MARYLAND FINANCIAL BANK

Annual Report

For the year ended
December 31, 2010

"Your Partner in Correspondent Banking"

Board of Directors

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

Richard J. Armbruster, Partner, Foundos Realty
Joseph J. Bouffard, President & CEO, Baltimore County Savings Bank
John E. Bowen, Senior Vice President, Cantor Fitzgerald
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Richard E. Hook, IV, Chairman Of The Board
Michael L. Derr, Senior Vice President, Operations
Andrew J. Hines, Senior Vice President, Chief Credit Officer
Glenn W. Kirchner, Senior Vice President, Chief Financial Officer
John S. Mazzocchi, Jr., SVP and Managing Director, MFB Advisory Services, LLC

April 1 , 2011

Dear Fellow Stockholders:

Our President and CEO, Bob Chafey, has provided you, in his stockholder letter, a review of our progress during this past year. I would like to direct my remarks to where we have been the past three years, where we plan to go in the next several years and how we plan to get there.

Our focus for the past three years was simply to get through the economic recession and emerge successfully on the other side. And while I think that we are on the other side, we are not entirely through a difficult economic environment. There is no question that the past three years have been difficult, not only for our Bank, but also for most banks. However, we have taken very specific steps to deal with our asset quality issues and our numbers are starting to trend in a positive direction.

We have just started a capital campaign and expect to raise $2,500,000 in common stock equity. The offering will move our risk based capital ratio in excess of 14 percent. We plan to use the proceeds for loan growth and expansion of our consulting subsidiary, MFB Advisory Services, LLC. We are also starting to see some pick-up in loan demand.

We are currently doing business with approximately 75 community banks in our market. We have 10 current or former bank CEO's on our board and 35 bankers on our Advisory Board. Our market is community bank focused.

Maryland Financial Bank is not a cooperative like many bankers banks. We are a state chartered special purpose bank. We are in business to make money and enhance shareholder value and this mission has not yet been accomplished. This will be my focus.

On behalf of our Board of Directors and employees, I thank you, our stockholders, for your continued support and confidence. Please feel free to call me at 410-296-1533 as I would appreciate the opportunity to talk to you.

Sincerely,

Richard E. Hook, IV
Chairman of the Board

April 1, 2011

Dear Fellow Shareholders,

Maryland Financial Bank's (MFB) operating results for the year ended December 31, 2010 produced a net loss of $474 thousand as compared to a net loss of $245 thousand for the year ended December 31, 2009. The reasons for the loss are lingering credit problems and conservative funding of the allowance for loan losses. Operating earnings continue to be healthy, which gives us great hope for the future.

Total assets decreased by 7% to $78 million at December 31, 2010, as compared to $83 million at December 31, 2009. The decrease was attributed to a concerted effort to decrease the loan portfolio from $60 million in 2009 to $55 million in 2010, in order to improve capital ratios to a position well above regulatory requirements. MFB continues to maintain a very liquid balance sheet with 19% of its assets held in cash.

MFB's interest rate sensitivity has improved by continued focus on lengthening time deposits, with an anticipation that interest rates will rise. Interest bearing deposits remain relatively constant with $47.5 million at December 31, 2010 and $48.2 million at December 31, 2009.

Our capital ratios remain healthy, with an 8.18% tier one leverage capital ratio, a 10.73% tier one risk-based capital ratio, and an 11.99% total risk-based capital ratio. All ratios are well above regulatory guidelines for "well capitalized", however we have embarked upon a capital campaign to foster our ability for continued growth.

2010 was a challenging year for MFB, but we believe 2011 and the years ahead hold much promise. Not only does MFB expect to greatly diminish the need for provisions, it has great prospects for the expansion of MFB Advisory Services, LLC and its related contributions to earnings. We also feel confident that the proven efficiency of our bank model, with little need to invest in additional people and infrastructure, will allow us to grow with improved profitability.

We continue to appreciate our shareholders, as well as the support we receive from our Board of Directors, Board of Advisors, employees, strategic partners, networking partners, and our clients.

Sincerely,

R Chafey

Robert R. Chafey
President & Chief Executive Officer

Maryland Financial Bank and Subsidiary

Consolidated Financial Statements

December 31, 2010

Maryland Financial Bank and Subsidiary

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ROWLES
& Company, LLP
Certified Public Accountants

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Maryland Financial Bank and Subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Maryland Financial Bank and Subsidiary as of December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
March 10, 2011

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

Maryland Financial Bank and Subsidiary

Consolidated Balance Sheets

December 31,	**2010**	2009
Assets		
Cash and due from banks	**$ 116,776**	$ 106,218
Interest-bearing deposits in other banks	**14,097,351**	16,522,814
Federal Home Loan Bank deposit	**178,760**	110,190
Cash and cash equivalents	**14,392,887**	16,739,222
Time deposits in other banks	**198,000**	198,000
Securities available for sale	**5,145,482**	4,982,941
Federal Home Loan Bank stock, at cost	**157,300**	122,600
Loans, net of allowance for loan losses of **$1,181,331** and $1,693,199	**54,638,619**	60,231,198
Bank premises and equipment, net	**37,419**	72,743
Accrued interest receivable	**255,458**	251,873
Deferred income taxes	**133,620**	117,498
Foreclosed real estate	**2,196,647**	-
Other assets	**389,428**	438,967
	$ 77,544,860	$ 83,155,042
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	**$ 2,225,169**	$ 2,346,972
Interest-bearing time deposits	**48,145,367**	47,538,901
Total deposits	**50,370,536**	49,885,873
Federal funds purchased	**20,327,719**	26,076,875
Other liabilities	**459,873**	352,110
	71,158,128	76,314,858
Stockholders' equity		
Preferred stock and additional paid-in capital; authorized 5,000,000 shares, issued and outstanding 1,785 shares in 2010 and 2009	**1,723,487**	1,704,560
Common stock, $10 par value; authorized 5,000,000 shares; issued and outstanding 374,850 shares in 2010 and 373,688 shares in 2009	**3,748,500**	3,736,880
Additional paid-in capital	**3,688,954**	3,673,824
Accumulated deficit	**(2,774,792)**	(2,300,414)
Accumulated other comprehensive income	**583**	25,334
	6,386,732	6,840,184
	$ 77,544,860	$ 83,155,042

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

Maryland Financial Bank and Subsidiary

Consolidated Statements of Income

Years Ended December 31,	**2010**	2009
Interest and dividend revenue		
Loans, including fees	**$ 3,303,496**	$ 3,269,962
Securities available for sale	**89,245**	86,876
Federal Home Loan Bank deposit	**280**	137
Other	**47,502**	44,135
Total interest income	**3,440,523**	3,401,110
Interest expense		
Deposits	**1,027,252**	1,160,445
Federal funds purchased and other borrowings	**61,174**	73,714
Total interest expense	**1,088,426**	1,234,159
Net interest income	**2,352,097**	2,166,951
Provision for loan losses	**1,035,117**	902,948
Net interest income after provision for loan losses	**1,316,980**	1,264,003
Noninterest revenue		
Consulting fees	**351,950**	280,250
Other	**64,318**	134,525
Total noninterest revenue	**416,268**	414,775
Noninterest expenses		
Salaries and employee benefits	**1,332,097**	1,182,809
Occupancy and equipment	**155,037**	163,840
Data processing	**93,169**	128,228
Marketing and promotion	**13,757**	13,588
Professional fees	**246,094**	124,375
Federal deposit insurance premiums	**115,115**	111,482
Other	**210,268**	150,033
Total noninterest expenses	**2,165,537**	1,874,355
Loss before income taxes	**(432,289)**	(195,577)
Income taxes	**-**	-
Net loss	**(432,289)**	(195,577)
Preferred stock dividends and discount accretion	**42,089**	49,711
Net loss to common shareholders	**$ (474,378)**	$ (245,288)
Loss per common share	**$ (1.27)**	$ (0.66)

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

Maryland Financial Bank and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

	Preferred stock	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Comprehensive loss
Balance, December 31, 2008	$ -	$ 3,736,880	$ 3,667,794	$ (2,055,126)	$ 24,870	
Net loss	-	-	-	(195,577)	-	$ (195,577)
Unrealized gain on securities available for sale net of income taxes of $303	-	-	-	-	464	464
Total comprehensive loss						$ (195,113)
Preferred shares issued to U.S. Department of the Treasury	1,690,365	-	-	-	-	
Preferred stock dividend and discount accretion	14,195	-	-	(49,711)	-	
Stock-based compensation	-	-	6,030	-	-	
Balance, December 31, 2009	1,704,560	3,736,880	3,673,824	(2,300,414)	25,334	
Net loss	-	-	-	(432,289)	-	$ (432,289)
Unrealized loss on securities available for sale net of income taxes of $16,123	-	-	-	-	(24,751)	(24,751)
Total comprehensive loss						$ (457,040)
Preferred stock dividend and discount accretion	18,927	-	-	(42,089)	-	
Proceeds from issuance of common stock, net of cost	-	11,620	9,130	-	-	
Stock-based compensation	-	-	6,000	-	-	
Balance, December 31, 2010	**$ 1,723,487**	**$ 3,748,500**	**$ 3,688,954**	**$ (2,774,792)**	**$ 583**	

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

Maryland Financial Bank and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31,	**2010**	2009
Cash flows from operating activities		
Interest received	**$ 3,490,702**	$ 3,438,859
Fees and commissions received	**416,268**	414,775
Interest paid	**(1,030,026)**	(1,250,596)
Cash paid to suppliers and employees	**(2,013,047)**	(2,286,689)
	863,897	316,349
Cash flows from investing activities		
Proceeds from maturity of securities available for sale	**3,839,203**	825,283
Purchases of securities available for sale	**(4,100,928)**	(1,997,810)
Purchase of Federal Home Loan Bank stock	**(34,700)**	(24,900)
Net (increase) decrease in loans	**2,365,362**	(8,390,864)
Purchases of premises, equipment, and software	**(12,264)**	(17,475)
	2,056,673	(9,605,766)
Cash flows from financing activities		
Net increase (decrease) in		
Deposits	**484,663**	11,337,080
Federal funds purchased	**(5,749,156)**	2,470,599
Proceeds from issuance of preferred stock	**-**	1,690,365
Preferred stock dividend paid	**(23,162)**	(35,516)
Proceeds from issuance of common stock	**20,750**	-
	(5,266,905)	15,462,528
Net increase (decrease) in cash and cash equivalents	**(2,346,335)**	6,173,111
Cash and cash equivalents at beginning of year	**16,739,222**	10,566,111
Cash and cash equivalents at end of year	**$ 14,392,887**	$ 16,739,222

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

Maryland Financial Bank and Subsidiary

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31,	**2010**	2009
Reconciliation of net loss to net cash provided by operating activities		
Net loss	**$ (432,289)**	$ (195,577)
Adjustments to reconcile net loss to net cash provided by operating activities		
Provision for loan losses	**1,035,117**	902,948
Depreciation and amortization	**42,985**	49,065
Net amortization of investment securities premiums	**58,311**	52,976
Stock-based compensation	**6,000**	6,030
Loss on disposition of premises and equipment	**-**	1,204
Decrease (increase) in		
Accrued interest receivable	**(3,585)**	5,701
Other assets	**54,142**	(324,369)
Increase (decrease) in		
Deferred loan fees, net	**(4,547)**	(20,928)
Accrued interest payable	**58,400**	(16,437)
Other liabilities	**49,363**	(144,264)
	$ 863,897	$ 316,349
Supplemental information		
Noncash investing activity		
Transfer from loans receivable to foreclosed real estate	**$ 2,196,647**	$ -

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

1. Summary of Significant Accounting Policies

Organization and nature of operations

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

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

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

Principles of consolidation

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

Use of estimates

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

Cash and cash equivalents

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

Subsequent events

The Bank has evaluated events and transactions subsequent to December 31, 2010 through March 10, 2011, the date these financial statements were issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

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

Time deposits in other banks

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

Concentration of credit risk

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

Securities available for sale

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

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

Federal Home Loan Bank of Atlanta stock

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

Loans

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

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

Allowance for loan losses

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

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

Allowance for loan losses (Continued)

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

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as either doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers loans that are not adversely classified, and is based on historical loss experience adjusted for qualitative factors. 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 of the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank premises and equipment

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

Foreclosed real estate

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

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

Marketing and promotion expense

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

Income taxes

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

Stock-based compensation

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

Comprehensive income

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

Off-balance-sheet financial instruments

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

Loss per common share

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

	2010	2009
Average shares outstanding	**373,834**	373,688
Dilutive effect to stock options	**-**	-
Diluted shares	**373,834**	373,688
Anti-dilutive shares	**49,358**	49,358

Reclassifications

Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation. The reclassifications had no impact on net loss.

2. Cash and Cash Equivalents

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

The Bank normally carries balances with the Federal Home Loan Bank of Atlanta that are not insured by the Federal Deposit Insurance Corporation. The average balance carried was **$229,963** and $143,299 for the years ended December 31, 2010 and 2009 respectively.

3. Securities Available for Sale

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

December 31, 2010	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury	**$ 1,000,546**	**$ 1,409**	**$ -**	**$ 1,001,955**
U.S. government agency	**1,605,865**	**5,784**	**-**	**1,611,649**
Mortgage-backed	**2,538,108**	**22,710**	**28,940**	**2,531,878**
	$ 5,144,519	**$ 29,903**	**$ 28,940**	**$ 5,145,482**
December 31, 2009				
U.S. Treasury	$ 2,003,960	$ 715	$ -	$ 2,004,675
U.S. government agency	2,146,029	29,643	-	2,175,672
Mortgage-backed	791,116	11,478	-	802,594
	$ 4,941,105	$ 41,836	$ -	$ 4,982,941

Amortized cost and fair value at December 31, 2010 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. Mortgage-backed securities are payable in monthly installments.

	Available for sale	
	Amortized cost	Fair value
Less than one year	**$ 2,606,411**	**$ 2,613,604**
Mortgage-backed securities	**2,538,108**	**2,531,878**
	$ 5,144,519	**$ 5,145,482**

3. **Securities Available for Sale** (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than 12 months		12 months or longer		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
Mortgage-backed	$ 28,940	$ 1,999,043	$ -	$ -	$ 28,940	$ 1,999,043

The unrealized losses are considered temporary because the impairment in value is caused by fluctuation in the current interest rate market. These securities will be redeemed at par.

The Bank had no sales of securities available for sale during 2010 or 2009.

At December 31, 2010, the Bank had no securities pledged. At December 31, 2009, all of the Bank's securities available for sale were pledged to secure Federal Home Loan Bank advances.

4. **Loans**

The composition of loans receivable at December 31, 2010 and 2009, is as follows:

	2010	2009
Commercial real estate	**$ 34,551,828**	$ 38,177,896
Construction and land development	**9,430,506**	16,932,340
Commercial	**4,327,682**	2,985,937
Consumer	**7,556,822**	3,879,659
Total loans	**55,866,838**	61,975,832
Less:		
Deferred loan fees and costs, net	**46,888**	51,435
Allowance for loan losses	**1,181,331**	1,693,199
	$ 54,638,619	$ 60,231,198

The changes in the allowance for loan losses for the years ended December 31, 2010 and 2009, are as follows:

Balance, beginning	**$ 1,693,199**	$ 790,251
Provision for loan losses	**1,035,117**	902,948
Recoveries	**70,000**	-
	2,798,316	1,693,199
Charge offs	**1,616,985**	-
Balance, ending	**$ 1,181,331**	$ 1,693,199

4. **Loans** (Continued)

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

	2010	2009
Impaired loans without a valuation allowance	**$ 2,235,371**	$ 290,000
Impaired loans with a valuation allowance	**2,245,206**	4,165,677
Total impaired loans	**$ 4,480,577**	$ 4,455,677
Valuation allowance related to impaired loans	**$ 433,187**	$ 1,072,063
Total nonaccrual loans	**3,778,682**	3,051,275
Interest not accrued on nonaccrual loans	**234,543**	194,411
Total loans past due 90 days or more and still accruing	**-**	-
Average investment in impaired loans	**4,922,099**	4,551,190
Interest income recognized on impaired loans	**114,573**	140,745

The Bank was not committed to advance any funds in connection with impaired loans at December 31, 2010. The Bank was committed to advance $128,088 in connection with impaired loans at December 31, 2009.

5. **Bank Premises and Equipment**

The components of premises and equipment at December 31, 2010 and 2009, are as follows:

	Useful lives	**2010**	2009
Furniture, fixtures and equipment	5 to 7 years	**$ 154,098**	$ 151,462
Computer equipment	3 years	**138,154**	135,501
		292,252	286,963
Accumulated depreciation		**254,833**	214,220
		$ 37,419	$ 72,743
Depreciation expense		**$ 40,615**	$ 47,356

Included in other assets at December 31, 2010 and 2009, is computer software carried at an amortized cost of **$5,195** and $592, respectively. Software amortization expense was **$2,370** and $1,709 in 2010 and 2009, respectively.

6. Interest-Bearing Time Deposits

The aggregate amount of interest-bearing time deposits in denominations of $100,000 or more was **$37,356,020** and $34,017,902 as of December 31, 2010 and 2009, respectively.

At December 31, 2010, the scheduled maturities of certificates of deposit are as follows:

Year	Amount
2011	$37,211,876
2012	5,212,382
2013	5,721,109
	$48,145,367

Included in certificates of deposit as of December 31, 2010, are brokered certificates of deposit of $694,000 and wholesale certificates of deposit of $4,402,714.

7. Federal Funds

Federal funds are reported on a gross basis. Federal funds sold are stated as assets and federal funds purchased are stated as liabilities. The average interest rate paid on federal funds purchased was 0.25% during the year ended December 31, 2010 and 2009. Federal funds purchased mature daily.

8. Borrowings

As of December 31, 2010, the Bank has pledged real estate loans totaling **$39,271,183** to the Federal Reserve Bank of Richmond to provide a borrowing capacity of $22,017,752 under its discount window program.

The Bank has a $5 million line of credit available through the FHLB. The Bank would be required to pledge investment securities in its portfolio to draw upon the line of credit. There were no advances outstanding on these lines at December 31, 2010 or 2009.

9. TARP Capital Purchase Program

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

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

10. Lease Commitments

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

The lease requires the following minimum payments:

Year	Payments
2011	$ 94,405
2012	97,002
2013	99,669
2014	102,410
2015	8,729
	$402,215

Rent expense for the office and equipment leases for the years ended December 31, 2010 and 2009, totaled **$92,464** and $98,890, respectively.

11. Income Taxes

The Bank did not incur income tax expense during the years ended December 31, 2010 and 2009.

A reconciliation of the statutory income tax rate of 34% to the income tax expense (benefit) included in the statements of income is as follows for the years ended December 31, 2010 and 2009.

	2010	2009
Federal income tax at statutory rate	**34.0 %**	34.0 %
Nondeductible expenses	**2.3**	4.9
Change in valuation allowance	**(36.3)**	(38.9)
Effective income tax rate	**- %**	- %

11. **Income Taxes** (Continued)

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

	2010	2009
Deferred tax assets		
Net operating loss and charitable contribution carryforwards	**$ 784,362**	$ 516,453
Allowance for loan losses	**326,986**	584,999
Depreciation	**3,809**	1,307
	1,115,157	1,102,759
Valuation allowance	**(904,177)**	(739,535)
Total deferred tax assets, net of valuation allowance	**210,980**	363,224
Deferred tax liabilities		
Unrealized gain on securities available for sale	**380**	16,502
Cash basis accounting	**61,981**	214,167
Deferred loan costs	**14,999**	15,057
Total deferred tax liability	**77,360**	245,726
Net deferred tax asset	**$ 133,620**	$ 117,498

The Bank has net operating loss carryforwards available for federal and state income tax purposes of approximately $1,980,588, which begin to expire in 2024.

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

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

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

Information regarding the stock options is presented below:

	Options	Weighted average exercise price	Weighted average remaining contractual life
Outstanding at December 31, 2008	49,358	$ 20	7.2
Granted in 2009	-	-	-
Exercised in 2009	-	-	-
Forfeited in 2009	-	-	-
Outstanding at December 31, 2009	49,358	20	6.2
Granted in 2010	-	-	-
Exercised in 2010	-	-	-
Forfeited in 2010	-	-	-
Outstanding at December 31, 2010	49,358	$ 20	5.0
Options exercisable at December 31, 2010	47,775	$ 20	4.8

The intrinsic value of options outstanding at December 31, 2010 and 2009 is $0. As of December 31, 2010, unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan is $9,575 and will be recognized over 1.6 years.

	Number of options	Weighted average grant date fair value
Nonvested options at January 1, 2010	2,583	$ 6.05
Vested	1,000	6.05
Nonvested options at December 31, 2010	1,583	$ 6.05

There were no stock options granted in 2010 or 2009.

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 ten years from the date of issuance.

13. Transactions with Executive Officers, Directors, and Principal Stockholders

The Bank has transactions in the ordinary course of business with its executive officers, directors, principal stockholders, and affiliated companies, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Affiliated companies include financial institutions with which a director of the Bank is affiliated, generally as an executive officer. At December 31, 2010 and 2009, the total amount of loans outstanding to related parties were **$488,985** and $198,000, respectively.

Activity in these loans during the year ended December 31, 2010 was as follows:

	2010	2009
Beginning balance	**$ 198,000**	$ 150,000
Advances	**344,079**	48,000
Payments	**(53,094)**	-
Ending balance	**$ 488,985**	$ 198,000

Deposits and federal funds purchased from related parties held by the Bank at December 31, 2010 and 2009 amounted to **$8,567,287** and $10,921,542, respectively.

14. Financial Instruments with Off-Balance-Sheet Risk

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

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

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

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

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

	Contract amount	
	2010	2009
Unfunded commitments under lines of credit:		
Fixed rate	**$ -**	$ 1,638,668
Variable rate	**1,113,284**	3,232,762
Commitments to originate loans:		
Fixed rate	**-**	-
Variable rate	**-**	-

15. **Regulatory Matters**

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (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, 2010 and 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes to have changed the Bank's category.

15. **Regulatory Matters** (Continued)

The Bank's actual capital amounts and ratios at December 31, 2010 and 2009, are presented below:

(dollar amounts in thousands)	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2010						
Total capital (to risk-weighted assets)	**$ 7,135**	**11.99%**	**$ 4,774**	**8.00%**	**$ 5,968**	**10.00%**
Tier 1 capital (to risk-weighted assets)	**6,386**	**10.73%**	**2,387**	**4.00%**	**3,581**	**6.00%**
Tier 1 capital (to average assets)	**6,386**	**8.18%**	**3,124**	**4.00%**	**3,905**	**5.00%**
December 31, 2009						
Total capital (to risk-weighted assets)	$ 7,560	11.61%	$ 5,209	8.00%	$ 6,511	10.00%
Tier 1 capital (to risk-weighted assets)	6,735	10.34%	2,604	4.00%	3,906	6.00%
Tier 1 capital (to average assets)	6,735	7.50%	3,593	4.00%	4,492	5.00%

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

16. **Fair Value of Financial Instruments**

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

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

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

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

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

Fair value measurements on a recurring basis

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

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

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

Fair value measurements on a nonrecurring basis

Impaired loans – The Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. The fair value consists of the loan balances of **$4,480,577**, net of a valuation allowance of **$433,187**.

Foreclosed real estate - The Bank's foreclosed real estate is measured at fair value less cost to sell on a nonrecurring basis. As of December 31, 2010, the fair value of foreclosed real estate was estimated to be **$2,196,647**. Fair value was determined based on offers and/or appraisals. Cost to sell the real estate was based on standard market factors. The Bank has categorized its foreclosed real estate as Level 3. At the time the Bank transferred property from loans receivable to foreclosed real estate, the Bank recorded charge offs of **$1,482,655**.

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

	2010
Beginning of year balance	**$ -**
Improvements and additions	**2,196,647**
Write-downs	**-**
Proceeds from sale	**-**
Loss on sale	**-**
End of year balance	**$ 2,196,647**

Description	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
Impaired loans	$ 4,047,390	$ -	$ -	$ 4,047,390
Foreclosed real estate	$ 2,196,647	$ -	$ -	$ 2,196,647

MFB Product List

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

Strategic Partners

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

Networking Partners

American Bankers Association
AmeriSave
Chatham Financial
Correspondent Business Credit, LLC
Diamond Business Credit
Federal Home Loan Bank of Atlanta
Isabella Associates
Long Term Financial
MACHA - The Mid-Atlantic Payments Association
The Mergis Group
Ober Kaler
Optimum Systems Plus
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