



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors  
CommerceFirst Bancorp, Inc. and Subsidiary  
Annapolis, Maryland

We have audited the accompanying consolidated statements of financial condition of CommerceFirst Bancorp, Inc. and subsidiary as of December 31, 2010 and 2009, and the related consolidated statement of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2010. CommerceFirst Bancorp, Inc. and subsidiary's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included 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 Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CommerceFirst Bancorp, Inc. and subsidiary as of December 31, 2010 and 2009, and the consolidated results of their operations and their consolidated cash flows for each of the years in the two-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'TGM Group LLC'.

Salisbury, Maryland  
March 3, 2011

**CommerceFirst Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Financial Condition**  
**December 31, 2010 and December 31, 2009**  
(Dollars in thousands)

	December 31, 2010	December 31, 2009
<b>ASSETS</b>		
Cash and due from banks	\$1,437	\$2,106
Interest bearing deposits	12,289	8,228
Federal funds sold	-	154
Cash and cash equivalents	13,726	10,488
Investments in restricted stocks, at cost	527	527
Loans receivable	184,883	185,482
Allowance for loan losses	(3,174)	(2,380)
Net loans receivable	181,709	183,102
Premises and equipment, net	556	739
Accrued interest receivable	750	681
Deferred income taxes	1,133	919
Other real estate owned	3,324	2,462
Other assets	1,399	1,453
Total Assets	\$203,124	\$200,371
 <b>LIABILITIES</b>		
Non-interest bearing deposits	\$23,760	\$21,024
Interest bearing deposits	156,350	157,621
Total deposits	180,110	178,645
Accrued interest payable	106	184
Other liabilities	543	600
Total Liabilities	180,759	179,429
 <b>STOCKHOLDERS' EQUITY</b>		
Common stock - \$.01 par value; authorized 4,000,000 shares.		
Issued and outstanding: 1,820,548 shares at December 31, 2010		
and at December 31, 2009	18	18
Additional paid-in capital	17,853	17,853
Retained earnings	4,494	3,071
Total Stockholders' Equity	22,365	20,942
Total Liabilities and Stockholders' Equity	\$203,124	\$200,371

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

**CommerceFirst Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Operations**  
**For the Years Ended December 31, 2010 and 2009**  
(Dollars in thousands except per share data)

	December 31, 2010	December 31, 2009
Interest income:		
Interest and fees on loans	\$12,474	\$11,791
U.S. Treasury securities	-	82
Investment in stocks	28	26
Interest bearing deposits	58	26
Federal funds sold	-	3
Total interest income	<u>12,560</u>	<u>11,928</u>
Interest expense:		
Deposits	3,130	4,587
Total interest expense	<u>3,130</u>	<u>4,587</u>
Net interest income	9,430	7,341
Provision for loan losses	2,716	1,616
Net interest income after provision for loan losses	<u>6,714</u>	<u>5,725</u>
Non-interest income:		
Gain on sale of SBA loans	615	257
Service charges and other income	479	463
Total non-interest income	<u>1,094</u>	<u>720</u>
Non-interest expenses:		
Compensation and benefits	2,961	2,903
Legal and professional	235	250
Rent and occupancy	567	558
Marketing and business development	76	58
FDIC insurance	321	366
Data processing	147	139
Support services	194	185
Communications	129	121
Depreciation and amortization	231	280
Other	573	455
Total non-interest expenses	<u>5,434</u>	<u>5,315</u>
Income before income taxes	2,374	1,130
Income tax expense	951	452
Net income	<u>\$1,423</u>	<u>\$678</u>
Basic earnings per share	<u>\$0.78</u>	<u>\$0.37</u>
Diluted earnings per share	<u>\$0.78</u>	<u>\$0.37</u>

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

**CommerceFirst Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Comprehensive Income**  
**For the Years Ended December 31, 2010 and 2009**  
(Dollars in thousands)

	December 31, 2010	December 31, 2009
Net income	\$1,423	\$678
Change in unrealized gains and (losses) on securities available-for-sale, net of tax	-	(47)
Other comprehensive income (loss)	-	(47)
Total comprehensive income	\$1,423	\$631

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

**CommerceFirst Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Stockholders' Equity**  
**For the Years Ended December 31, 2010 and 2009**  
(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2008	\$18	\$17,853	\$2,393	\$47	\$20,311
Net income in 2009			678		678
Net change in unrealized gains and (losses) on securities available for sale				(47)	(47)
Balance December 31, 2009	<u>18</u>	<u>17,853</u>	<u>3,071</u>	<u>-</u>	<u>20,942</u>
Net income in 2010			1,423		1,423
Balance December 31, 2010	<u><u>\$18</u></u>	<u><u>\$17,853</u></u>	<u><u>\$4,494</u></u>	<u><u>\$ -</u></u>	<u><u>\$22,365</u></u>

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

**CommerceFirst Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2010 and 2009**  
(Dollars in thousands)

	December 31, 2010	December 31, 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$1,423	\$678
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	231	280
Gain on sales of SBA loans	(615)	(257)
Provision for loan losses	2,716	1,616
Provision for losses on unfunded commitments	6	6
Provision for losses on other real estate owned	153	-
Deferred income taxes	(214)	(221)
Change in assets and liabilities:		
Increase in accrued interest receivable	(69)	(41)
Decrease (increase) in other assets	54	(811)
Decrease in accrued interest payable	(78)	(81)
Decrease in other liabilities	(63)	(158)
Other	-	8
Net cash provided by operating activities	3,544	1,019
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of restricted stock	-	(60)
Maturities of investment securities	-	3,000
Proceeds from sales of SBA loans	8,742	4,822
Increase in loans, net	(10,465)	(40,643)
Purchase of premises and equipment	(48)	(18)
Net cash used by investing activities	(1,771)	(32,899)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in non-interest bearing deposits, net	2,736	(2,574)
Net (decrease) increase in other deposits	(1,271)	35,978
Net cash provided by financing activities	1,465	33,404
Net increase in cash and cash equivalents	3,238	1,524
Cash and cash equivalents at beginning of period	10,488	8,964
Cash and cash equivalents at end of period	\$13,726	\$10,488
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	\$3,052	\$4,668
Income taxes paid	\$1,490	\$640
Transfers to other real estate owned	\$1,015	\$2,462
Total decrease in unrealized gains on available for sale securities	\$ -	\$(77)

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. The Company and its Significant Accounting Policies

CommerceFirst Bancorp, Inc. (the “Company”), through its wholly owned subsidiary, CommerceFirst Bank (the “Bank”) provides financial services to individuals and corporate customers located primarily in Anne Arundel County, Howard County and Prince George’s County, Maryland, and is subject to competition from other financial institutions. The Company and the Bank are also subject to the regulations of certain Federal and State of Maryland agencies and undergoes periodic examinations by those regulatory authorities. The accounting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

#### Principles of Consolidation

The consolidated financial statements include the accounts of CommerceFirst Bancorp, Inc. and its subsidiary, CommerceFirst Bank. Intercompany balances and transactions have been eliminated. The Parent Company financial statements (see Note 16) of the Company reflect the accounting for the subsidiary using the equity method of accounting.

#### Use of Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ significantly 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. See below for a discussion of the determination of that estimate.

#### Investment Securities

Available-for-sale securities consist of bonds and notes not classified as trading securities or as held-to-maturity securities. These securities are reported at their fair value with the unrealized holding gains and losses, net of tax, reported as a net amount in a separate component of stockholders’ equity until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity. The Company has no trading or available-for-sale securities as of December 31, 2010 and 2009.

Securities for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity. A charge to operations would occur if the fair value of the securities declines below cost and the Company’s intention or ability to hold the securities to maturity changes. The Company has no investment securities classified as held-to-maturity as of December 31, 2010 and 2009.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. 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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in the fair value. The related charge-offs would be recorded as realized losses in the income statement as to credit related amounts and accumulated other comprehensive income as to non-credit related amounts.

#### Restricted Securities

As a member of the Federal Reserve Bank of Richmond (Federal Reserve), the Company is required to acquire and hold stock in this entity. Ownership of this stock is restricted to members and can only be sold to and acquired

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. The Company and its Significant Accounting Policies (continued)

from the Federal Reserve at par. The Company also owns stock in Atlantic Central Bankers Bank (ACBB) and Maryland Financial Bank (MFB), banks that generally offers product and services only to other banks. Ownership of the ACBB shares is restricted to banks, and there is no active market for the ACBB or the MFB shares. As there is no readily determinable fair value for these securities, they are carried at cost.

#### Loans and Allowance for Loan Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or early repayment are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses and any unamortized deferred fees, costs, premiums and discounts. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

The accrual of interest on loans is discontinued when, in management's opinion, the full collection of principal or interest is in doubt or a scheduled loan payment has become over ninety days past due. Interest received on non-accrual loans is applied against the loan principal amount.

The Company determines and recognizes impairment of loans in accordance with the provisions of Section 310-Receivables of The FASB Accounting Standards Codification (ASC). A loan is determined to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is not considered impaired during the period of delay in payment if the Company expects to collect all amounts due, including past-due interest. An impaired loan is measured at the present value of its expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. ASC Section 310 is generally applicable to all loans except large groups of smaller balance homogeneous loans that are evaluated collectively for impairment unless such loans are subject to a restructuring agreement. Interest payments received are applied to the loan principal balance unless the collection of all amounts due, both principal and interest, on the loan is considered probable, in which case the interest payments would be recognized as interest income.

The allowance for loan losses is increased by charges to expense and decreased by charge-offs (net of recoveries). Management's periodic determination and evaluation of the adequacy of the allowance assesses various factors including inherent losses in all significant loans; known deterioration in concentrations of credit, certain classes of loans or collateral; historical loss experiences; results of independent reviews of loan quality and the allowance for loan losses; trends in portfolio quality, maturity and composition; volumes and trends in delinquencies and non-accrual loans, risk management policies and practices; lending policies and procedures; economic conditions and downturns in specific local industries; loss history; and the experience and quality of lending management and staff. Estimated losses in the portfolio are determined by applying loss ratios to loan categories, other than impaired loans and loans considered substandard or doubtful, which are evaluated separately to determine loss estimates. The determination of the allowance for loan losses involves the use of various subjective estimates by management and may result in over or under estimations of the amount of inherent losses in the loan portfolio.

#### Unearned Discounts and Servicing Rights of Small Business Administration (SBA) Loans Sold

The Company generally sells the SBA-guaranteed portions of its SBA loans in the secondary market. In connection with such sales, the Company receives a cash premium related to the guaranteed portion being sold. A portion of the cash premium received from the sale of the guaranteed portion of the SBA loan is deferred as a discount on retained premiums based on the relative fair value of the guaranteed and unguaranteed portions to the total loan and the remainder is recognized as a gain on the sale. The resulting unearned discount is recognized in interest income using an adjustable interest method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. The Company and its Significant Accounting Policies (continued)

SBA loan servicing rights are initially valued by allocating the total cost between the loan and the servicing right based on their relative fair values. Since sales of SBA loans tend to occur in private transactions and the precise terms and conditions of the sales are typically not readily available, there is a limited market to refer to in determining the fair value of these servicing rights. As such, the Company relies primarily on a discounted cash flow model to estimate the fair value of its servicing rights. This model calculates estimated fair value of these servicing rights by utilizing certain key characteristics such as interest rates, type of product (fixed vs. variable), age (new, seasoned, moderate), and other factors. Management believes that the assumptions used in the model are comparable to those used by brokers and other service providers. The Company also compares its estimates of fair value and assumptions to recent market activity and against its own experience. The resulting servicing rights are recognized in other non-interest expense using an adjustable interest method.

#### Other Real Estate Owned (OREO)

OREO is comprised of real estate properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the fair value (generally the appraised value) at the date acquired. Losses occurring at the time of acquisition of such properties are charged against the allowance for loan losses. Subsequent write-downs that may be required are included in non-interest expenses. Gains and losses realized from the sale of OREO as well as any net income or loss from the operations of the properties are included in non-interest income or non-interest expenses, as appropriate.

#### Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of the terms of the leases or their estimated useful lives. Expenditures for improvements that extend the life of an asset are capitalized and depreciated over the asset's remaining useful life. Any gains or losses realized on the disposition of premises and equipment are reflected in the consolidated statements of operations. Expenditures for repairs and maintenance are charged to other expenses as incurred. Computer software is recorded at cost and amortized over three years.

#### Long-Lived Assets

The carrying value of long-lived assets and identifiable intangibles is reviewed by the Company for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable as prescribed in ASC Section 360 - Property, Plant and Equipment. At December 31, 2010 and 2009, management considered certain loans to be impaired (see Note 4).

#### Transfers of Financial Assets

Transfers of financial assets 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 Company, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

#### Deferred Income Taxes

Deferred income taxes are recognized for temporary differences between the financial reporting basis and the income tax basis of assets and liabilities. Deferred tax assets are recognized only to the extent that it is more likely than not that recorded amounts of the assets will be realized based on consideration of available evidence. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. No valuation allowance for deferred tax assets was recorded at December 31, 2010 and 2009 as

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. The Company and its Significant Accounting Policies (continued)

management believes it is more likely than not that all of the deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years.

#### Concentration of Credit Risk

The Company grants loans to customers primarily in its market area in Maryland. The debtors' ability to honor their contracts, including borrowing agreements, may be influenced by the economic conditions in the Company's lending area.

The Company maintains deposits with other banking institutions in amounts which can, at times, exceed insurance limits of the Federal Deposit Insurance Corporation (FDIC). Such institutions include the Federal Reserve Bank of Richmond and bankers' banks. Further, the Company periodically sells federal funds, which are not insured by the FDIC, to three banking entities.

#### Comprehensive Income or Loss

Unrealized gains and losses on available for sale securities, net of tax, are reported as a separate component of the equity section in the consolidated statement of financial condition. Changes in the net unrealized gains and losses are components of comprehensive income or loss and are not included in reported net income or loss.

#### Statement of Cash Flows

Cash and cash equivalents in the statement of cash flows include cash on hand, non-interest bearing amounts due from correspondent banks, both interest bearing and non-interest bearing balances maintained at the Federal Reserve, certificates of deposits owned with maturities of less than one year and Federal funds sold.

#### Earnings Per Share

Basic earnings per share (EPS) is computed based upon income available to common shareholders and the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would share in the earnings of the Company, using the treasury stock method, unless they are anti-dilutive. The Company uses the average market price of the common shares during the year in the determination of the amount of common stock equivalents arising from the warrants and options issued.

The weighted average number of common shares and dilutive securities (comprised of warrants and options) and resultant per share computations are as follows:

<i>In thousands except per share data</i>	2010	2009
Weighted average shares outstanding	1,820,548	1,820,548
Common stock equivalents	-	-
Average common shares and equivalents	<u>1,820,548</u>	<u>1,820,548</u>
Net income	\$1,423	\$678
Basic earnings per share	\$0.78	\$0.37
Diluted earnings per share	\$0.78	\$0.37

All outstanding warrants and options were excluded from the calculation of diluted income per share in 2009 because they were anti-dilutive. All of the warrants and options expired during 2010.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. The Company and its Significant Accounting Policies (continued)

#### Stock Options

The Company accounts and reports for stock-based compensation plans, if any, in accordance with ASC Section 718- *Stock Compensation* which requires that the fair value at grant date be used for measuring compensation expense for stock-based plans to be recognized in the statement of operations. The Company did not record any compensation expense under Section 718 during 2010 or 2009 as no new options were granted during the periods and all outstanding options were previously fully vested.

#### Reclassification

Certain prior years' amounts have been reclassified to conform to the current year's method of presentation.

### Note 2. Fair Value

ASC Section 820 - *Fair Value Measurements and Disclosure* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Topic 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These inputs are summarized in three broad levels as follows:

- Level 1:** Quoted prices in active exchange markets for identical assets or liabilities; also includes certain U.S. Treasury and other U.S. government and agency securities actively traded in over-the-counter markets.
- Level 2:** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. government and agency securities, corporate debt securities, derivative instruments, and residential mortgage loans held for sale.
- Level 3:** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for single dealer nonbinding quotes not corroborated by observable market data. This category generally includes certain private equity investments, retained interests from securitizations, and certain collateralized debt obligations.

The Company's bond holdings in the investment securities portfolio, if any, are the only asset or liability subject to fair value measurement on a recurring basis. No assets are valued under Level 2 inputs at December 31, 2010 and no assets measured by Level 1 inputs at December 31, 2010 or December 31, 2009. The Company has assets measured by fair value measurements on a non-recurring basis during 2010. At December 31, 2010, these assets include \$7.3 million of non-accrual loans (\$5.8 million after specific reserves) and other real estate owned of \$3.3 million, all of which are valued under Level 3 inputs. The changes in the assets subject to fair value measurements are summarized below by Level:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2. Fair Value (continued)

<i>In thousands</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2009:			
Loans	\$-	\$1,458	\$1,276
Other real estate owned	-	2,462	-
Total December 31, 2009	<u>-</u>	<u>3,920</u>	<u>1,276</u>
Activity:			
Loans:			
New loans measured at fair value	-	-	7,845
Payments and other loan reductions	-	(11)	(367)
Loans charged-off	-	(502)	(1,471)
Additions to other real estate owned	-	(945)	-
Net change in loans	<u>-</u>	<u>(1,458)</u>	<u>6,007</u>
Other real estate owned:			
Value of properties at foreclosures	-	-	1,015
Transferred to Level 3 inputs	-	(2,462)	2,462
Provision for valuation reduction	-	-	(153)
	<u>-</u>	<u>-</u>	<u>3,324</u>
December 31, 2010:			
Loans	-	-	7,283
Other real estate owned	-	-	3,324
Total December 31, 2010	<u>\$ -</u>	<u>\$-</u>	<u>\$10,607</u>

The estimated fair values of the Company's financial instruments at December 31, 2010 and December 31, 2009 are summarized below. The fair values of a significant portion of these financial instruments are estimates derived using present value techniques and may not be indicative of the net realizable or liquidation values. Also, the calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

<i>In thousands</i>	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$1,437	\$1,437	\$2,106	\$2,106
Interest bearing deposits	12,289	12,289	8,228	8,228
Federal funds sold	-	-	154	154
Investments in restricted stock	527	527	527	527
Loans, net	181,709	191,353	183,102	192,687
Accrued interest receivable	750	750	681	681
Financial liabilities:				
Non-interest bearing deposits	\$23,760	\$23,760	\$21,024	\$21,024
Interest bearing deposits	156,350	157,228	157,621	160,450
Accrued interest payable	106	106	184	184
Off-balance sheet commitments	-	-	-	-

Fair values are based on quoted market prices for similar instruments or estimated using discounted cash flows. The discounts used are estimated using comparable market rates for similar types of instruments adjusted to be commensurate with the credit risk, overhead costs and optionality of such instruments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2. Fair Value (continued)

The fair value of cash and due from banks, interest bearing deposits, federal funds sold, investments in restricted stocks and accrued interest receivable are equal to the carrying amounts. The fair values of investment securities are determined using market quotations. The fair value of loans receivable is estimated using discounted cash flow analysis.

The fair value of non-interest bearing deposits, interest-bearing checking, savings, and money market deposit accounts, securities sold under agreements to repurchase, and accrued interest payable are equal to the carrying amounts. The fair value of fixed maturity time deposits is estimated using discounted cash flow analysis.

### Note 3. Investment in Restricted Stocks

Restricted securities are comprised of common stock in the following entities at cost:

<i>In thousands</i>	December 31,	
	2010	2009
Federal Reserve Bank of Richmond	\$465	\$465
Atlantic Central Bankers Bank	37	37
Maryland Financial Bank	25	25
	\$527	\$527

The stocks in the two “bankers’ banks” are not readily marketable.

### Note 4. Loans and Allowance for Loan Losses

The Bank grants commercial loans to customers primarily in Anne Arundel County, Prince George’s County, Howard County and surrounding areas of central Maryland. The principal categories of the loan portfolio are as follows:

<i>In thousands</i>	December 31, 2010		December 31, 2009	
	Balance	Percentage of Loans	Balance	Percentage of Loans
Commercial & Industrial loans	\$52,324	28.3%	\$68,476	36.9%
Real estate loans secured by:				
Residential real estate	24,307	13.1%	22,140	11.9%
Commercial real estate	108,366	58.6%	94,947	51.2%
Total real estate loans	132,673	71.7%	117,087	63.1%
	184,997	100.0%	185,563	100.0%
Unearned loan fees, net	(114)		(81)	
Allowance for loan losses	(3,174)		(2,380)	
	\$181,709		\$183,102	

*Note: The loan amounts and percentages for December 31, 2010 above reflect the effect of reclassifying approximately \$9.5 million of commercial and industrial loans to real estate loans during the second quarter of 2010. Without the reclassification, the commercial and industrial loans would have comprised approximately 33.4% of the total loans at December 31, 2010.*

Loans secured by residential real estate are loans to investors for commercial purposes. The Bank does not lend funds to consumers.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowance for Loan Losses (continued)

The loan portfolio is comprised of \$49.0 million of loans with fixed interest rates and \$136.0 million of loans with adjustable interest rates.

The activity in the allowance for loan losses is shown in the following table.

<i>In thousands</i>	<u>Year Ended December 31,</u>				
	2010	2009	2008	2007	2006
Allowance for loan losses:					
Beginning balance	\$2,380	\$1,860	\$1,665	\$1,614	\$1,615
Charge-offs - Commercial and Industrial loans	(1,587)	(963)	(497)	(72)	(226)
Recoveries - Commercial and Industrial loans	51	5	45	78	-
Charge-offs- Commercial real estate loans	(386)	(138)	-	-	-
Net recoveries (charge-offs)	(1,922)	(1,096)	(452)	6	(226)
Provision for loan losses	2,716	1,616	647	45	225
Ending balance	<u>\$3,174</u>	<u>\$2,380</u>	<u>\$1,860</u>	<u>\$1,665</u>	<u>\$1,614</u>
Net recoveries (charge-offs) to average loans	(1.04%)	(0.65%)	(0.33%)	0.00%	(0.26)%

The activity in the allowance for loan losses by category during 2010 is shown in the following table.

<i>In thousands</i>	Commercial and Industrial Loans	SBA Loans	<u>Real Estate Loans</u>			Total
			Owner Occupied	Non- Owner Occupied	Not Allocated	
Balance at December 31, 2009	\$1,290	\$576	\$168	\$242	\$104	\$2,380
Loan charge offs	1,140	447	-	386	-	1,973
Loss recoveries	26	25	-	-	-	51
Provision for loan losses	847	473	514	859	23	2,716
Balance at December 31, 2010	<u>\$1,023</u>	<u>\$627</u>	<u>\$682</u>	<u>\$715</u>	<u>\$127</u>	<u>\$3,174</u>
Allowance for loans individually evaluated for impairment	<u>\$570</u>	<u>\$194</u>	<u>\$497</u>	<u>\$410</u>		<u>\$1,671</u>
Balance of loans at December 31, 2010	<u>\$44,637</u>	<u>\$7,742</u>	<u>\$85,464</u>	<u>\$47,040</u>		<u>\$184,883</u>
Amount of loans individually evaluated for impairment	<u>\$1,622</u>	<u>\$432</u>	<u>\$9,946</u>	<u>\$3,756</u>		<u>\$15,756</u>

Additionally, the Company has established a reserve for unfunded commitments that is recorded by a provision charged to other expenses. At December 31, 2010 the balance of this reserve was \$60 thousand. The reserve, based on evaluations of the collectability of loans, is an amount that management believes will be adequate over time to absorb possible losses on unfunded commitments (off-balance sheet financial instruments) that may become uncollectible in the future.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowance for Loan Losses (continued)

Below is a summary of the Company's impaired loans at December 31, 2010.

<i>In thousands</i>	Unpaid Principal Balance	Recorded Investment	Related Allowance for losses	Interest Income Recognized
<b>Non-accrual loans:</b>				
Commercial and Industrial loans:				
With specific reserves	\$963	\$963	\$445	\$25
Without specific reserves	-	-	-	-
	<u>963</u>	<u>963</u>	<u>445</u>	<u>25</u>
SBA loans:				
With specific reserves	359	359	194	8
Without specific reserves	29	29	-	-
	<u>388</u>	<u>388</u>	<u>194</u>	<u>8</u>
Real Estate – Owner Occupied:				
With specific reserves	3,140	3,140	483	64
Without specific reserves	816	816	-	17
	<u>3,956</u>	<u>3,956</u>	<u>483</u>	<u>81</u>
Real Estate – Non Owner Occupied:				
With specific reserves*	2,082	1,976	399	41
Without specific reserves	-	-	-	-
	<u>2,082</u>	<u>1,976</u>	<u>399</u>	<u>41</u>
<b>Total Non-accrual Loans:</b>				
With specific reserves*	\$6,544	\$6,438	\$1,521	\$138
Without specific reserves	845	845	-	17
<b>Total Non-accrual loans</b>	<u>\$7,389</u>	<u>\$7,283</u>	<u>\$1,521</u>	<u>\$155</u>
<b>Troubled Debt Restructured loans:</b>				
Commercial and Industrial loans:				
With specific reserves	\$ -	\$ -	\$ -	\$ -
Without specific reserves	154	154	-	13
	<u>\$154</u>	<u>\$154</u>	<u>-</u>	<u>13</u>
	<i>Number of loans</i>			
		<u>1</u>		
Real Estate - Owner Occupied:				
With specific reserves	2,051	2,051	13	125
Without specific reserves	-	-	-	-
	<u>2,051</u>	<u>2,051</u>	<u>13</u>	<u>125</u>
	<i>Number of loans</i>			
		<u>1</u>		
Real Estate – Non Owner Occupied:				
With specific reserves	1,603	1,603	11	82
Without specific reserves	177	177	-	12
	<u>1,780</u>	<u>1,780</u>	<u>11</u>	<u>94</u>
	<i>Number of loans</i>			
		<u>7</u>		

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowance for Loan Losses (continued)

<i>(Continued) In thousands</i>	Unpaid Principal Balance	Recorded Investment	Related Allowance for losses	Interest Income Recognized
Total Loans:				
With specific reserves	\$3,654	\$3,654	\$25	\$207
Without specific reserves	331	331	-	25
<b>Total Troubled Debt Restructured     loans</b>	<u>\$3,985</u>	<u>\$3,985</u>	<u>\$25</u>	<u>232</u>
	<i>Number of loans</i>	9		
<b>Other Impaired loans:</b>				
Commercial and Industrial loans:				
With specific reserves	\$250	\$250	\$125	\$19
Without specific reserves	-	-	-	-
<b>Total Other Impaired loans</b>	<u>\$250</u>	<u>\$250</u>	<u>\$125</u>	<u>\$19</u>
<b>Total Impaired Loans:</b>				
With specific reserves*	\$10,448	\$10,342	\$1,671	\$364
Without specific reserves	1,176	1,176	-	42
<b>Total Impaired loans</b>	<u>\$11,624</u>	<u>\$11,518</u>	<u>\$1,671</u>	<u>\$406</u>

\* Difference between the unpaid principal balance and the recorded investment result from the Company charging-off a portion of the loans. The charge-offs do not affect the total amount due from the borrowers.

Non-accrual loan activity is summarized as follows:

<i>In thousands</i>	Year Ended December 31,				
	2010	2009	2008	2007	2006
Balance at the beginning of the period	\$2,734	\$5,819	\$1,125	\$628	\$592
New loans placed on non-accrual	7,846	2,427	5,046	569	262
Less:					
Loan restored to interest earning status	-	1,266	-	-	-
Paid-off: sold in foreclosure	-	576	-	-	-
Other real estate owned additions	945	2,462	-	-	-
Charge offs	1,973	1,101	236	72	226
Other including payments received	379	107	116	-	-
Balance at the end of the period	<u>\$7,283</u>	<u>\$2,734</u>	<u>\$5,819</u>	<u>\$1,125</u>	<u>\$628</u>

Non-accrual loan activity by category during the year ended December 31, 2010 is summarized as follows:

<i>In thousands</i>	Total	Commercial and Industrial		SBA	Real Estate Owner Occupied	Real Estate Non Owner Occupied
		Total	Industrial	SBA	Occupied	Occupied
Balance at the beginning of the period	\$2,734	\$2,280	\$454	-	-	-
New loans placed on non-accrual	7,846	926	548	3,956	2,416	-
Less:						
Loan restored to interest earning status	-	-	-	-	-	-
Paid-off: sold in foreclosure	-	-	-	-	-	-
Other real estate owned additions	945	945	-	-	-	-
Charge offs	1,973	1,139	447	-	387	-
Other including payments received	379	159	167	-	53	-
Balance at the end of the period	<u>\$7,283</u>	<u>\$963</u>	<u>\$388</u>	<u>\$3,956</u>	<u>\$1,976</u>	<u>-</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowance for Loan Losses (continued)

Comparative information regarding the non-accrual loans at December 31, 2010 and December 31, 2009 follows:

<i>In thousands</i>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Loans classified non-accrual with specific reserves	\$6,438	\$2,519
Loans classified non-accrual with no specific reserves	845	215
Total non-accrual loans	<u>\$7,283</u>	<u>\$2,734</u>
Allowance for loan losses on non-accrual loans	\$1,521	\$922
Average balance non-accrual loans during period	\$3,419	\$4,559

Interest that would have been accrued under the terms of all non-accrual loans during the year totaled \$324 thousand and \$164 thousand for the years ended December 31, 2010 and 2009, respectively. The Bank has no commitments to loan additional funds to the borrowers of impaired or non-accrual loans.

At December 31, 2010, the Company had modified nine loans in amounts totaling \$4.0 million which modifications qualify the loans as Troubled Debt Restructurings (TDR). Changes made to the loans included the reduction of loan payments from principal and interest payments to interest only payments for specific time periods, the decrease in interest rates charged on a loan and the extension of the maturity of a loan. Specific reserves were established on the loans as appropriate. The majority of these loans were modified in the third and fourth quarters of 2010 as the adverse economic conditions hampered borrowers' current cash flows. The non-accrual loans at December 31, 2010 include seven loans totaling \$4 million (\$3.1 million of which are owner-occupied commercial real estate loans) that were previously TDR loans but the borrowers failed to meet the new terms under the restructuring.

At December 31, 2010, there were \$1 million of performing loans considered potential problem loans, defined as loans which are not included in the 90 day past due, not reported as TDR or as nonaccrual loans, but for which known information about possible credit problems causes the Company to be concerned as to the ability of the borrowers to comply with the present loan repayment terms which may in the future result in past due, nonaccrual or restructured loans. The Company closely monitors the financial status of these borrowers.

Generally, the accrual of interest is discontinued when a loan is specifically determined to be impaired or when principal or interest is delinquent for ninety days or more. During 2010, there were no amounts included in gross interest income attributable to loans in non-accrual status.

The following table shows the amounts of non-performing assets on the dates indicated:

<i>In thousands</i>	<u>December 31:</u>				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Nonaccrual loans:					
Commercial and Industrial and SBA	\$1,351	\$2,734	\$2,218	\$1,125	\$628
Real estate	5,932	-	3,601	-	-
Accrual loans –past due 90 days and over	-	-	-	-	-
Total non-performing loans	<u>7,283</u>	<u>2,734</u>	<u>5,819</u>	<u>1,125</u>	<u>628</u>
Other real estate owned	<u>3,324</u>	<u>2,462</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-performing assets	<u>\$10,607</u>	<u>\$5,196</u>	<u>\$5,819</u>	<u>\$1,125</u>	<u>\$628</u>
Allowance for loan losses to total non-performing loans	43.6%	87.1%	32.0%	148.0%	257.0%
Non-performing loans to total loans	3.94%	1.47%	3.80%	0.89%	0.65%
Non-performing assets to total assets	5.22%	2.59%	3.49%	0.76%	0.44%

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowance for Loan Losses (continued)

The payment status of loans receivable at December 31, 2010 is as follows:

<i>In thousands</i>	Total	Commercial and Industrial	SBA	Real Estate Owner Occupied	Real Estate Non Owner Occupied
Current accrual loans	\$174,891	\$42,724	\$7,354	\$81,335	\$43,478
Current non-accrual loans	486	486	-	-	-
Past due loans:					
30 to 89 days past due	2,823	958	-	279	1,586
90 days plus past due and accruing	-	-	-	-	-
Non-accrual loans, non current	6,797	477	388	3,956	1,976
Total past due loans	9,620	1,435	388	4,235	3,562
Total loans at the end of the period	<u>\$184,997</u>	<u>\$44,645</u>	<u>\$7,742</u>	<u>\$85,570</u>	<u>\$47,040</u>

The Company applies risk ratings to the loans based upon rating criteria consistent with regulatory definitions. The risk ratings are adjusted, as necessary, if loans become delinquent, if significant adverse information is discovered regarding the underlying credit and the normal periodic reviews of the underlying credits indicate that a change in risk rating is appropriate. A summary of the risk rating of loans receivable at December 31, 2010 follows:

<i>In thousands</i>	Total	Commercial and Industrial	SBA	Real Estate Owner Occupied	Real Estate Non Owner Occupied
Risk rated – pass	\$171,021	\$43,023	\$7,310	\$75,624	\$45,064
Risk rated – special mention (loan weaknesses noted which could lead to loan loss)	4,319	336	44	3,939	-
Risk rated- substandard or doubtful (loans with significant weaknesses that could, or has, result in loan losses)	9,657	1,286	388	6,007	1,976
Total loans at the end of the period	<u>\$184,997</u>	<u>\$44,645</u>	<u>\$7,742</u>	<u>\$85,570</u>	<u>\$47,040</u>

Real estate acquired through or in the process of foreclosure is recorded at fair value less estimated disposal costs. The Company periodically evaluates the recoverability of the carrying value of the real estate acquired through foreclosure using current estimates of fair value when it has reason to believe that real estate values have declined for the particular type and location of the real estate owned. In the event of a subsequent decline, an allowance would be provided to reduce real estate acquired through foreclosure to fair value less estimated disposal cost. The Company acquired through foreclosure a commercial building with a fair value of approximately \$653 thousand in March 2009. Because of the decline in real estate values in this building's area, the Company has reduced the carrying value of this owned building by \$153 thousand during 2010 with an offsetting increase in non-interest expenses. The Company acquired another commercial building by foreclosure in November 2009 with a fair value of approximately \$1.8 million. The Company also acquired through foreclosure five residential properties, comprised of four condominium units and one single family residence, during the fourth quarter of 2010. The fair value of these properties, and the recorded amount of the other real estate owned was \$1 million at December 31, 2010. The Company is leasing the commercial properties to others under short term leases as it offers them for sale. Net income from the operations of the properties was \$3 thousand in 2010 and \$19 thousand in 2009. There was no financing of OREO sales during 2010 or 2009.

At December 31, 2010 and 2009, the balance of commercial and real estate loans serviced by the Company for others under loan participation agreements was \$34.1 million and \$25.1 million, respectively. The related servicing rights are not material and are included in other assets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 5. Premises and Equipment

Property, equipment and leasehold improvements are as follows at December 31:

<i>In thousands</i>	Useful Lives	2010	2009
Equipment	3-10 years	\$540	\$653
Furniture and fixtures	3-5 years	538	646
Leasehold improvements	4-10 years	344	343
Software	3 years	20	17
		<u>1,442</u>	<u>1,659</u>
Accumulated depreciation and amortization		<u>886</u>	<u>920</u>
Net		<u><u>\$556</u></u>	<u><u>\$739</u></u>

### Note 6. Deposits

Interest bearing deposits are summarized below as of December 31:

<i>In thousands</i>	2010	2009
NOW accounts	\$1,279	\$309
Money Market accounts	8,824	7,841
Savings accounts	22,962	10,379
Certificates of deposit accounts:		
Less than \$100,000	79,209	71,593
\$100,000 or more	44,076	67,499
	<u>\$156,350</u>	<u>\$157,621</u>

The time deposit accounts mature as follows in thousands: within one year \$79,131; one through three years - \$36,497; three years and beyond - \$7,657.

Interest expense on interest bearing deposits is as follows:

<i>In thousands</i>	2010	2009
NOW accounts	\$1	\$1
Money Market accounts	35	63
Savings accounts	222	71
Certificates of deposit, \$100,000 or more	1,217	2,920
Certificates of deposit, less than \$100,00	1,655	1,532
	<u>\$3,130</u>	<u>\$4,587</u>

Deposits of executive officers and directors and their affiliated interests totaled approximately \$13 million and \$14.4 million at December 31, 2010 and 2009, respectively.

Included in certificates of deposits are \$33.1 million and \$44.8 million of brokered certificates at December 31, 2010 and 2009, respectively. Included in these brokered certificates of deposits at December 31, 2010 are \$8.3 million of certificates of deposits received in exchange for the placement of the Bank's customers' deposit funds in the same amounts with other financial institutions under the Certificate of Deposit Account Registry Service (CDARS) program. Brokered certificates of deposits in the amount of \$20.4 million mature on or before December 31, 2011.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 7. Short-term borrowings

The Company has unsecured credit facilities for short-term liquidity needs from financial institutions of \$8,500,000 at December 31, 2010 and 2009. There were no borrowings outstanding under these credit arrangements at December 31, 2010 and 2009.

### Note 8. Income Taxes

The income tax expense consists of the following for the years ended December 31, 2010 and 2009:

<i>In thousands</i>	2010	2009
Current:		
Federal	\$914	\$532
State	251	141
	1,165	673
Deferred:		
Federal	(171)	(178)
State	(43)	(43)
	(214)	(221)
	\$951	\$452

The reasons for the differences between the statutory federal income tax rates and actual rates are summarized as follows:

<i>In thousands</i>	2010	2009
Federal tax at statutory rates	\$807	\$384
State income taxes net of federal tax benefit	138	64
Other	6	4
	\$951	\$452

The deferred income tax account is comprised of the following at December 31, 2010 and 2009:

<i>In thousands</i>	2010	2009
Deferred tax assets:		
Allowance for loan losses	\$921	\$787
Deferred unpaid leave	80	87
Non-accrued interest income	89	82
Valuation allowance for ORE	60	-
Other	24	21
	1,174	977
Deferred tax liabilities:		
Accumulated depreciation	41	58
	41	58
Net deferred tax assets	\$1,133	\$919

The Company's federal income tax returns for 2007, 2008 and 2009 are subject to examination by the Internal Revenue Service, generally for three years after they were filed. In addition, the Company's state tax returns for the same years are subject to examination by state tax authorities for similar time periods. At December 31, 2010 and 2009, management believes that there are no uncertain tax positions under ASC Topic 740 Income Taxes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 9. Commitments and Contingencies

The Company is a party to financial instruments in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated financial statements. Outstanding loan commitments, un-advanced loan funds and standby letters of credit are approximately as follows at December 31, 2010:

<i>In thousands</i>	<u>2010</u>
Loan commitments:	
Commercial	\$1,591
Commercial real estate	<u>2,732</u>
	<u>\$4,323</u>
Un-advanced loan funds:	
Commercial	\$27,705
Commercial real estate	<u>9,584</u>
	<u>\$37,289</u>
Standby letters of credit	<u>\$1,268</u>

At December 31, 2009, loan commitments, un-advanced loan funds and standby letters of credit totaled \$7 million, \$38.7 million and \$774 thousand, respectively.

Loan commitments and un-advanced loan funds are agreements to lend funds to customers under loan commitment contracts and loan agreements as long as the borrowers are in compliance with the loan commitment contracts and loan agreements. Loan commitments generally have interest rates reflecting current market conditions, fixed expiration dates, and may require payment of a fee. Fundings under loans with un-advanced loan funds generally have variable interest rates. Some of the loan commitments and un-advanced loan funds are expected to expire or not be used without being drawn upon; accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on the Company's credit evaluation.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to guarantee the installation of real property improvements and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral and obtains personal guarantees supporting those commitments for which collateral or other securities is deemed necessary.

The Company's exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment. Loan commitments and standby letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2010 and 2009 the Bank has accrued \$60 thousand and \$54 thousand, respectively, for unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities.

The Bank has entered into leases for its branches and office space, most of which contain renewal options and expense sharing provisions. The minimum net non-cancelable future rental commitments at December 31, 2010 are as follows:

<i>In thousands</i>	
<u>December 31,</u>	
2011	\$396
2012	316
2013	321
2014	321
2015	135
2016	59

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 9. Commitments and Contingencies (continued)

The related net rent expense was \$476 thousand and \$467 thousand in 2010 and 2009, respectively.

### Note 10. Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet 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 Company'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 assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company will be subject to the capital guidelines when its assets exceed \$500 million, it engages in certain highly leveraged activities or it has publicly issued debt. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. The Company and the Bank must maintain minimum capital and other requirements of regulatory authorities when declaring and paying dividends. The Company and the Bank are in compliance with such capital requirements. Banking regulations limit the amount of dividends that may be paid to the Company without prior approval of the Bank's regulatory agencies. Regulatory approval is required to pay dividends that exceed the Bank's net profits for the current year plus its retained net profits for the preceding two years.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulation) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2010, that the Company and the Bank meet capital adequacy requirements to which they are subject. As of December 31, 2010, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must meet minimum total risk-based, Tier I risk-based and Tier I leverage ratios. There are no conditions or events since that notification that management believes have changed the Company's and the Bank's category.

Actual capital amounts and ratios are presented in the table below:

<i>In thousands</i>	Actual		For Capital Adequacy Purposes		To be "Well Capitalized For Purposes of Prompt Corrective Action"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2010</u>						
Total Capital (1):						
Company	\$24,745	13.1%	\$15,162	≥ 8.0%	N/A	
Bank	23,337	12.3%	15,162	≥ 8.0%	\$18,952	≥ 10.0%
Tier I Capital (1):						
Company	22,365	11.8%	7,581	≥ 4.0%	N/A	
Bank	20,957	11.1%	7,581	≥ 4.0%	11,371	≥ 6.0%
Tier I Capital (2):						
Company	22,365	11.0%	8,110	≥ 4.0%	N/A	
Bank	20,957	10.3%	8,110	≥ 4.0%	10,138	≥ 5.0%
<u>December 31, 2009</u>						
Total Capital (1):						
Company	\$23,357	12.3%	\$15,238	≥ 8.0%	N/A	
Bank	21,835	11.5%	15,238	≥ 8.0%	\$19,047	≥ 10.0%
Tier I Capital (1):						
Company	20,966	11.0%	7,619	≥ 4.0%	N/A	
Bank	19,444	10.2%	7,619	≥ 4.0%	11,428	≥ 6.0%
Tier I Capital (2):						
Company	20,966	10.4%	8,034	≥ 4.0%	N/A	
Bank	19,444	9.7%	8,034	≥ 4.0%	10,042	≥ 5.0%

(1) to risk weighted assets

(2) to average assets

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 11. Warrant and Option Plans

At December 31, 2009 there were 106,372 fully vested warrants outstanding with an exercise price \$10 per share which had to be exercised by August 18, 2010. None of these warrants were exercised during 2009 or 2010 and the warrants expired in August 2010.

The Board of Directors of the Company had also adopted a stock option plan as a performance incentive for two current and one former Bank officers. None of these options were exercised during 2009 or 2010 and these options expired in August 2010.

### Note 12. Employee Benefit Plans

The Company has employee benefit programs that include health and dental insurance, life and long-term and short-term disability insurance and a 401(k) retirement plan. Under the 401(k) plan during 2010, the Company matched eligible employee contributions up to 3% of base salary plus 50% of employee contributions over 3% of base salary; however, total Company matching funds could not exceed 4% of an employee's base salary. Under the 401(k) plan during 2009, the Company made a 50% match of eligible employee contributions up to 6% of base salary. The Bank's contributions to the plan included in compensation and benefits, totaled \$82 thousand and \$50 thousand for the years ended December 31, 2010 and 2009, respectively.

### Note 13. Related Party Transactions

The Company paid \$50 thousand and \$42 thousand during the years ended December 31, 2010 and 2009 respectively, to a computer services firm of which a Director is also a principal. Expenditures included computer hardware, software, installation, training, compliance and real-time support. The Company paid \$22 thousand during 2010 and \$51 thousand in 2009 to a law firm of which a Director is a partner for various legal services provided. Expenditures totaling less than \$25,000 were paid to several entities in which directors were principals during 2010 and 2009. These transactions have been consummated on terms equivalent to those that prevail in arms length transactions.

Certain officers and directors (and companies in which they have a 10% or more beneficial ownership) have loans with the Bank. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers. They do not involve more than normal risk of collectability or present other unfavorable terms. The activity of these loans during 2010 and 2009 is as follows:

<i>In thousands</i>	2010	2009
Total loans at beginning of year	\$3,594	\$3,604
New loans and funding during the year	492	353
Director status change to non-Director	(1,182)	-
Repayments during the year	(251)	(363)
Total loans at end of year	<u>\$2,653</u>	<u>\$3,594</u>

### Note 14. Recently Issued Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-06 - *Fair Value Measurements and Disclosures* amending Topic 820. The ASU provides for additional disclosures of transfers between assets and liabilities valued under Level 1 and 2 inputs as well as additional disclosures regarding those assets and liabilities valued under Level 3 inputs. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009 except for those provisions addressing Level 3 fair value measurements which provisions are effective for fiscal years, and interim periods therein, beginning after December 15, 2010. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09 amending FASB ASC Topic 855 to exclude SEC reporting entities from the requirement to disclose the date on which subsequent events have been evaluated. It further modifies the requirement to disclose the date on which subsequent events have been evaluated in reissued financial

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 14. Recently Issued Accounting Pronouncements (continued)

statements to apply only to such statements that have been restated to correct an error or to apply U.S. GAAP retrospectively. The Company has complied with ASU No. 2010-09.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The main objective of this ASU is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The ASU requires that entities provide additional information to assist financial statement users in assessing their credit risk exposures and evaluating the adequacy of its allowance for credit losses. For the Company, the disclosures as of the end of a reporting period are required for the annual reporting periods ending on December 31, 2010. Required disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning January 1, 2011. The adoption of this ASU will result in additional disclosures in the Company's financial statements regarding its loan portfolio and related allowance for loan losses but does not change the accounting for loans or the allowance. The Company has complied with this ASU for the annual reporting period ending December 31, 2010 and will comply for interim and annual reporting periods thereafter.

The FASB has issued several exposure drafts which, if adopted, would significantly alter the Company's (and all other financial institutions') method of accounting for, and reporting, its financial assets and some liabilities from a historical cost method to a fair value method of accounting as well as the reported amount of net interest income. Also, the FASB has issued an exposure draft regarding a change in the accounting for leases. Under this exposure draft, the total amount of "lease rights" and total amount of future payments required under all leases would be reflected on the balance sheets of all entities as assets and debt. If the changes under discussion in either of these exposure drafts are adopted, the financial statements of the Company could be materially impacted as to the amounts of recorded assets, liabilities, capital, net interest income, interest expense, depreciation expense, rent expense and net income. The Company has not determined the extent of the possible changes at this time. The exposure drafts are in different stages of review, approval and possible adoption.

### Note 15. Litigation

In the normal course of its business, the Company is involved in litigation arising from banking, financial, and other activities it conducts. Management, after consultation with legal counsel, does not anticipate that the ultimate liability, if any, arising out of these matters will have a material effect on the Company's financial condition, operating results or liquidity.

### Note 16. Parent Company Financial Information

Information as to the financial position of CommerceFirst Bancorp, Inc. as of December 31, 2010 and 2009 and results of operations and cash flows for the years then ended follows:

<i>In thousands</i>	December 31,	December 31,
<u>Statements of Financial Condition</u>	2010	2009
Assets		
Cash in CommerceFirst Bank	\$1,448	\$1,536
Investment in subsidiary	20,957	19,444
	<u>\$22,405</u>	<u>\$20,980</u>
Liabilities and Stockholders' Equity		
Accrued expenses	\$40	\$38
Stockholders' equity	22,365	20,942
	<u>\$22,405</u>	<u>\$20,980</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 16. Parent Company Financial Information (continued)

<i>In thousands</i> <u>Statements of Operations</u>	Year ended December 31, 2010	Year ended December 31, 2009
Interest income from deposit in CommerceFirst Bank	\$9	\$17
Administrative expenses	145	144
Loss before equity in undistributed net income of bank subsidiary and income tax benefit	(136)	(127)
Income tax benefit	46	43
Loss before equity in undistributed net income of bank subsidiary	(90)	(84)
Equity in undistributed net income of bank subsidiary	1,513	762
Net income	<u>\$1,423</u>	<u>\$678</u>
<i>In thousands</i> <u>Statements of Cash Flows</u>	Year ended December 31, 2010	Year ended December 31, 2009
Cash flows from operating activities:		
Net income	\$1,423	\$678
Equity in undistributed earnings of bank subsidiary	(1,513)	(762)
Decrease in other assets	-	2
Increase in payables	2	3
Net cash used in operating activities	<u>(88)</u>	<u>(79)</u>
Cash flows used by investing activities:		
Investment in CommerceFirst Bank	-	(2,000)
Net cash used by investing activities	<u>-</u>	<u>(2,000)</u>
(Decrease) in cash and cash equivalents	(88)	(2,079)
Cash and cash equivalents at beginning of period	1,536	3,615
Cash and cash equivalents at end of period	<u>\$1,448</u>	<u>\$1,536</u>

# **Directors & Officers of CommerceFirst Bancorp, Inc. and CommerceFirst Bank**

**Milton D. Jernigan II, Esquire\***  
**Chairman of the Board**  
**Managing Partner**  
**McNamee, Hosea, Jernigan, Kim, Greenan & Lynch, P.A.**

**Richard J. Morgan\***  
**President & Chief Executive Officer**

**John A. Richardson, Sr.\***  
**President, Crofton Bowling Center, Former**  
**President, Branch Electric Supply Co., Inc.**

**William F. Chesley**  
**President, W. F. Chesley Real Estate, Inc.**

**Don E. Riddle, Jr.**  
**Chairman & Chief Executive Officer,**  
**Homestead Gardens, Inc.**

**Charles F. Delavan, Esquire**  
**Principal, Blumenthal, Delavan & Williams,**  
**P.A.**

**Stephen C. Samaras**  
**Owner, Zymotic, Inc. (Zachary's Jewelers)**

**Edward B. Howlin, Jr.\***  
**President, Howlin Realty Management, Inc.**

**George C. Shenk, Jr.\***  
**President, Whitmore Group, Inc.**

**Charles L. Hurtt, Jr., CPA\***  
**President, Charles L. Hurtt, Jr., PA**

**Lamont Thomas\***  
**Former Executive Vice President & Chief**  
**Operating Officer, CommerceFirst Bancorp,**  
**Inc.**

**Nicholas J. Marino**  
**President, Marino Transportation Services,**  
**LLC**

**Dale R. Watson**  
**President, Alpha Engineering Associates, Inc.**

**Michael J. Miller**  
**Vice President, Concrete General, Inc. & Tri**  
**M Leasing Corp**

**Jerome A. Watts\***  
**Private Investor and Former Owner, Plan**  
**Management**

**Robert R. Mitchell\***  
**Private Investor and Former President,**  
**Mitchell Business Equipment, Inc.**

**J. Scott Wimbrow**  
**Senior Vice President, MacKenzie Commercial**  
**Real Estate Services LLC**

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\* Director of CommerceFirst Bancorp, Inc.

## **Officers of CommerceFirst Bank**

**Michael T. Storm**  
Executive Vice President &  
Chief Operating Officer and Chief  
Financial Officer

**Thomas L. Bolander**  
Senior Vice President

**James R. Baldwin**  
Senior Vice President

**Penny L. Cantwell**  
Senior Vice President

**George Kapusta**  
Senior Vice President

**Candace M. Springmann**  
Vice President & Corporate  
Secretary

**Jean J. Barnes**  
Vice President

**Melonee Fleming, CCE**  
Vice President

**David Steinhoff**  
Vice President

**Susan M. Liebenthal**  
Assistant Vice President

**Irma Russell**  
Assistant Vice President

**Robert W. Smith IV**  
Assistant Vice President

**Meghan T. Stumpf**  
Assistant Vice President

**Autumn B. Clark**  
Loan Officer

**Gregory N. Krum**  
Credit Officer

## **Locations of CommerceFirst Bank**

**Annapolis**  
1804 West Street, Suite 200  
Annapolis MD 21401

**Lanham**  
4451 Parliament Place  
Lanham MD 20706

**BWI**  
910 Cromwell Park Drive  
Glen Burnie MD 21061

**Columbia**  
6230 Old Dobbin Lane  
Columbia MD 21045

**Severna Park**  
485 Ritchie Highway  
Severna Park, MD 21146

The Company will provide, without charge, to any shareholder of record or any beneficial owner of Common Stock, a copy of its 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission, upon the written request. Requests should be directed to Candace M. Springmann, Corporate Secretary, at the Company's executive offices at 1804 West Street, Suite 200, Annapolis MD 21401.