstanding on these lines at December 31, 2008.

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, 2008 and 2007 totaled $109,000 and $104,000, respectively.

Future minimum lease payments under these lease agreements, are as follows (in thousands):

2009	**$90**

Note 9 - Income Taxes

Income tax benefit consisted of the following for the years ended December 31, 2008 and 2007:

	2008	2007
	(In Thousands)	
Federal:		
Current	**$ -**	$ -
Deferred	**-**	134
Total Income Tax Benefit	**$ -**	$134

The components of income tax expense are as follows:

A reconciliation of the statutory income tax rate of 34% to the income tax expense (benefit) included in the statements of operations is as follows for the years ended December 31, 2008 and 2007.

	2008		2007	
	(In Thousands)			
Federal income tax at statutory rate	**34.0**	**%**	34.0	%
Nondeductible expenses	**2.8**		8.9	
Change in valuation allowance	**(36.8)**		(202.4)	
Effective Income Tax Rate	**-**	**%**	(159.5)	%

Note 9 - Income Taxes (Continued)

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

	2008	2007
	(In Thousands)	
Deferred tax assets:		
Net operating loss carryforwards	**$660**	$704
Allowance for loan losses	**229**	82
Organization and start-up costs	**33**	72
Unrealized holding losses on available for sale securities	**-**	21
Other	**3**	2
	925	881
Valuation allowance	**(689)**	(598)
Total Deferred Tax Assets, Net of Valuation Allowance	**236**	283
Unrealized holding gains on available for sale securities	**(16)**	-
Deferred tax liability, other	**(102)**	(128)
Total Deferred Tax Liability	**(118)**	(128)
Net Deferred Tax Asset	**$118**	$155

The Bank has net operating loss carryforwards available for federal and state income tax purposes of approximately $1.7 million which begin to expire in 2024.

Note 10 - 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 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 January 1, 2007	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
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2008	**49,358**	**$20.00**	**7.2**
Options exercisable at December 31, 2008	**39,919**	**$20.00**	**7.2**

The intrinsic value of options outstanding at December 31, 2008 and 2007 is $-0-. As of December 31, 2008, unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan is $22,000 and will be recognized over 3.6 years.

	Number of Options	Weighted Average Grant Date Fair Value
Nonvested options at January 1, 2008	16,295	$6.03
Vested	6,856	6.03
Nonvested options at December 31, 2008	**9,439**	**$6.03**

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

There were no stock options granted in 2008. The weighted-average grant-date fair value for stock options granted was $6.03 in 2007. The Bank used the Black-Scholes option pricing model to calculate the grant-date fair value. The following significant weighted-average assumptions were used for the year ended December 31:

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

The expected volatility for 2007 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 executive officers, directors, principal stockholders 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 principal balance of outstanding loans to principal officers and directors and their affiliates was $160,000 and $-0- at December 31, 2008 and 2007, respectively. During 2008, total loan additions were $160,000 and there were no principal payments collected. Deposits from related parties held by the Bank at December 31, 2008 and 2007 amounted to $7,273,000 and $3,499,000, respectively.

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.

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	
	2008	**2007**
	(In Thousands)	
Commitments to grant loans:		
Fixed rate	**$ -**	$2,250
Variable rate	**1,600**	5,500
Unfunded commitments under lines of credit:		
Fixed rate	**2,858**	2,583
Variable rate	**5,300**	7,577

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.

Note 13 - Regulatory Matters (Continued)

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, 2008 and 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, 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, 2008 and 2007 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)			
2008:						
Total capital (to risk-weighted assets)	**$6,007**	**10.18 %**	**$≥4,720**	**≥8.0 %**	**$≥5,899**	**≥10.0 %**
Tier 1 capital (to risk-weighted assets)	**5,270**	**8.93**	**≥2,360**	**≥4.0**	**≥3,540**	**≥ 6.0**
Tier 1 capital (to average assets)	**5,270**	**7.91**	**≥2,664**	**≥4.0**	**≥3,330**	**≥ 5.0**
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

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.

Note 14 - Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Bank adopted SFAS 157 effective for its fiscal year beginning January 1, 2008.

Note 14 - Fair Value of Financial Instruments (Continued)

In December 2007, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. As such, the Bank only partially adopted the provisions of SFAS 157, and will begin to account and report for non-financial assets and liabilities in 2009. In October 2008, the FASB issued FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active* ("FSP 157-3"), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our December 31, 2008 financial statements. The adoption of SFAS 157 and FSP 157-3 had no impact on the amounts reported in the financial statements.

The primary effect of SFAS 157 on the Bank was to expand the required disclosures pertaining to the methods used to determine fair values.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows (in thousands):

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Securities available for sale	**$3,863**	**$ -**	**$3,863**	**$ -**

Note 14 - Fair Value of Financial Instruments (Continued)

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows (in thousands):

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired loans	**$2,604**	**$ -**	**$ -**	**$2,604**

The Bank has no non-financial assets or liabilities subject to the provisions of SFAS 157 at December 31, 2008.

The following valuation technique was used to measure fair value of assets in the tables above:

- Available for sale securities - The Bank utilizes a third party source to determine the fair value of its fixed income securities. The methodology consists of pricing models based on asset class and includes available trade, bid, other market information, broker quotes, proprietary models, various databases and trading desk quotes.

- Impaired loans - Impaired loans are those that are accounted for under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* (“SFAS 114”), in which 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, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances of $2,903,000, net of a valuation allowance of $299,000, all of which was recorded during 2008.

The Bank has partially applied SFAS 157. In accordance with FSP 157-2, the Bank has delayed, until the year ending December 31, 2009, applying the provisions of SFAS 157 to non-financial assets and liabilities. The Bank has no non-financial assets or liabilities subject to the provisions of SFAS 157 at December 31, 2008.

Note 15 - Subsequent Events

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 (i) 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 (ii) 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 $1,700,000. The Series A Preferred Stock qualifies as Tier 1 capital and pays cumulative 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 a 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 cumulative 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.

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