UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Year Ended December 31, 2007

Commission File Number 0-24926

CECIL BANCORP, INC.

(Name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	52-1883546 (I.R.S. Employer Identification No.)
127 North Street, Elkton, Maryland (Address of principal executive office)	21921-5547 (Zip Code)

Registrant's telephone number, including area code: (410) 398-1650.

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
Yes o No þ*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (s 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2of the Exchange Act).
Yes o No þ

As of March 25, 2008 the registrant had 3,678,286 shares of Common Stock issued and outstanding. The aggregate market value of shares held by nonaffiliates on such date was approximately $16.4 million based on the closing sale price of $9.00 per share of the Registrant's Common Stock on March 25, 2008. For purposes of this calculation, it is assumed that the 1,857,761 shares held by directors and officers of the Registrant are shares held by affiliates.

Documents Incorporated by Reference: Parts II and III: Portions of the registrant's definitive proxy statement for the 2008 Annual Meeting.

* The issuer is required to file such reports.

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CAUTION ABOUT FORWARD-LOOKING STATEMENTS

Cecil Bancorp, Inc. ("Cecil Bancorp" or the "Company") makes forward-looking statements in this Form 10-K that are subject to risks and uncertainties. These forward-looking statements include:

- Statements of goals, intentions, and expectations;
- Estimates of risks and of future costs and benefits;
- Assessments of loan quality, probable loan losses, liquidity, off-balance sheet arrangements, and interest rate risks; and
- Statements of Cecil Bancorp's ability to achieve financial and other goals.

These forward-looking statements are subject to significant uncertainties because they are based upon or are affected by:

- Management's estimates and projections of future interest rates and other economic conditions;
- Future laws and regulations; and
- A variety of other matters.

Because of these uncertainties, the actual future results may be materially different from the results indicated by these forward-looking statements. In addition, Cecil Bancorp's past results of operations do not necessarily indicate its future results.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

Cecil Bancorp, Inc. (the "Company") is the holding company for Cecil Bank (the "Bank"). The Company is a bank holding company subject to regulation by the Federal Reserve System. The Bank is a Maryland chartered commercial bank, is a member of the Federal Reserve System and the Federal Home Loan Bank ("FHLB") of Atlanta, and is an Equal Housing Lender. Its deposits are insured by the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC"). The Bank commenced operations in 1959 as a Federal savings and loan association. On October 1, 2002, the Bank converted from a stock federal savings bank to a commercial bank. Its deposits have been federally insured up to applicable limits, and it has been a member of the FHLB system since 1959.

The Bank conducts it business through its main office in Elkton, Maryland, and branches in Elkton, North East, Fair Hill, Rising Sun, Cecilton, Aberdeen, Conowingo, and Havre de Grace, Maryland.

The Bank's business strategy is to operate as an independent community-oriented commercial bank dedicated to real estate, commercial, and consumer lending, funded primarily by retail deposits. The Bank has sought to implement this strategy by (1) continuing to emphasize residential mortgage lending through the origination of adjustable-rate mortgage loans while increasing its construction, commercial real estate, other commercial, and consumer lending portfolios; (2) investing in adjustable-rate and short-term liquid investments; (3) controlling interest rate risk exposure; (4) maintaining asset quality; (5) containing operating expenses; and (6) maintaining "well capitalized" status. The Bank offers a full range of brokerage and investment services through a relationship with Community Bankers Securities, LLC.

The Company's and the Bank's principal executive office is at 127 North Street, Elkton, Maryland 21921, and its telephone number is (410) 398-1650.

Regulation, Supervision, and Governmental Policy

Following is a brief summary of certain statutes and regulations that significantly affect the Company and the Bank. A number of other statutes and regulations affect the Company and the Bank but are not summarized below.

Bank Holding Company Regulation. The Company is registered as a bank holding company under the Holding Company Act and, as such, is subject to supervision and regulation by the Federal Reserve. As a bank holding company, The Company is required to furnish to the Federal Reserve annual and quarterly reports of its operations and additional information and reports. The Company is also subject to regular examination by the Federal Reserve.

Under the Holding Company Act, a bank holding company must obtain the prior approval of the Federal Reserve before (i) acquiring direct or indirect ownership or control of any class of voting securities of any bank or bank holding company if, after the acquisition, the bank holding company would directly or indirectly own or control more than 5% of the class; (2) acquiring all or substantially all of the assets of another bank or bank holding company; or (3) merging or consolidating with another bank holding company.

Under the Holding Company Act, any company must obtain approval of the Federal Reserve prior to acquiring control of the Company or the Bank. For purposes of the Holding Company Act, "control" is defined as ownership of 25% or more of any class of voting securities of the Company or the Bank, the ability to control the election of a majority of the directors, or the exercise of a controlling influence over management or policies of the Company or the Bank.

The Change in Bank Control Act and the related regulations of the Federal Reserve require any person or persons acting in concert (except for companies required to make application under the Holding Company Act), to file a written notice with the Federal Reserve before the person or persons acquire control of the Company or the Bank. The Change in Bank Control Act defines "control" as the direct or indirect power to vote 25% or more of any class of voting securities or to direct the management or policies of a bank holding company or an insured bank.

The Holding Company Act also limits the investments and activities of bank holding companies. In general, a bank holding company is prohibited from acquiring direct or indirect ownership or control of more than 5% of the voting shares of a company that is not a bank or a bank holding company or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, providing services for its subsidiaries, non-bank activities that are closely related to banking, and other financially related activities. The activities of the Company are subject to these legal and regulatory limitations under the Holding Company Act and Federal Reserve regulations. In general, bank holding companies that qualify as financial holding companies under federal law may engage in an expanded list of non-bank activities some of which are subject to regulation and oversight by regulators other than the Federal Reserve.

The Federal Reserve has the power to order a holding company or its subsidiaries to terminate any activity, or to terminate its ownership or control of any subsidiary, when it has reasonable cause to believe that the continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness, or stability of any bank subsidiary of that holding company.

The Federal Reserve has adopted guidelines regarding the capital adequacy of bank holding companies, which require bank holding companies to maintain specified minimum ratios of capital to total assets and capital to risk-weighted assets. See "Regulatory Capital Requirements."

The Federal Reserve has the power to prohibit dividends by bank holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve's view that a bank holding company should pay cash dividends only to the extent that the company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company's capital needs, asset quality, and overall financial condition.

Bank Regulation. The Bank became a Maryland chartered bank on October 1, 2002. The Bank is a member of the Federal Reserve System and is subject to supervision by the Federal Reserve and the State of Maryland. Deposits of the Bank are insured by the FDIC to the legal maximum for each insured depositor. Deposits, reserves, investments, loans, consumer law compliance, issuance of securities, payment of dividends, establishment of branches, mergers and acquisitions, corporate activities, changes in control, electronic funds transfers, responsiveness to community needs, management practices, compensation policies, and other aspects of operations are subject to regulation by the appropriate federal and state supervisory authorities. In addition, the Bank is subject to numerous federal, state and local laws and regulations which set forth specific restrictions and procedural requirements with respect to extensions of credit (including to insiders), credit practices, disclosure of credit terms and discrimination in credit transactions.

The Federal Reserve regularly examines the operations and condition of the Bank, including, but not limited to, its capital adequacy, reserves, loans, investments, and management practices. These examinations are for the protection of the Bank's depositors and the federal Deposit Insurance Fund. In addition, the Bank is required to furnish quarterly and annual reports to the Federal Reserve. The Federal Reserve's enforcement authority includes the power to remove officers and directors and the authority to issue cease-and-desist orders to prevent a bank from engaging in unsafe or unsound practices or violating laws or regulations governing its business.

The Federal Reserve has adopted regulations regarding the capital adequacy, which require member banks to maintain specified minimum ratios of capital to total assets and capital to risk-weighted assets. See "Regulatory Capital Requirements." Federal Reserve and State regulations limit the amount of dividends that the Bank may pay to the Company.

The Bank is subject to restrictions under federal law which limit the transfer of funds by the Bank to Bancorp and its non-banking subsidiaries, whether in the form of loans, extensions of credit, investments, asset purchases, or otherwise. Such transfers by the Bank to Bancorp or any of Bancorp's non-banking subsidiaries are limited in amount to 10% of the Bank's capital and surplus and, with respect to Bancorp and all such non-banking subsidiaries, to an aggregate of 20% of the Bank's capital and surplus. Furthermore, such loans and extensions of credit are required to be secured in specified amounts.

The Bank is subject to restrictions imposed by federal law on extensions of credit to, and certain other transactions with, the Company and other affiliates, and on investments in their stock or other securities. These restrictions prevent the Company and the Bank's other affiliates from borrowing from the Bank unless the loans are secured by specified collateral, and require those transactions to have terms comparable to terms of arms-length transactions with third persons. In addition, secured loans and other transactions and investments by the Bank are generally limited in amount as to the Company and as to any other affiliate to 10% of the Bank's capital and surplus and as to the Company and all other affiliates together to an aggregate of 20% of the Bank's capital and surplus. Certain exemptions to these limitations apply to extensions of credit and other transactions between the Bank and its subsidiaries. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions and for payment of dividends, interest, and operating expenses.

Under Federal Reserve regulations, banks must adopt and maintain written policies that establish appropriate limits and standards for extensions of credit secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards; prudent underwriting standards, including loan-to-value limits, that are clear and measurable; loan administration procedures; and documentation, approval, and reporting requirements. A bank's real estate lending policy must reflect consideration of the Interagency Guidelines for Real Estate Lending Policies (the "Interagency Guidelines") adopted by the federal bank regulators. The Interagency Guidelines, among other things, call for internal loan-to-value limits for real estate loans that are not in excess of the limits specified in the Guidelines. The Interagency Guidelines state, however, that it may be appropriate in individual cases to originate or purchase loans with loan-to-value ratios in excess of the supervisory loan-to-value limits.

The Bank pays deposit insurance premiums to the FDIC based on risk-based assessment rates. In 2006, the FDIC merged the Bank Insurance Fund with the Savings Association Insurance Fund to create a newly named Deposit Insurance Fund (the "DIF") that covers both banks and savings associations. Effective January 1, 2007, the FDIC revised its risk based assessment system. Under the new system, an institution's assessment rates are based primarily on financial ratios and component examination ratings established by the institution's primary federal banking regulator. The FDIC has also finalized rules providing for a one-time credit assessment to each eligible insured depository institution based on the assessment base of the institution on December 31, 1996. The credit was applied against the institution's 2007 assessment, and if not depleted, for the three years thereafter the institution may apply the credit against up to 90 percent of its assessment. The new assessment system did not produce a significant increase in its 2007 operating expenses.

Regulatory Capital Requirements. The Federal Reserve has established guidelines for maintenance of appropriate levels of capital by bank holding companies and member banks. The regulations impose two sets of capital adequacy requirements: minimum leverage rules, which require bank holding companies and banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to "risk-weighted" assets.

The regulations of the Federal Reserve in effect at December 31, 2007, do not impose capital ratio requirements on bank holding companies with assets of less than $500 million. The Company is, therefore, not subject to the Federal Reserves capital ratio requirements. The Bank, however, is fully subject to the Federal Reserve's capital standards. The regulations of the Federal Reserve in effect at December 31, 2007, required all member banks to maintain a minimum leverage ratio of "Tier 1 capital" (as defined in the risk-based capital guidelines discussed in the following paragraphs) to total assets of 3.0%. The capital regulations state, however, that only the strongest bank holding companies and banks, with composite examination ratings of 1 under the rating system used by the federal bank regulators, would be permitted to operate at or near this minimum level of capital. All other banks are expected to maintain a leverage ratio of at least 1% to 2% above the minimum ratio, depending on the assessment of an individual organization's capital adequacy by its primary regulator. A bank experiencing or anticipating significant growth is expected to maintain capital well above the minimum levels. In addition, the Federal Reserve has indicated that it also may consider the level of an organization's ratio of tangible Tier 1 capital (after deducting all intangibles) to total assets in making an overall assessment of capital.

In general, the risk-based capital rules of the Federal Reserve in effect at December 31, 2007, required member banks to maintain minimum levels based upon a weighting of their assets and off-balance sheet obligations according to risk. The risk-based capital rules have two basic components: a core capital (Tier 1) requirement and a supplementary capital (Tier 2) requirement. Core capital consists primarily of common stockholders' equity, noncumulative perpetual preferred stock, and minority interests in the equity accounts of consolidated subsidiaries; less all intangible assets, except for certain mortgage servicing rights and purchased credit card relationships. Supplementary capital elements include, subject to certain limitations, the allowance for losses on loans and leases; perpetual preferred stock that does not qualify as Tier 1 capital; long-term preferred stock with an original maturity of at least 20 years from issuance; hybrid capital instruments, including perpetual debt and mandatory convertible securities;

subordinated debt, intermediate-term preferred stock, and up to 45% of pre-tax net unrealized gains on available for sale equity securities.

The risk-based capital regulations assign balance sheet assets and credit equivalent amounts of off-balance sheet obligations to one of four broad risk categories based principally on the degree of credit risk associated with the obligor. The assets and off-balance sheet items in the four risk categories are weighted at 0%, 20%, 50%, and 100%. These computations result in the total risk-weighted assets.

The risk-based capital regulations require all commercial banks to maintain a minimum ratio of total capital to total risk-weighted assets of 8%, with at least 4% as core capital. For the purpose of calculating these ratios: (i) supplementary capital is limited to no more than 100% of core capital; and (ii) the aggregate amount of certain types of supplementary capital is limited. In addition, the risk-based capital regulations limit the allowance for credit losses that may be included in capital to 1.25% of total risk-weighted assets.

The federal bank regulatory agencies have established a joint policy regarding the evaluation of commercial banks' capital adequacy for interest rate risk. Under the policy, the Federal Reserve's assessment of a bank's capital adequacy includes an assessment of the bank's exposure to adverse changes in interest rates. The Federal Reserve has determined to rely on its examination process for such evaluations rather than on standardized measurement systems or formulas. The Federal Reserve may require banks that are found to have a high level of interest rate risk exposure or weak interest rate risk management systems to take corrective actions. Management believes its interest rate risk management systems and its capital relative to its interest rate risk are adequate.

Federal banking regulations also require banks with significant trading assets or liabilities to maintain supplemental risk-based capital based upon their levels of market risk. The Bank did not have significant levels of trading assets or liabilities during 2007, and was not required to maintain such supplemental capital.

The Federal Reserve has established regulations that classify banks by capital levels and provide for the Federal Reserve to take various "prompt corrective actions" to resolve the problems of any bank that fails to satisfy the capital standards. Under these regulations, a well-capitalized bank is one that is not subject to any regulatory order or directive to meet any specific capital level and that has a total risk-based capital ratio of 10% or more, a Tier 1 risk-based capital ratio of 6% or more, and a leverage ratio of 5% or more. An adequately capitalized bank is one that does not qualify as well-capitalized but meets or exceeds the following capital requirements: a total risk-based capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of either (i) 4% or (ii) 3% if the bank has the highest composite examination rating. A bank that does not meet these standards is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized, depending on its capital levels. A bank that falls within any of the three undercapitalized categories established by the prompt corrective action regulation is subject to severe regulatory sanctions. As of December 31, 2007, the Bank was well capitalized as defined in the Federal Reserve's regulations.

For additional information regarding the Company's and the Bank's compliance with their respective regulatory capital requirements, see Note 13, "Regulatory Matters," to the consolidated financial statements.

Supervision and Regulation of Mortgage Banking Operations. The Company's mortgage banking business is subject to the rules and regulations of the U.S. Department of Housing and Urban Development ("HUD"), the Federal Housing Administration ("FHA"), the Veterans' Administration ("VA"), and FNMA with respect to originating, processing, selling, and servicing mortgage loans. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines, which include provisions for inspections and appraisals, require credit reports on prospective borrowers, and fix maximum loan amounts. Lenders such as the Company are required annually to submit to FNMA, FHA and VA audited financial statements, and each regulatory entity has its own financial requirements. The Company's affairs are also subject to examination by the Federal Reserve, FNMA, FHA and VA at all times to assure compliance with the applicable regulations, policies, and procedures. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act, Fair Housing Act, Fair Credit Reporting Act, the National Flood Insurance Act and the Real Estate Settlement Procedures Act and related regulations that prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. The Company's mortgage banking operations also are affected by various state and local laws and regulations and the requirements of various private mortgage investors.

The Holding Company Act permits the Federal Reserve to approve an application of bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than that holding company's home state. The Federal Reserve may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state. The Holding Company Act also prohibits the Federal Reserve from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. The Holding Company Act does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. The State of Maryland allows out-of-state financial institutions to establish branches in Maryland, subject to certain limitations.

Bank Secrecy Act and USA Patriot Act. Under the Bank Secrecy Act ("BSA"), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report cash transactions involving more than $10,000 to the United States Treasury. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than $5,000 and which the financial institution knows, suspects, or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA, or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, commonly referred to as the "USA Patriot Act" or the "Patriot Act", enacted in response to the September 11, 2001, terrorist attacks, enacted prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence standards intended to prevent the use of the United States financial system for money laundering and terrorist financing activities. The Patriot Act requires banks and other depository institutions, brokers, dealers and certain other businesses involved in the transfer of money to establish anti-money laundering programs, including employee training and independent audit requirements meeting minimum standards specified by the act, to follow standards for customer identification and maintenance of customer identification records, and to compare customer lists against lists of suspected terrorists, terrorist organizations and money launderers. The Patriot Act also requires federal bank regulators to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve a proposed bank acquisition.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") established a broad range of corporate governance and accounting measures intended to increase corporate responsibility and protect investors by improving the accuracy and reliability of disclosures under federal securities laws. The Company is subject to Sarbanes-Oxley because it is required to file periodic reports with the SEC under the Securities and Exchange Act of 1934. Among other things, Sarbanes-Oxley's implementing regulations have established membership requirements and additional responsibilities for the Company's audit committee, imposed restrictions on the relationship between the Company and its outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed additional financial statement certification responsibilities for the Company's chief executive officer and chief financial officer, expanded the disclosure requirements for corporate insiders, and require management to evaluate the Company's disclosure controls and procedures and report material changes in the Company's internal control over financial reporting. Under current regulations, effective December 31, 2007, Sarbanes-Oxley requires management to evaluate the Company's internal control over financial reporting and as of December 31, 2009, Company's auditors will be required to issue a report on the Company's internal control over financial reporting.

Markets

The Company's primary market area comprises Cecil and Harford Counties in northeastern Maryland.

The Bank's executive office, two branches, and financial and loan centers are in Elkton, Maryland, and additional Cecil County branches are located in North East, Fair Hill, Rising Sun, Cecilton, and Conowingo, Maryland. Elkton is the county seat, and has a population of approximately 12,000. The population of the Cecil County is approximately 86,000. Cecil County is located in the extreme northeast of the Chesapeake Bay, at the crux of four states — Maryland, Delaware, Pennsylvania, and New Jersey. Elkton is located about 50 miles from Philadelphia and Baltimore. One-fifth of the U.S. population resides within 300 miles of the County. Interstate I-95, the main north-south East Coast artery, bisects the County. In addition, the four lane U.S. 40 parallels the Interstate. Cecil County has over 200 miles of waterfront between five rivers and the Chesapeake Bay. Key employers include a host of world-class companies such as Air Products, ATK, DuPont, General Electric, W.L. Gore & Associates, IKEA and Terumo Medical, as well as State, County and Local Governments.

The Bank also operates one branch in Aberdeen and two banking offices in Havre de Grace, Maryland, in Harford County. Harford County is twenty-three miles from Baltimore and twenty miles from Wilmington, Delaware. The county is a major transportation link; Interstate 95 and mainlines for CSX Railroad and Conrail run through the County. The County's major industrial centers along the I-95 Corridor are Aberdeen, Belcamp, Edgewood and Havre de Grace. Major private sector employers in the county include Battelle, CACI, Clorox Products Manufacturing, Custom Direct, Computer Sciences Corporation, Cytec Engineered Materials, EAI (a subsidiary of SAIC), EG&G/Lear Siegler, EPS, Frito-Lay, Independent Can, MITRE Corporation, Northrop Grumman, Nutramax Laboratories, Rite Aid, SafeNet, SAIC, Saks Fifth Avenue, Smiths Detection, SURVICE Engineering, and Upper Chesapeake Health. The U.S. Army Aberdeen Proving Ground is the major government employer in the county.

Loans and Mortgage Backed Securities

One to Four Family Residential Real Estate Lending. The Bank offers conventional mortgage loans on one- to four-family residential dwellings. Most loans are originated in amounts up to $350,000, on single-family properties located in the Bank's primary market area. The Bank makes conventional mortgage loans, as well as loans guaranteed by the Rural Development (USDA Housing Loans). The Bank's mortgage loan originations are generally for terms of 15, 20 and 30 years, amortized on a monthly basis with interest and principal due each month. Residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms as borrowers may refinance or prepay loans at their option, without penalty. Conventional residential mortgage loans granted by the Bank customarily contain "due-on-sale" clauses that permit the Bank to accelerate the indebtedness of the loan upon transfer of ownership of the mortgaged property. The Bank uses standard Federal Home Loan Mortgage Corporation ("FHLMC") documents, to allow for the sale of loans in the secondary mortgage market. The Bank's lending policies generally limit the maximum loan-to-value ratio on mortgage loans secured by owner-occupied properties to 95% of the lesser of the appraised value or purchase price of the property, with the condition that private mortgage insurance is required on loans with a loan-to-value ratio in excess of 80%. Loans originated under Rural Development programs have loan-to-value ratios of up to 100% due to the guarantees provided by those agencies. The substantial majority of loans in the Bank's loan portfolio have loan-to-value ratios of 80% or less.

The Bank offers adjustable-rate mortgage loans with terms of up to 40 years. Adjustable-rate loans offered by the Bank include loans which reprice every one, three or five years and provide for an interest rate which is based on the interest rate paid on U.S. Treasury securities of a corresponding term.

The Bank retains all adjustable-rate mortgages it originates, which are designed to reduce the Bank's exposure to changes in interest rates. The retention of adjustable-rate mortgage loans in the Bank's loan portfolio helps reduce the Bank's exposure to increases in interest rates. However, there are unquantifiable credit risks resulting from potential increased costs to the borrower as a result of repricing of adjustable-rate mortgage loans. It is possible that during periods of rising interest rates, the risk of default on adjustable-rate mortgage loans may increase due to the upward adjustment of interest cost to the borrower.

The Bank also originates conventional fixed-rate mortgages with terms of 15, 20 or 30 years. The Bank has originated all fixed-rate mortgage loans in recent years for sale in the secondary mortgage market, and a substantial majority of all fixed-rate loans originated since 1990 have been sold, primarily to the Federal Home Loan Mortgage Corporation ("FHLMC"), with servicing retained by the Bank. Management assesses its fixed rate loan originations on an ongoing basis to determine whether the Bank's portfolio position warrants the loans being sold or held in the Bank's portfolio.

During the year ended December 31, 2007, the Bank originated $86.1 million in adjustable-rate mortgage loans and $8.1 million in fixed-rate mortgage loans. The Bank also offers second mortgage loans. These loans are secured by a junior lien on residential real estate. The total of first and second liens may not exceed a 90% loan to value ratio. Loans have terms of 5, 10 and 15 years and have fixed rates. The Bank offers home equity lines of credit, which are secured by a junior lien on residential real estate. Customers are approved for a line of credit that provides for an interest rate, which varies monthly, and customers pay 2% of the balance per month.

Construction Lending. The Bank's construction lending has primarily involved lending for construction of single-family residences, although the Bank does lend funds for the construction of commercial properties and multi-family real estate. All loans for the construction of speculative sale homes have a loan value ratio of not more than 80%. The Bank has financed the construction of non-residential properties on a case by case basis. Loan proceeds are disbursed during the construction phase according to a draw schedule based on the stage of completion. Construction projects are inspected by contracted inspectors or bank personnel. Construction loans are underwritten on the basis of the estimated value of the property as completed.

Land Loans. The Bank also, from time to time, originates loans secured by raw land. Land loans granted to individuals have a term of up to 10 years and interest rates adjust every one, three or five years. Land loans granted to developers have terms of up to three years. The substantial majority of land loans have a loan-to-value ratio not exceeding 75%. The Bank may expand its lending on raw land, as market conditions allow, to qualified borrowers experienced in the development and sale of raw land. Loans involving construction financing and loans on raw land have a higher level of risk than loans for the purchase of existing homes since collateral values, land values, development costs and construction costs can only be estimated at the time the loan is approved. The Bank has sought to minimize its risk in construction lending and in lending for the purchase of raw land by offering such financing primarily to builders and developers to whom the Bank has loaned funds in the past and to persons who have previous experience in such projects. The Bank also limits construction lending and loans on raw land to its market area, with which management is familiar, except in conjunction with participated loans.

Multi-Family and Commercial Real Estate Lending. Loans secured by multi-family and commercial real estate generally are larger and involve greater risks than one- to four-family residential mortgage loans. Because payments on loans secured by such properties are often dependent on successful operation or management of the properties, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks in a variety of ways, including limiting the size and loan-to-value ratios of its multi-family and commercial real estate loans. The Bank's permanent multi-family and commercial real estate loans are secured by improved property such as office buildings, apartment buildings, and retail establishments. Multi-family and commercial real estate loans generally have terms of 20 to 40 years, are either tied to the prime rate or have interest rate adjustments every one, three or five years. Multi-family and commercial mortgages are generally made in amounts not exceeding 80% of the lesser of the appraised value or purchase price of the property. Interest rates on commercial real estate loans are negotiated on a loan-by-loan basis.

Commercial Business Loans. The Bank offers commercial business loans and both secured and unsecured loans and letters of credit, or lines of credit for businesses located in its primary market area. Most business loans have a one year term, while lines of credit can remain open for longer periods. All owners, partners, and officers must sign the loan agreement. The security for a business loan depends on the amount borrowed, the business involved, and the strength of the borrower's firm and position. Commercial business lending entails significant risk, as the payments on such loans may depend upon the successful operation or management of the business involved. Although the Bank attempts to limit its risk of loss on such loans by limiting the amount and the term, and by requiring personal guarantees of principals of the business (when additional guarantees are deemed necessary by management and such guarantees are allowed by regulation), the risk of loss on commercial business loans is substantially greater than the risk of loss from residential real estate lending.

Consumer Lending. Consumer loans generally involve more risk than first mortgage loans. Repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of damage, loss, or depreciation, and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Further, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered. These loans may also give rise to claims and defenses by a borrower against the Bank, and a borrower may be able to assert against the Bank claims and defenses that it has against the seller of the underlying collateral.

The Bank's consumer loans consist of automobile loans, deposit account loans, home improvement loans, and other consumer loans. Consumer loans are generally offered for terms of up to five years at fixed interest rates. Management expects to continue to promote consumer loans as part of its strategy to provide a wide range of personal financial services to its customers and as a means to increase the yield on the Bank's loan portfolio. The Bank makes loans for automobiles and recreational vehicles, both new and used, directly to the borrowers. The loans can be for up to 100% of the purchase price or the retail value listed by the National Automobile Dealers Association. The terms of the loans are determined by the condition of the collateral. Collision insurance policies are required on all these loans, unless the borrower has substantial other assets and income. The Bank makes deposit account loans for up to 90% of the amount of the depositor's account balance. The maximum amount of the loan takes into consideration the amount of interest due. The term of the loan is either interest due monthly on demand, or a term loan not to exceed 5 years. The interest rate is 2% higher than the rate being paid on the deposit account. The Bank also makes other consumer loans, which may or may not be secured. The term of the loans usually depends on the collateral. Unsecured loans usually do not exceed $100,000 and have a term of no longer than 12 months. Consumer loans are generally originated at higher interest rates than residential mortgage loans but also tend to have a higher risk than residential loans due to the loan being unsecured or secured by rapidly depreciable assets.

Loan Solicitation and Processing. The Bank's lending activities are subject to written, non-discriminatory underwriting standards and loan origination procedures outlined in loan policies established by its board of directors. Detailed loan applications are obtained to determine the borrower's ability to repay, and the more significant items on these applications are verified through the use of credit reports, financial statements, and confirmations. Property valuations required by policy are performed by independent outside appraisers approved by the board of directors. With certain limited exceptions, the maximum amount that the Bank may lend to any borrower (including certain related entities of the borrower) at any one time may not exceed 15% of the unimpaired capital and surplus of the institution, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. Under these limits, at December 31, 2007, the Bank's loans to one borrower cannot exceed $6,593,000.

Loan Originations and Sales. Loan originations are derived from a number of sources. Residential mortgage loan originations primarily come from walk-in customers and referrals by realtors, depositors, and borrowers. Applications are taken at all offices, but are processed by the Bank and submitted for approval, as noted above. The Bank has not purchased loans in the secondary mortgage market. All fixed-rate loans are originated according to FHLMC guidelines and, depending on market conditions, may be sold to FHLMC after origination. The Bank retains servicing on all loans sold to FHLMC.

Interest Rates and Loan Fees. Interest rates charged by the Bank on mortgage loans are primarily determined by competitive loan rates offered in its market area. Mortgage loan interest rates reflect factors such as general market interest rate levels, the supply of money available to the financial institutions industry and the demand for such loans. These factors are in turn affected by general economic conditions, the monetary policies of the Federal government, including the Board of Governors of the Federal Reserve System (the "Federal Reserve"), and general supply of money in the economy. In addition to interest earned on loans, the Bank receives fees in connection with loan commitments and originations, loan modifications, late payments and for miscellaneous services related to its loans. Income from these activities varies from period to period with the volume and type of loans originated, which in turn is dependent on prevailing mortgage interest rates and their effect on the demand for loans in the markets served by the Bank. The Bank also receives servicing fees on the loan amount of the loans that it services. At December 31, 2007, the Bank was servicing $23.5 million in loans for other financial institutions. For the years ended December 31, 2007 and 2006, the Bank recognized gross servicing income of $96,000 and $88,000, respectively, and total loan fee income of $439,000 and $367,000, respectively.

Mortgage-Backed Securities. The Bank maintains a portfolio of mortgage-backed securities in the form of Government National Mortgage Association ("GNMA") and FHLMC participation certificates. GNMA certificates are guaranteed as to principal and interest by the full faith and credit of the United States, while FHLMC certificates are guaranteed by the agency. Mortgage-backed securities generally entitle the Bank to receive a pro rata portion of the cash flows from an identified pool of mortgages. Although mortgage-backed securities yield from 30 to 100 basis points less than the loans that are exchanged for such securities, they present substantially lower credit risk and are more liquid than individual mortgage loans and may be used to collateralize obligations of the Bank. Because the Bank receives regular payments of principal and interest from its mortgage-backed securities, these investments provide more consistent cash-flows than investments in other debt securities, which generally only pay principal at maturity.

Mortgage-backed securities, however, entail certain unique risks. In a declining rate environment, accelerated prepayments of loans underlying these securities expose the Bank to the risk that they will be unable to obtain comparable yields upon reinvestment of the proceeds. In the event the mortgage-backed security has been funded with an interest-bearing liability with a maturity comparable to the original estimated life of the mortgage-backed security, the Bank's interest rate spread could be adversely affected. Conversely, in a rising interest rate environment, the Bank may experience a lower than estimated rate of repayment on the underlying mortgages, effectively extending the estimated life of the mortgage-backed security and exposing the Bank to the risk that it may be required to fund the asset with a liability bearing a higher rate of interest. The Bank seeks to minimize the effect of extension risk by focusing on investments in adjustable-rate and/or relatively short-term (seven years or shorter maturity) mortgage-backed securities.

The Bank has historically invested in mortgage-backed securities as an alternative to supplement its lending efforts and maintain compliance with certain regulatory requirements. At December 31, 2007, the Bank had no mortgage derivative products that met the definition of high risk mortgage securities.

Deposits and Borrowings

Deposits. Deposits are attracted principally from the Bank's market area through the offering of a variety of deposit instruments, including savings accounts and certificates of deposit ranging in term from 91 days to 60 months, as well as regular checking, NOW, passbook and money market deposit accounts. Deposit account terms vary, principally on the basis of the minimum balance required, the time periods the funds must remain on deposit, and the interest rate. The Bank also offers individual retirement accounts ("IRAs"). The Bank's policies are designed primarily to attract deposits from local residents. To supplement local market deposits, the Bank has access to the national CD market through the Certificate of Deposit Account Registry Service (CDARS) program managed by Promontory Interfinancial Network. The Bank may use this market to meet liquidity needs. Interest rates, maturity terms, service fees and withdrawal penalties are established by the Bank on a periodic basis. Determination of rates and terms are predicated upon funds acquisition and liquidity requirements, rates paid by competitors, growth goals and federal regulations.

Borrowings. Deposits historically have been the primary source of funds for the Bank's lending and investment activities and for its general business activities. The Bank is authorized, however, to use advances from the FHLB of Atlanta to supplement its supply of lendable funds and to meet deposit withdrawal requirements. Advances from the FHLB typically are secured by the Bank's stock in the FHLB and a portion of the Bank's loan portfolio. The Bank utilized advances from FHLB during the year. The FHLB of Atlanta functions as a central reserve bank providing credit for member financial institutions. As a member, the Bank is required to own capital stock in the FHLB and is authorized to apply for advances on the security of such stock and certain of its loans and other assets (principally, securities which are obligations of, or guaranteed by, the United States) provided certain standards related to creditworthiness have been met.

Competition

The Company offers a wide range of lending and deposit services in its market area. In addition, the Company offers a full range of brokerage and investment services through its relationship with Community Bankers Securities, LLC. The Company experiences substantial competition both in attracting and retaining deposits, in making loans, and in providing investment, insurance, and other services. Management believes the Bank is able to compete effectively in its primary market area.

The primary factors in competing for loans are interest rates, loan origination fees, and the range of services offered by lenders. Competitors for loan originations include other commercial banks, savings associations, mortgage bankers, mortgage brokers, and insurance companies. The Bank's principal competitors for deposits are other financial institutions, including other banks, savings associations, and credit unions located in the Bank's primary market area of Cecil and Harford Counties in Maryland or doing business in the market area through the internet, by mail, or by telephone. Competition among these institutions is based primarily on interest rates and other terms offered, service charges imposed on deposit accounts, the quality of services rendered, and the convenience of banking facilities. Additional competition for depositors' funds comes from U.S. Government securities, private issuers of debt obligations and suppliers of other investment alternatives for depositors, such as securities firms. Competition from credit unions has intensified in recent years as historical federal limits on membership have been relaxed. Because federal law subsidizes credit unions by giving them a general exemption from federal income taxes, credit unions have a significant cost advantage over banks and savings associations, which are fully subject to federal income taxes. Credit unions may use this advantage to offer rates that are highly competitive with those offered by banks and thrifts.

The banking business in Maryland generally, and the Bank's primary service area specifically, is highly competitive with respect to both loans and deposits. The Bank competes with many larger banking organizations that have offices over a wide geographic area. These larger institutions have certain inherent advantages, such as the ability to finance wide-ranging advertising campaigns and promotions and to allocate their investment assets to regions offering the highest yield and demand. They also offer services, such as international banking, that are not offered directly by the Bank (but are available indirectly through correspondent institutions), and, by virtue of their larger total capitalization, such banks have substantially higher legal lending limits, which are based on bank capital, than does the Bank. The Bank can arrange loans in excess of its lending limit, or in excess of the level of risk it desires to take, by arranging participations with other banks. Other entities, both governmental and in private industry, raise capital through the issuance and sale of debt and equity securities and indirectly compete with the Bank in the acquisition of deposits.

In addition to competing with other commercial banks, savings associations, and credit unions, commercial banks such as the Bank compete with nonbank institutions for funds. For instance, yields on corporate and government debt and equity securities affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for available funds with mutual funds. These mutual funds have provided substantial competition to banks for deposits, and it is anticipated they will continue to do so in the future.

Employees

As of January 31, 2008, the Company and the Bank employed 92 persons. None of the Company's or the Bank's employees is represented by a union or covered under a collective bargaining agreement. Management of the Company and the Bank consider their employee relations to be excellent.

ITEM 1A. RISK FACTORS. Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS. Not applicable.

ITEM 2. PROPERTIES

Following are the locations of the Bank at December 31, 2007. The Company has no other locations.

Popular Name	Location
Main Office	127 North Street, Elkton, MD 21921
*Cecil Financial Center	135 North Street, Elkton, MD 21921
Loan Center	200 North Street, Elkton, MD 21921
Corporate Center	114 North Street, Elkton, MD 21921
*North East	108 North East Plaza, North East, MD 21901
Fair Hill	4434 Telegraph Road, Elkton, MD 21921
*Rising Sun	56 Rising Sun Towne Centre, Rising Sun, MD 21911
Turkey Point	1223 Turkey Point Road, North East, MD 21901
Cecilton	122 West Main Street, Cecilton, MD 21913
*Crossroads	114 E. Pulaski Hwy, Elkton, MD 21921
Aberdeen	3 W. Bel Air Avenue, Aberdeen, MD 21001
Conowingo	390 Conowingo Road, Conowingo, MD 21918

Popular Name	Location
Downtown Havre de Grace	303-307 St John Street, Havre de Grace, MD 21078
Route 40 Havre de Grace	1609 Pulaski Highway, Havre de Grace, MD 21078

* Leased.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, Cecil Bancorp is subject to various pending and threatened legal actions. The relief or damages sought in some of these actions may be substantial. After reviewing pending and threatened actions with counsel, management considers that the outcome of such actions will not have a material adverse effect on Cecil Bancorp's financial position; however, the Bank is not able to predict whether the outcome of such actions may or may not have a material adverse effect on results of operations in a particular future period as the timing and amount of any resolution of such actions and relationship to the future results of operations are not known.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 2007, through solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common shares of Cecil Bancorp are traded over the counter under the symbol CECB. Stockholders received quarterly cash dividends totaling $0.10 per share in both 2007 and 2006. The ratio of dividends per share to diluted net income per share was 10.9% in 2007, compared to 13.5% for 2006. The dividend amount is established by the Board of Directors each quarter. In making its decision on dividends, the Board considers operating results, financial condition, capital adequacy, regulatory requirements, shareholder returns and other factors. There were no shares issued under the dividend reinvestment plan in 2007 and 2006. All EPS amounts have been adjusted to give retroactive effect to the 1% stock dividends approved by the Board of Directors in December 2005, March 2006, May 2006, and August 2006 and the 2-for-1 stock split approved by the Board of Directors in March 2007.

The number of common shareholders of record was approximately 630 as of March 25, 2008, excluding stockholders who hold in nominee or "street name."

Quarterly Stock Information

	2007			2006		
	Stock Price Range		Per Share	Stock Price Range		Per Share
Quarter	Low	High	Dividend	Low	High	Dividend
1st	$ 8.75	$ 9.75	$ .025	$ 7.68	$ 9.16	$ .025
2nd	9.00	10.43	.025	7.88	8.38	.025
3rd	9.00	9.50	.025	7.92	9.16	.025
4th	8.65	9.60	.025	8.99	10.25	.025
Total			$ 0.10			$ 0.10

(1) Quotations reflect inter-dealer price, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

The following table presents disclosure regarding equity compensation plans in existence at December 31, 2007, consisting only of the stock option plan (expired but having outstanding options that may still be exercised) which was approved by shareholders (described further under the caption "Stock Based Compensation Plan" in Note 14 to the consolidated financial statements).

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	16,032	$6.00	0
Equity compensation plans not approved by security holders	0	0	0
Total	16,032	$6.00	0

The above table does not include shares issued under the Management Recognition Plan, for which no additional shares are available for issuance, or shares acquired by the Employee Stock Ownership Plan.

401(k) Plan Purchases

Participants in the Company's 401(k) plan became eligible to invest in the Company's common stock through the plan in January 2006. At December 31, 2007, there were 36,622 shares of the Company's common stock held in the plan, with a total market value of approximately $329,600. All of these shares were purchased by the plan from third parties or issued as a result of stock dividends, and no such shares were sold or issued directly by the Company to the plan. The purchases of these shares or related plan interests were not registered under the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

Five Year Summary of Selected Financial Data *(Dollars in thousands, except per share data)*	2007	2006	2005	2004	2003
RESULTS OF OPERATIONS:					
Interest Income	$ 28,244	$ 21,646	$ 14,987	$ 10,427	$ 8,369
Interest Expense	14,346	10,167	5,679	3,116	2,649
Net Interest Income	13,898	11,479	9,308	7,311	5,720
Provision for Loan Losses	935	665	625	370	220
Net Interest Income after Provision for Loan Losses	12,963	10,814	8,683	6,941	5,500
Noninterest Income	1,500	1,261	1,115	1,005	805
Noninterest Expenses	9,004	7,847	6,543	5,466	4,321
Income before Income Taxes	5,459	4,228	3,255	2,480	1,984
Income Tax Expense	2,059	1,520	1,193	948	749
Net Income	3,400	2,708	2,062	1,532	1,235
PER SHARE DATA: (1)					
Basic Net Income Per Share	$ .92	$ .74	$ .60	$ .46	$ .39
Diluted Net Income Per Share	.92	.74	.60	.45	.39
Dividends Declared	.10	.10	.10	.10	.10
Book Value (at year end)	7.41	6.60	6.21	5.61	5.21
Tangible Book Value (at year end) (2)	6.75	5.95	5.55	4.90	4.49
FINANCIAL CONDITION (at year end):					
Assets	$401,432	$347,451	$267,125	$200,380	$149,600
Loans, net	355,595	310,083	233,307	173,790	126,887
Investment Securities	5,219	6,271	5,922	5,674	5,770
Deposits	267,032	270,604	198,207	140,841	118,164
Stockholders' Equity	27,242	24,273	21,942	18,316	16,714
PERFORMANCE RATIOS (for the year):					
Return on Average Assets	.92%	.91%	.89%	.89%	.91%
Return on Average Equity	13.28	11.70	10.54	8.70	7.79
Net Interest Margin	4.05	4.18	4.36	4.61	4.51
Efficiency Ratio (3)	58.48	61.59	62.77	65.73	66.22
Dividends Declared Per Share to Diluted Net Income Per Share	10.87	13.51	16.67	22.22	25.64
CAPITAL AND CREDIT QUALITY RATIOS:					
Average Equity to Average Assets	6.92%	7.81%	8.45%	10.23%	11.72%
Allowance for Loan Losses to Loans	.87	.71	.74	.68	.61
Nonperforming Assets to Total Assets	1.42	.46	1.21	1.06	.84
Net Recoveries (Charge-offs) to Average Loans	(.01)	(.07)	(.04)	.02	(.04)

(1) All per share amounts have been adjusted to give retroactive effect for the two-for-one stock split approved by the Board of Directors on February 24, 2004, the 1% stock dividends approved by the Board of Directors in December 2005, March 2006, May 2006, and August 2006, and the two-for-one stock split approved by the Board of Directors in March 2007.

(2) Total stockholders' equity, net of goodwill and other intangible assets, divided by the number of shares of common stock outstanding at year end.

(3) The Efficiency Ratio equals noninterest expenses as a percentage of net interest income plus noninterest income.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this Management's Discussion and Analysis of the Company's consolidated financial condition and results of operations in conjunction with the Company's consolidated financial statements and the accompanying notes.

Summary

Cecil Bancorp, Inc. (the "Company") is the bank holding company for Cecil Bank (the "Bank"). The Bank is a community-oriented commercial bank chartered under the laws of the State of Maryland and is a member of the Federal Reserve System.

The Bank is a community-oriented financial institution which commenced operations in 1959 as a Federal mutual savings and loan association. The Bank conducts its business through its main office in Elkton, Maryland, and branches in Elkton, North East, Fair Hill, Rising Sun, Cecilton, Aberdeen, Conowingo, and Havre de Grace, Maryland. Cecil Service Corporation, a subsidiary of the Bank, acts as leasing agent for the leased branches. The Bank offers a full range of brokerage and investment services through a relationship with Community Bankers Securities, LLC. The Bank's business strategy is to operate as an independent community-oriented financial institution funded primarily by retail deposits.

Consolidated Average Balances, Yields and Rates (1)

(Dollars in thousands)

	2007			2006			2005		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets									
Loans	$331,021	$27,677	8.36%	$263,185	$21,174	8.05%	$202,318	$14,663	7.25%
Investment securities	5,674	284	5.01	5,914	276	4.67	5,768	187	3.25
Other earning assets	6,845	283	4.12	5,551	196	3.53	5,599	137	2.44
Total earning assets	343,540	28,244	8.22	274,650	21,646	7.88	213,682	14,987	7.01
Other assets	26,442			21,795			17,821		
Total assets	$369,982			$296,445			$231,503		
Liabilities and Stockholders' Equity:									
Deposits	280,899	11,213	3.99	224,156	7,546	3.37	169,801	4,132	2.43
FHLB advances	42,043	2,012	4.79	39,740	2,071	5.21	40,664	1,547	3.80
Guaranteed preferred beneficial interest in junior subordinated debentures	17,000	1,121	6.59	8,789	550	6.25	0	0	0
Total interest-bearing liabilities	339,942	14,346	4.22	272,685	10,167	3.73	210,465	5,679	2.70
Net interest income and spread		$13,898	4.00%		$11,479	4.15%		$ 9,308	4.31%
Noninterest-bearing liabilities	4,436			616			1,465		
Total liabilities	344,378			273,301			211,930		
Stockholders' equity	25,604			23,144			19,573		
Total liabilities and stockholders' equity	$369,982			$296,445			$231,503		
Net Interest Margin			4.05%			4.18%			4.36%
Average interest earning assets to interest bearing liabilities			101.06			100.72			101.53

(1) No tax equivalent adjustments were made.

(2) Non-accrual loans are included in the average balances.

Comparison of Results of Operations
2007 versus 2006

Net income increased $692,000, or 25.6%, to $3.4 million for the year ended December 31, 2007, from $2.7 million for the same period in 2006. The increase in net income is primarily the result of a $2.4 million, or 21.1%, increase in net interest income and a $239,000, or 19.0%, increase in noninterest income, partially offset by a $270,000 (40.6%) increase in the provision for loan losses, a $1.2 million, or 14.7%, increase in noninterest expense, and a $539,000 (35.5%) increase in income tax expense. Basic and diluted earnings per share for 2007 were $0.92, up $0.18, or approximately 24.3%, over corresponding 2006 basic and diluted earnings per share amounts of $0.74. Earnings per share calculations have been adjusted to give retroactive effect to the 1% stock dividends approved by the Board of Directors in December 2005, March 2006, May 2006, and August 2006 and the two-for-one stock split approved by the Board of Directors in March 2007. The annualized return on average assets and annualized return on average equity were 0.92% and 13.28%, respectively, for the year ended December 31, 2007. This compares to an annualized return on average assets and the annualized return on average equity of 0.91% and 11.70%, respectively, for the same period in 2006.

Net interest income, the Company's primary source of income, increased $2.4 million, or 21.1%, to $13.9 million for the year ended December 31, 2007, from $11.5 million for the year ended December 31, 2006. The weighted average yield on interest-earning assets increased to 8.22% for the year ended December 31, 2007 from 7.88% for the year ended December 31, 2006. The weighted average rate paid on interest bearing liabilities increased to 4.22% for the year ended December 31, 2007 from 3.73% for the year ended December 31, 2006. As a result, the net interest spread decreased to 4.00% for 2007 from 4.15% for 2006 and the net interest margin decreased to 4.05% for 2007 from 4.18% for 2006.

Interest and fees on loans receivable increased by $6.5 million, or 30.7%, to $27.7 million for the year ended December 31, 2007 from $21.2 million for the year ended December 31, 2006. The increase is attributable to an increase in the average balance outstanding and the average yield earned. The average balance outstanding increased $67.8 million, or 25.8%, to $331.0 million for the year ended December 31, 2007 from $263.2 million for the year ended December 31, 2006. The weighted average yield increased to 8.36% for the year ended December 31, 2007 from 8.05% for the year ended December 31, 2006.

Other earning assets consist of Federal Home Loan Bank stock, Federal Reserve Bank stock, and interest bearing deposits with banks. Dividends on Federal Home Loan and Federal Reserve Bank stock increased $26,000, or 17.7%, to $173,000 for the year ended December 31, 2007 from $147,000 for the year ended December 31, 2006 as a result of increases in the average balance outstanding and the weighted average yield. The average balance outstanding increased $343,000, or 13.5%, to $2.9 million for the year ended December 31, 2007 from $2.5 million for the year ended December 31, 2006. The weighted average yield increased to 5.98% for the year ended December 31, 2007 from 5.77% for the year ended December 31, 2006. Interest on the interest bearing deposits with banks increased $61,000 to $110,000 for the year ended December 31, 2007 from $49,000 for the year ended December 31, 2006 as a result of increases in the weighted average yield and the average balance outstanding. The weighted average yield increased to 2.77% for the year ended December 31, 2007 from 1.63% for the year ended December 31, 2006. The average balance outstanding increased $951,000, or 31.6%, to $4.0 million for the year ended December 31, 2007 from $3.0 million for the year ended December 31, 2006.

Interest expense on deposits increased $3.7 million, or 48.6%, to $11.2 million for the year ended December 31, 2007 from $7.5 million for the year ended December 31, 2006. The increase was the result of increases in the average balance and the average cost of funds. The average balance outstanding increased $56.7 million, or 25.3%, to $280.9 million for the year ended December 31, 2007 from $224.2 million for the year ended December 31, 2006. The weighted average rate increased to 3.99% for the year ended December 31, 2007 from 3.37% for the year ended December 31, 2006. Interest expense on the guaranteed preferred beneficial interest in junior subordinated debentures increased $571,000 to $1.1 million for the year ended December 31, 2007 from $550,000 for the year ended December 31, 2006. The average balance outstanding increased $8.2 million, or 93.4%, to $17.0 million for the year ended December 31, 2007 from $8.8 million for the year ended December 31, 2006. The weighted average cost of funds was 6.59% for the year ended December 31, 2007 and 6.25% for the year ended December 31, 2006. Interest expense on advances from the Federal Home Loan Bank of Atlanta decreased $59,000, or 2.9%, to $2.0 million for the year ended December 31, 2007 from $2.1 million for the year ended December 31, 2006. The decrease was a result of a decrease in the average cost of funds, partially offset by an increase in the average balance outstanding. The weighted average rate decreased to 4.79% for the year ended December 31, 2007 from 5.21% for the year ended December 31, 2006. The average balance outstanding increased $2.3 million, or 5.8%, to $42.0 million for the year ended December 31, 2007 from $39.7 million for the year ended December 31, 2006.

Effect of Volume and Rate Changes on Net Interest Income

	2007 vs. 2006			2006 vs. 2005		
	Increase Or	Due to Change in Average:*		Increase or	Due to Change in Average:*	
(Dollars in thousands)	(Decrease)	Volume	Rate	(Decrease)	Volume	Rate
Interest income from earning assets:						
Loans	$ 6,503	$ 5,644	$ 859	$ 6,511	$ 4,767	$ 1,744
Investment securities	8	(11)	19	89	5	84
Other interest-earning assets	87	50	37	59	(1)	60
Total Interest Income	6,598	5,629	969	6,659	4,645	2,014
Interest expense:						
Interest-bearing deposits	3,667	2,115	1,552	3,414	1,553	1,861
FHLB advances	(59)	116	(175)	524	(36)	560
Guaranteed preferred beneficial interest in junior subordinated debentures	571	540	31	550	550	0
Total Interest Expense	4,179	2,723	1,456	4,488	1,959	2,529
Net Interest Income	$ 2,419	$ 2,906	$ (487)	$ 2,171	$ 2,686	$ (515)

* Variances are computed line-by-line and do not add to the totals shown. Changes in rate-volume (changes in rate multiplied by the changes in volume) are allocated between changes in rate and changes in volume in proportion to the relative contribution of each.

The allowance for loan losses is increased by provisions charged to expense. Charge-offs of loan amounts determined by management to be uncollectible decrease the allowance, and recoveries of previous charge-offs are added to the allowance. The Company recognizes provisions for loan losses in amounts necessary to maintain the allowance for loan losses at an appropriate level, based upon management's reviews of probable losses inherent in the loan portfolio. The provision for loan losses increased $270,000, or 40.6%, to $935,000 for the year ended December 31, 2007 from $665,000 for the year ended December 31, 2006 as a result of this analysis. (See "Allowance for Loan Losses.")

Noninterest income increased $239,000, or 19.0%, to $1.5 million for the year ended December 31, 2007 from $1.3 million for the year ended December 31, 2006. ATM fees increased $194,000 to $302,000 for the year ended December 31, 2007 from $108,000 for the year ended December 31, 2006. This increase is attributable to increased surcharge fees resulting from increases in cardholder usage. Commission income decreased $45,000, or 60.0%, to $30,000 for the year ended December 31, 2007 from $75,000 for the year ended December 31, 2006. There were no gains or losses on the sale of real estate owned in 2007. Loss on the sale of real estate owned was $43,000 as a result of the sale of one property for the year ended December 31, 2006. Gain on the sale of loans of $114,000 for the year ended December 31, 2007 was consistent with the total of $101,000 for the year ended December 31, 2006. Income from bank owned life insurance increased by $84,000, or 35.9%, to $318,000 for the year ended December 31, 2007 from $234,000 for the year ended December 31, 2006 due to an increase in rates being paid by the insurance carriers, as well as the additional $1.3 million investment during the first quarter of 2007. Other income decreased $64,000, or 26.0%, to $182,000 for the year ended December 31, 2007 from $246,000 for the year ended December 31, 2006 primarily due to a decrease in income from the Company's investment in Triangle Capital Partners, a specialty finance company organized to provide financing solutions to lower middle market companies primarily located in the southeastern United States, partially offset by increases in rental income and income from the Company's investment in Maryland Title Center.

Noninterest expense increased $1.2 million, or 14.7%, to $9.0 million for the year ended December 31, 2007 from $7.8 million for the year ended December 31, 2006. The Company experienced an increase in salaries and employee benefits of $663,000, or 13.1%, to $5.7 million for the year ended December 31, 2007 from $5.1 million for the year ended December 31, 2006. This increase is attributable to annual merit increases and the increase in expense associated with the supplemental executive retirement plan. Occupancy expense increased $41,000, or 7.0%, to $630,000 for the year ended December 31, 2007 from $589,000 for the year ended December 31, 2006. This increase is due to an increase in utilities and depreciation expense. Equipment and data processing increased $335,000, or 37.4%, to $1.2 million for the year ended December 31, 2007 from $896,000 for the year ended December 31, 2006 primarily due to an increase in the fees charged by the Bank's data service processor. Professional fees increased $67,000, or 33.2%, to $269,000 for the year ended December 31, 2007 from $202,000 for the year ended December 31, 2006 due to an increase in accounting and auditing fees, primarily relating to Sarbanes-Oxley Act compliance. Other expenses increased $120,000, or 13.8%, to $989,000 for the year ended December 31, 2007 from $869,000 for the year ended December 31, 2006, primarily due to increases in FDIC and State of Maryland regulatory fees, ATM expense, and foreclosed real estate expense associated with the write-down of a property to appraised value.

Income tax expense for the years ended December 31, 2007 and 2006 was $2.1 million and $1.5 million, respectively, which equates to effective rates of 37.7% and 36.0%, respectively.

Comparison of Results of Operations
2006 versus 2005

Net income increased $646,000, or 31.3%, to $2.7 million for the year ended December 31, 2006, from $2.1 million for the same period in 2005. The increase in net income is primarily the result of a $2.2 million, or 23.3%, increase in net interest income and a $146,000, or 13.1%, increase in noninterest income, partially offset by a $40,000 (6.4%) increase in the provision for loan losses, a $1.3 million, or 19.9%, increase in noninterest expense, and a $327,000 (27.4%) increase in income tax expense. Basic and diluted earnings per share for 2006 were $1.47, up $0.26 and $0.27, or approximately 21.5% and 22.5%, over corresponding 2005 basic and diluted earnings per share amounts of $1.21 and $1.20. Earnings per share calculations have been adjusted to give retroactive effect to the 1% stock dividends approved by the Board of Directors in December 2005, March 2006, May 2006, and August 2006. The annualized return on average assets and annualized return on average equity were 0.91% and 11.70%, respectively, for the year ended December 31, 2006. This compares to an annualized return on average assets and the annualized return on average equity of 0.89% and 10.54%, respectively, for the same period in 2005.

Net interest income, the Company's primary source of income, increased $2.2 million, or 23.3%, to $11.5 million for the year ended December 31, 2006, from $9.3 million for the year ended December 31, 2005. The weighted average yield on all interest-earning assets increased to 7.88% for the year ended December 31, 2006 from 7.01% for the year ended December 31, 2005. The weighted average rate paid on interest bearing liabilities increased to 3.73% for the year ended December 31, 2006 from 2.70% for the year ended December 31, 2005. The weighted average yield earned and the weighted average rate paid increased due to the increase in general market rates. The weighted average rate paid on interest bearing liabilities increased more rapidly, as the Company has increased rates on deposits in an attempt to gain market share. The Company has also issued higher-yielding junior subordinated debentures in an effort to increase the regulatory capital of the Company and the Bank. As a result, the net interest spread decreased to 4.15% for 2006 from 4.31% for 2005 and the net interest margin decreased to 4.18% for 2006 from 4.36% for 2005.

Interest and fees on loans receivable increased by $6.5 million, or 44.4%, to $21.2 million for the year ended December 31, 2006 from $14.7 million for the year ended December 31, 2005. The increase is attributable to an increase in the average balance outstanding and the average yield earned. The average balance outstanding increased $60.9 million, or 30.1%, to $263.2 million for the year ended December 31, 2006 from $202.3 million for the year ended December 31, 2005. The weighted average yield increased to 8.05% for the year ended December 31, 2006 from 7.25% for the year ended December 31, 2005.

Interest on investment securities increased $89,000, or 47.6%, to $276,000 for the year ended December 31, 2006 from $187,000 for the year ended December 31, 2005. The increase is the result of an increase in the weighted average yield earned to 4.67% for the year ended December 31, 2006 from 3.25% for the year ended December 31, 2005. The average balance outstanding increased slightly to $5.9 million for the year ended December 31, 2006 from $5.8 million for the year ended December 31, 2005.

Other earning assets consist of Federal Home Loan Bank stock, Federal Reserve Bank stock, and interest bearing deposits with banks. Dividends on Federal Home Loan and Federal Reserve Bank stock increased $44,000, or 42.7%, to $147,000 for the year ended December 31, 2006 from $103,000 for the year ended December 31, 2005 as a result of increases in the average balance outstanding and the weighted average yield. The average balance outstanding increased $125,000, or 5.2%, to $2.5 million for the year ended December 31, 2006 from $2.4 million for the year ended December 31, 2005. The weighted average yield increased to 5.77% for the year ended December 31, 2006 from 4.27% for the year ended December 31, 2005. Interest on the interest bearing deposits with banks increased $15,000, or 44.1%, to $49,000 for the year ended December 31, 2006 from $34,000 for the year ended December 31, 2005 as a result of an increase in the weighted average yield, partially offset by a decrease in the average balance outstanding. The weighted average yield increased to 1.63% for the year ended December 31, 2006 from 1.05% for the year ended December 31, 2005. The average balance outstanding decreased $173,000, or 5.4%, to $3.0 million for the year ended December 31, 2006 from $3.2 million for the year ended December 31, 2005.

Interest expense on deposits increased $3.4 million, or 82.6%, to $7.5 million for the year ended December 31, 2006 from $4.1 million for the year ended December 31, 2005. The increase was the result of increases in the average balance and the average cost of funds. The average balance outstanding increased $54.4 million, or 32.0%, to $224.2 million for the year ended December 31, 2006 from $169.8 million for the year ended December 31, 2005. The weighted average rate increased to 3.37% for the year ended December 31, 2006 from 2.43% for the year ended December 31, 2005. Interest expense on the guaranteed preferred beneficial interest in junior subordinated debentures, all of which were issued in 2006, was $550,000 for the year. The average balance outstanding and the weighted average cost of funds were $8.8 million and 6.25%, respectively, for the year ended December 31, 2006. Interest expense on advances from the Federal Home Loan Bank of Atlanta increased $524,000, or 33.9%, to $2.1 million for the year ended December 31, 2006 from $1.5 million for the year ended December 31, 2005. The increase was a result of an increase in the average cost of funds, partially offset by a decrease in the average balance outstanding. The weighted average rate increased to 5.21% for the year ended December 31, 2006 from 3.80% for the year ended December 31, 2005. The average balance outstanding decreased $924,000, or 2.3%, to $39.7 million for the year ended December 31, 2006 from $40.7 million for the year ended December 31, 2005.

The allowance for loan losses is increased by provisions charged to expense. Charge-offs of loan amounts determined by management to be uncollectible decrease the allowance, and recoveries of previous charge-offs are added to the allowance. The Company recognizes provisions for loan losses in amounts necessary to maintain the allowance for loan losses at an appropriate level, based upon management's reviews of probable losses inherent in the loan portfolio. The provision for loan losses increased $40,000, or 6.4%, to $665,000 for the year ended December 31, 2006 from $625,000 for the year ended December 31, 2005 as a result of this analysis. (See "Allowance for Loan Losses.")

Noninterest income increased $146,000, or 13.1%, to $1.3 million for the year ended December 31, 2006 from $1.1 million for the year ended December 31, 2005. Checking account fees increased $87,000, or 19.2%, to $540,000 for the year ended December 31, 2006 from $453,000 for the year ended December 31, 2005 due to growth in the deposit portfolio. ATM fees increased $21,000, or 24.1%, to $108,000 for the year ended December 31, 2006 from $87,000 for the year ended December 31, 2005. This increase is attributable to increased surcharge fees resulting from increases in cardholder usage. Commission income remained stable at $75,000 and $82,000 for the years ended December 31, 2006 and 2005, respectively. Loss on the sale of real estate owned was $43,000 as a result of the sale of one property for the year ended December 31, 2006. There were no gains or losses on the sale of real estate owned in 2005. Gain on the sale of loans of $101,000 for the year ended December 31, 2006 was consistent with the total of $110,000 for the year ended December 31, 2005. Income from bank owned life insurance remained stable at $234,000 and $243,000 for the years ended December 31, 2006 and 2005, respectively. Other income increased $106,000, or 75.7%, to $246,000 for the year ended December 31, 2006 from $140,000 for the year ended December 31, 2005. This increase is primarily due to an increase in income from the Company's investment in Triangle Mezzanine Fund, LLLP partially offset by a decrease in rental income earned on a commercial property purchased in July 2005, which the Company now uses as an operations facility.

Noninterest expense increased $1.3 million, or 19.9%, to $7.8 million for the year ended December 31, 2006 from $6.5 million for the year ended December 31, 2005. The Company experienced an increase in salaries and employee benefits of $882,000, or 21.2%, to $5.1 million for the year ended December 31, 2006 from $4.2 million for the year ended December 31, 2005. This increase is attributable to annual merit increases and the increase in expense associated with the supplemental executive retirement plan. Occupancy expense increased $105,000, or 21.7%, to $589,000 for the year ended December 31, 2006 from $484,000 for the year ended December 31, 2005. This increase is due to an increase in utilities expense from the branch expansion as well as rates charged by power companies, and an increase in depreciation expense from the new properties acquired in 2005. Equipment and data processing increased $156,000, or 21.1%, to $896,000 for the year ended December 31, 2006 from $740,000 for the year ended December 31, 2005 primarily due to an increase in the fees charged by the Bank's data service processor. Checking account expense decreased to $92,000 for the year ended December 31, 2006 and $124,000 for the year ended December 31, 2005. Professional fees increased $93,000, or 85.3%, to $202,000 for the year ended December 31, 2006 from $109,000 for the year ended December 31, 2005 due to a decrease in the recovery of previous paid loan collection related legal expenses from loan customers. Accounting and auditing fees have also increased to meet expanding regulatory requirements. Advertising decreased $16,000, or 14.2%, to $97,000 for the year ended December 31, 2006 from $113,000 for the year ended December 31, 2005. This decrease is due a reduction in marketing expenses incurred during the year. Other expenses increased $117,000, or 15.6%, to $869,000 for the year ended December 31, 2006 from $752,000 for the year ended December 31, 2005, primarily due to increases in FDIC and State of Maryland regulatory fees, loan expense, and real estate and other taxes.

Income tax expense for the years ended December 31, 2006 and 2005 was $1.5 million and $1.2 million, respectively, which equates to effective rates of 36.0% and 36.7%, respectively.

Comparison of Financial Condition
2007 versus 2006

The Company's assets increased by $54.0 million, or 15.5%, to $401.1 million at December 31, 2007 from $347.5 million at December 31, 2006. The loans receivable portfolio increased by $46.4 million, or 14.9%, to $358.7 million at December 31, 2007 from $312.3 million at December 31, 2006. The increase in loans is due to the Company's growth strategy and the marketing efforts of the business development and loan departments. During the period, we realized a $5.4 million increase in construction loans, a $16.6 million (15.2%) increase in one-to-four family residential and home equity loans, and a $24.5 million (23.9%) increase in commercial real estate loans. The allowance for loan losses increased by $892,000, or 40.2%, to $3.1 million at December 31, 2007 from $2.2 million at December 31, 2006. The allowance for loan losses is increased by provisions charged to expense. Charge-offs of loan amounts determined by management to be uncollectible decrease the allowance, and recoveries of previous charge-offs are added to the allowance. (See "Allowance for Loan Losses" below.) Cash and interest-bearing deposits with banks decreased $1.1 million, or 16.8%, to $5.5 million at December 31, 2007 from $6.6 million at December 31, 2006 primarily due to the $1.0 million decrease in the cash letter deposit received from customers at the end of December 2007 as compared to the end of December 2006.

Investment securities held-to-maturity decreased by $988,000, or 26.4%, to $2.7 million at December 31, 2007 from $3.7 million at December 31, 2006 due to a security that matured during the year that was not renewed. The proceeds from the maturity were instead used to pay down debt. Restricted investment securities, which consist of Federal Home Loan and Federal Reserve Bank stock, increased by $2.4 million, or 99.4%, to $4.8 million at December 31, 2007 from $2.4 million at December 31, 2006 due to the increase in FHLB advances, which requires an increase in FHLB stock as mandated by the Federal Home Loan Bank of Atlanta. Other real estate owned increased 100% to $655,000 at December 31, 2007 due to the acquisition of two properties in satisfaction of loans receivable. Premises and equipment increased by $2.8 million, or 30.3%, to $12.0 million at December 31, 2007 from $9.2 million at December 31, 2006 due to the allocation of funds for future expansion. Accrued interest receivable increased by $427,000, or 25.2%, to $2.1 million at December 31, 2007 from $1.7 million at December 31, 2006 due to growth in the loan portfolio. Other intangible assets, consisting entirely of mortgage servicing rights, increased by $47,000, or 24.4%, to $240,000 at December 31, 2007 from $193,000 at December 31, 2006, primarily due to the continued sale of loans with servicing retained during 2007. Bank owned life insurance increased $1.6 million, or 27.4%, to $7.5 million at December 31, 2007 from $5.9 million at December 31, 2006 due to premium payments of $3.2 million and income of $318,000, partially offset by the surrender of policies totaling $1.9 million. Other assets increased $2.7 million, or 90.9%, to $5.6 million at December 31, 2007 from $2.9 million at December 31, 2006, primarily due to an increase of $977,000 in the Company's deferred tax asset and a $1.7 million receivable at December 31, 2007 from Money Gram Payment Systems, the Company's third party official check processing agent. The amount was received in January 2008.

The Company's liabilities increased $51.0 million, or 15.8%, to $374.2 million at December 31, 2007 from $323.2 million at December 31, 2006. Deposits decreased $3.6 million, or 1.3%, to $267.0 million at December 31, 2007 from $270.6 million at December 31, 2006. This decrease is primarily due to a balance sheet restructuring out of the national certificate of deposit market and into lower cost advances from the Federal Home Loan Bank of Atlanta. NOW and money market accounts increased by $6.3 million (28.4%), savings accounts decreased by $647,000 (3.1%), national certificates of deposit decreased by $17.6 million (39.9%), and local certificates of deposit increased by $8.4 million (5.1%). Other liabilities increased $716,000, or 14.5%, to $5.7 million at December 31, 2007 from $4.9 million at December 31, 2006, primarily due to increases in the liability to fund the supplement executive retirement plan and accrued interest on FHLB advances, partially offset by decreases in the liability owed to MoneyGram Payment Systems to clear official checks written by the Bank and accrued interest on national certificates of deposit. Advances from the Federal Home Loan Bank of Atlanta increased $53.9 million to $84.5 million at December 31, 2007 from $30.6 million at December 31, 2006 primarily due to a balance sheet restructuring out of the national certificate of deposit market and into lower cost advances from the Federal Home Loan Bank of Atlanta, as well as to complement the increase in local deposits in funding asset growth.

The Company's stockholders' equity increased by $3.0 million, or 12.2%, to $27.2 million at December 31, 2007 from $24.3 million at December 31, 2006. This increase is primarily the result of net income of $3.4 million, net of cash dividends of $0.10 per share, or $368,000.

Comparison of Financial Condition
2006 versus 2005

The Company's assets increased by $80.3 million, or 30.1%, to $347.5 million at December 31, 2006 from $267.1 million at December 31, 2005. The loans receivable portfolio, net of the allowance for loan losses, increased by $76.8 million, or 32.9%, to $310.1 million at December 31, 2006 from $233.3 million at December 31, 2005. The increase in loans is due to the Company's growth strategy, with a focus on increasing the commercial portfolio since the Bank's conversion from a federal savings bank to a commercial bank in October 2002. The allowance for loan losses increased by $479,000, or 27.8%, to $2.2 million at December 31, 2006 from $1.7 million at December 31, 2005. The allowance for loan losses is increased by provisions charged to expense. Charge-offs of loan amounts determined by management to be uncollectible decrease the allowance, and recoveries of previous charge-offs are added to the allowance. (See "Allowance for Loan Losses" below.)

Cash and interest-bearing deposits with banks increased $880,000, or 15.5%, to $6.6 million at December 31, 2006 from $5.7 million at December 31, 2005 due to a large cash letter deposit received from customers at the end of December 2006.

Restricted investment securities, which consist of Federal Home Loan and Federal Reserve Bank stock, decreased by $225,000, or 8.6%, to $2.4 million at December 31, 2006 from $2.6 million at December 31, 2005 due to the investment requirements mandated by the Federal Home Loan Bank of Atlanta. Other real estate owned decreased 100% from $385,000 at December 31, 2005 due to the 2006 sale of a property acquired in 2005 in satisfaction of one loan receivable. Accrued interest receivable increased by $549,000, or 47.9%, to $1.7 million at December 31, 2006 from $1.1 million at December 31, 2005 due to growth in the loan portfolio and an increase in general market rates. Other intangible assets, consisting entirely of mortgage servicing rights, increased by $39,000, or 25.3%, to $193,000 at December 31, 2006 from $154,000 at December 31, 2005, primarily due to the continued sale of loans with servicing retained during 2006. Bank owned life insurance increased $884,000, or 17.6%, to $5.9 million at December 31, 2006 from $5.0 million at December 31, 2005 due to an additional investment of $650,000 and $234,000 of income earned on the investment. Other assets increased $1.8 million, or 123.3%, to $3.2 million at December 31, 2006 from $1.4 million at December 31, 2005, primarily due to an increase in the Company’s deferred tax asset, the 2006 investments in the special purpose entities created to issue trust preferred securities, an additional investment in Triangle Mezzanine Fund, LLLP as well as income earned on that investment, and a deposit with MoneyGram Payment Systems during the fourth quarter of 2006.

The Company’s liabilities increased $78.0 million, or 31.8%, to $323.2 million at December 31, 2006 from $245.2 million at December 31, 2005. Deposits increased $72.4 million, or 36.5%, to $270.6 million at December 31, 2006 from $198.2 million at December 31, 2005. This increase is due to marketing efforts and competitive pricing in an attempt to attract local core funding as well as the Bank’s increased participation in the national certificate of deposit market. Other liabilities increased $2.9 million, or 139.7%, to $4.9 million at December 31, 2006 from $2.1 million at December 31, 2005, primarily due to an increase in the liability to fund the supplement executive retirement plan, the investments in the special purpose entities created to issue trust preferred securities, and the liability owed to MoneyGram Payment Systems to clear checks written by the Bank on December 30, 2006. The guaranteed preferred beneficial interest in junior subordinated debentures increased 100% to $17.0 million at December 31, 2006 upon completion of the sale of trust preferred securities in March and November 2006. Advances from the Federal Home Loan Bank of Atlanta decreased $14.3 million, or 31.8%, to $30.6 million at December 31, 2006 from $44.9 million at December 31, 2005, primarily due to the excess funds obtained from the increase in deposits and the issuance of trust preferred securities.

The Company’s stockholders’ equity increased by $2.3 million, or 10.6%, to $24.3 million at December 31, 2006 from $21.9 million at December 31, 2005. This increase is primarily the result of net income of $2.7 million, net of cash dividends of $0.10 per share, or $374,000.

Loans Receivable

The Bank’s total gross loans grew $46.4 million, or 14.9%, during 2007. During the period, we realized a $5.4 million increase in construction loans, a $16.6 million (15.2%) increase in one-to-four family residential and home equity loans, and a $24.5 million (23.9%) increase in commercial real estate loans. The following table shows the composition of the loan portfolio at December 31.

	2007		2006	
(Dollars in thousands)	Amount	Percentage of Total	Amount	Percentage of Total
Real estate loans:				
Construction loans	$ 79,150	22.07%	$ 73,782	23.63%
One- to four-family residential and home equity	125,723	35.05	109,151	34.95
Multi-family residential	7,149	1.99	6,679	2.14
Land	3,262	0.91	2,805	0.90
Commercial	126,850	35.36	102,348	32.77
Total real estate loans	342,134	95.38	294,765	94.39
Commercial business loans	10,206	2.84	10,755	3.44
Consumer loans	6,364	1.78	6,780	2.17
Gross loans	358,704	100.00%	312,300	100.00%
Less: Allowance for Loan Losses	(3,109)		(2,217)	
Net loans	$355,595		$310,083	

The following table presents the composition of the loan and lease portfolio at December 31 for the past five years.

(In thousands)	2007	2006	2005	2004	2003
Real estate loans:					
Construction	$ 79,150	$ 73,782	$ 16,414	$ 14,556	$ 10,177
1-4 family residential and home equity	125,723	109,151	86,334	69,012	59,272
Multi-family residential	7,149	6,679	4,523	4,422	1,481
Land	3,262	2,805	3,477	2,182	4,021
Commercial	126,850	102,348	45,338	26,174	21,760
Total real estate loans	342,134	294,765	156,086	116,346	96,711
Commercial business loans	10,206	10,755	67,277	49,474	23,858
Consumer loans	6,364	6,780	11,682	9,159	7,103
Gross loans	358,704	312,300	235,045	174,979	127,672
Less allowance for loan losses	(3,109)	(2,217)	(1,738)	(1,189)	(786)
Net loans	$355,595	$310,083	$233,307	$173,790	$126,886

Loan classifications as of December 31, 2007 and 2006 in the two preceding tables have been prepared using regulatory rules, which generally classify loans secured by real estate as real estate loans, regardless of the loans' primary purpose. Categories for prior years have not been restated, and reflect classification of commercial purpose loans secured by real estate as commercial business loans.

The following table shows the remaining maturities or next repricing date of outstanding loans at December 31, 2007. Balances are not reduced for loans in process or discounts.

	At December 31, 2007 Remaining Maturities of Selected Credits in Years			
(Dollars in thousands)	1 or Less	Over 1-5	Over 5	Total
Real estate:				
Mortgage	$255,656	$ 52,654	$ 10,086	$318,396
Home equity and second mortgages	17,871	1,138	4,729	23,738
Commercial	7,571	2,256	379	10,206
Consumer	2,972	2,501	891	6,364
Total	$284,070	$ 58,549	$ 16,085	$358,704
Rate Terms:				
Fixed	$ 3,796	$ 7,087	$ 16,085	$ 26,968
Variable or adjustable	280,274	51,462	0	331,736
Total	$284,070	$ 58,549	$ 16,085	$358,704

Allowance for Loan Losses

The Bank records provisions for loan losses in amounts necessary to maintain the allowance for loan losses at the level deemed appropriate. The allowance for loan losses is provided through charges to income in an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based upon evaluations of the collectibility of loans and prior loan loss experience. The allowance is based on a careful, continuous review and evaluation of the credit portfolio and ongoing, quarterly assessments of the probable losses inherent in the loan portfolio. The Bank employs a systematic methodology for assessing the appropriateness of the allowance, which includes determination of a specific allowance, a formula allowance, and an unallocated allowance. During the year ended December 31, 2007, there were no changes in the Bank's methodology for assessing the appropriateness of the allowance.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss may be incurred in an amount different from the amount determined by application of the formula allowance.

The formula allowance is calculated by applying loss factors to corresponding categories of outstanding loans and leases, excluding loans for which specific allocations have been made. Allowances are established for credits that do not have specific allowances according to the application of these credit loss factors to groups of loans based upon (a) their credit risk rating, for loans categorized as substandard or doubtful either by the Bank in its ongoing reviews or by bank examiners in their periodic examinations, or (b) by type of loans, for other credits without specific allowances. These factors are set by management to reflect its assessment of the relative level of risk inherent in each category of loans, based primarily on the credit risk factors employed by bank examiners at their most recent periodic examination of the Bank. Bank regulatory examinations usually occur each year. In these examinations, the examiners review the credit portfolio, establish credit risk ratings for loans, identify charge offs, and perform their own calculation of the allowance for loan losses. Additionally, the Bank engages an independent third party to review a significant portion of our loan portfolio. The use of these credit risk factors based primarily upon periodic examinations is intended to provide a self-correcting mechanism to reduce differences between estimated and actual observed losses.

The unallocated allowance is based upon management's evaluation of various conditions that are not directly measured in the determination of the specific and formula allowances. These conditions may include the nature and volume of the loan portfolio, overall portfolio quality, and current economic conditions that may affect the borrowers' ability to pay. In addition to these conditions, management has identified land acquisition and development loans, as well as construction speculation loans, as higher risk due to current economic factors. Additionally, management has identified commercial business loans as higher risk based on the change in the nature and the volume of the portfolio over the last several periods. Therefore, management has allocated additional reserves to these two pools of loans over and above the specific and formula allowances.

Determining the amount of the allowance for loan losses requires the use of estimates and assumptions, which is permitted under accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates. While management uses available information to estimate losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, as noted above, federal and state financial institution examiners, as an integral part of their examination process, periodically review the Bank's allowance for loan losses, and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Management determined that the appropriate allowance for loan losses at December 31, 2007 was $3.1 million, (0.87% of total loans), an increase of $892,000, or 40.2%, from the $2.2 million allowance (0.71% of total loans) at December 31, 2006. Annual net charge-offs were 0.01% of average loans in 2007, while net charge-offs were 0.07% of average loans in 2006. The provision for loan losses required for 2007 was $935,000, up $270,000 (40.6%), from $665,000 in 2006.

A summary of activity in the allowance is shown below.

(Dollars in thousands)	Years Ended December 31, 2007	2006	2005	2004	2003
Balance of allowance, January 1	$ 2,217	$ 1,738	$ 1,189	$ 786	$ 613
Loan and lease charge-offs:					
Residential real estate	0	(35)	(5)	0	0
Commercial loans	(30)	(121)	(29)	(9)	0
Consumer	(40)	(92)	(86)	(63)	(147)
Total charge-offs	(70)	(248)	(120)	(72)	(147)
Loan and lease recoveries:					
Residential real estate	0	0	0	0	0
Commercial loans	0	14	0	0	0
Consumer	27	48	44	105	100
Total recoveries	27	62	44	105	100
Net (charge-offs) recoveries	(43)	(186)	(76)	33	(47)
Provision for loan losses	935	665	625	370	220
Balance of allowance, December 31	$ 3,109	$ 2,217	$ 1,738	$ 1,189	$ 786
Net (charge-offs) recoveries to average loans and leases	(0.01)%	(0.07)%	(0.04)%	0.02%	(0.04)%
Allowance to total loans and leases	0.87%	0.71%	0.74%	0.68%	0.61%

The following table presents a five year history of the allocation of the allowance for loan losses, reflecting the methodology described above, along with the percentage of total loans in each category. The increase in the allowance for 2007 was primarily the result of larger reserves for construction loans and commercial real estate loans, partially offset by a decrease in the reserve for commercial business loans.

	December 31, 2007		2006		2005		2004		2003	
(Dollars in thousands)	Amount	Credit Mix	Amount	Credit Mix	Amount	Credit Mix	Amount	Credit Mix	Amount	Credit Mix
Amount applicable to:										
Real estate loans:										
Construction	$1,744	22%	$ 661	9%	$ 469	7%	$ 216	8%	$ 0	8%
1-4 family residential and home equity	194	35	123	29	118	37	170	39	39	46
Multi-family residential	0	2	0	2	0	2	0	3	0	1
Land	52	1	33	1	98	1	78	1	0	3
Commercial	931	35	589	28	410	19	94	15	34	17
Total Real Estate Loans	2,921	95	1,406	69	1,095	66	558	66	73	75
Commercial business loans	64	3	659	26	446	29	424	28	162	19
Consumer Loans	124	2	152	5	197	5	207	6	551	6
Total allowance	$3,109	100%	$2,217	100%	$1,738	100%	$1,189	100%	$786	100%

Nonperforming Assets

Management reviews and identifies loans and investments that require designation as nonperforming assets. Nonperforming assets are: loans accounted for on a nonaccrual basis; loans past due by 90 days or more but still accruing; restructured loans; and other real estate (assets acquired in settlement of loans). The following tables set forth certain information with respect to nonperforming assets at December 31:

(Dollars in thousands)	December 31, 2007	2006	2005	2004	2003
Non-accrual loans and leases (1)	$ 5,065	$ 1,382	$ 2,818	$ 2,092	$ 806
Loans and leases 90 days past due	0	211	18	28	446
Restructured loans and leases	0	0	0	0	0
Total non-performing loans and leases (2)	5,065	1,593	2,836	2,120	1,252
Other real estate owned, net	655	0	385	0	0

Total non-performing assets	$ 5,720	$ 1,593	$ 3,221	$ 2,120	$ 1,252
Non-performing loans and leases to total loans	1.41%	0.51%	1.21%	1.22%	0.99%
Non-performing assets to total assets	1.42%	0.46%	1.21%	1.06%	0.84%
Allowance for loan and lease losses to non-performing loans and leases	61.38%	139.17%	61.28%	56.08%	62.78%

(1) Gross interest income that would have been recorded in 2007 if non-accrual loans and leases had been current and in accordance with their original terms was $580,000, while interest actually recorded on such loans was $200,000.

(2) Performing loans considered potential problem loans, as defined and identified by management, amounted to $95,000 at December 31, 2007. Although these are loans where known information about the borrowers' possible credit problems causes management to have doubts as to the borrowers' ability to comply with the present loan repayment terms, most are well collateralized and are not believed to present significant risk of loss. Loans classified for regulatory purposes not included in nonperforming loans consist only of "other loans especially mentioned" and do not, in management's opinion, represent or result from trends or uncertainties reasonably expected to materially affect future operating results, liquidity or capital resources or represent material credits where known information about the borrowers' possible credit problems causes management to have doubts as to the borrowers' ability to comply with the loan repayment terms.

Investment Securities

The composition of investment securities at December 31 is shown below.

(Dollars in thousands)	2007	2006	2005
Available-for-Sale:(1)			
Mutual Funds-Mortgage Securities	$ 1,383	$ 1,375	$ 1,315
Mutual Funds-U.S. Government Securities	758	741	710
Equity Securities	213	277	74
Mortgage-backed Securities	116	141	162
Total	2,470	2,534	2,261
Held-to-Maturity:			
U.S. Government and Agency (2)	2,749	3,737	3,735
Total Investment Securities (3)	$ 5,219	$ 6,271	$ 5,996

(1) At estimated fair value.

(2) Issued by a U. S. Government Agency or secured by U.S. Government Agency collateral.

(3) The outstanding balance of no single issuer, except for U.S. Government and U.S. Government Agency securities, exceeded ten percent of stockholders' equity at December 31, 2007, 2006 or 2005.

Maturities and weighted average yields for debt securities available-for-sale and held-to-maturity at December 31, 2007 are presented below. All U.S. Government and Agency securities, by contractual maturity, are due within one year. All mortgage backed securities, by contractual maturity, are due after ten years. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

(Dollars in thousands)	Amount	Weighted Average Yield
Available-for-Sale:		
Mortgage Backed Securities	$ 116	5.33%
Held-to-Maturity:		
U.S. Government and Agency	2,749	4.93%
Total Debt Securities	$ 2,865	4.95%

Deposits

The following table sets forth the dollar amount of deposits in the various types of accounts at December 31.

	2007			2006		
(Dollars in thousands)	Balance	Weighted Average Rate	% of Total	Balance	Weighted Average Rate	% of Total
NOW and Money Market Accounts	$ 28,675	1.68%	10.74%	$ 22,331	1.77%	8.25%
Savings accounts	20,095	0.75	7.53	20,742	0.75	7.67
Term Certificates	200,498	4.95	75.08	209,716	4.65	77.50
Checking Accounts	17,764	0.00	6.65	17,815	0.00	6.58
Total Deposits	$267,032		100.00%	$270,604		100.00%

	2005		
(Dollars in thousands)	Balance	Weighted Average Rate	% of Total
NOW and Money Market Accounts	$ 27,065	0.89%	13.66%
Savings accounts	19,184	0.76	9.68
Term Certificates	134,825	4.04	68.02
Checking Accounts	17,133	0.00	8.64
Total Deposits	$198,207		100.00%

Borrowings

Year-end advances from the Federal Home Loan Bank of Atlanta consisted of the following (in thousands):

2007				2006			
Amount	Maturity Date	Rate	Type	Amount	Maturity Date	Rate	Type
$ 20,570	Demand	Variable	Overnight	$ 6,060	Demand	Variable	Overnight
429	2010	3.930	Fixed	571	2010	3.93	Fixed
10,000	2012	5.060	Fixed	14,000	2007	5.32	30 Day
7,500	2017	3.776	Fixed	10,000	2007	5.36	30 Day
7,500	2017	3.690	Fixed	—	—	—	—
11,000	2017	3.588	Fixed	—	—	—	—
9,500	2017	3.875	Fixed	—	—	—	—
15,000	2017	3.448	Fixed	—	—	—	—
3,000	2017	2.955	Fixed	—	—	—	—
$ 84,499				$ 30,631			

2005			
Amount	Maturity Date	Rate	Type
$ 18,200	Demand	Variable	Overnight
20,000	2006	Variable	Adjustable
6,000	2006	4.97	Fixed
714	2010	3.93	Fixed
$ 44,914			

Interest Sensitivity

The ability to maximize net interest income is largely dependent upon the achievement of a positive interest rate spread (the difference between the weighted average interest yields earned on interest-earning assets and the weighted average interest rates paid on interest-bearing liabilities) that can be sustained during fluctuations in prevailing interest rates. Asset/liability management functions to maximize profitability within established guidelines for interest rate risk, liquidity, and capital adequacy. The Bank's asset/liability management policies are designed to reduce the impact of changes in interest rates on its net interest income by achieving a more favorable match between the maturities or repricing dates of its interest-earning assets and interest-bearing liabilities. Measurement and monitoring of liquidity, interest rate risk, and capital adequacy are performed centrally through the Asset/Liability Management Committee, and reported under guidelines established by management, the Board of Directors and regulators. Oversight of this process is provided by the Board of Directors.

The Bank has implemented policies by generally emphasizing the origination of one-year, three-year and five-year adjustable rate mortgage loans, adjustable rate commercial loans and lines of credit, and short-term consumer loans. Since 1995, the Bank has, from time to time, originated fixed rate mortgages for sale in the secondary market. The Bank is currently originating loans for sale in the secondary market through the Federal Home Loan Mortgage Corporation. Management has been monitoring the retention of fixed rate loans through its asset/liability management policy. Management intends to continue to concentrate on maintaining its interest rate spread in a manner consistent with its lending policies, which are principally the origination of adjustable-rate mortgages and commercial loans, and may include an appropriate blend of fixed-rate mortgage loans in its primary market area.

The Bank's net income is largely dependent on its net interest income. The Bank seeks to maximize its net interest margin within an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of forecasted net interest income that may be gained or lost due to favorable or unfavorable movements in interest rates. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of assets differ significantly from the maturity or repricing characteristics of liabilities. Net interest income is also affected by changes in the portion of interest-earning assets that are funded by interest-bearing liabilities rather than by other sources of funds, such as noninterest-bearing deposits and stockholders' equity.

The Bank attempts to manage interest rate risk while enhancing net interest margin by adjusting its asset/liability position. At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the Bank may decide to increase its interest rate risk position somewhat in order to increase its net interest margin. The Bank monitors interest rate risk and adjusts the composition of its interest-related assets and liabilities in order to limit its exposure to changes in interest rates on net interest income over time. The Bank's asset/liability committee reviews its interest rate risk position and profitability, and recommends adjustments. The asset/liability committee also reviews the securities portfolio, formulates investment strategies, and oversees the timing and implementation of transactions. Notwithstanding the Bank's interest rate risk management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net income.

The Bank also analyzes interest rate risk based upon quantitative measures of the percentage changes in fair value of equity capital (or market value of portfolio equity) resulting from a hypothetical immediate change (or shock) of plus or minus 100, 200, and 300 basis points in interest rate levels. This analysis is based upon models, which are based upon a number of significant assumptions regarding reactions of interest rates. At December 31, 2007, this analysis indicated that shock decreases of 100, 200 and 300 basis points would decrease the market value of portfolio equity by 2.62%, 4.51%, and 5.70%, respectively, while interest rate shock increases of 100, 200 and 300 basis points would increase the market value of portfolio equity by 1.95%, 3.88%, and 3.14%. These models also provide an analysis of interest rate shock effects on net interest income. At December 31, 2007, this analysis indicated that shock decreases of 100, 200, and 300 basis points would increase net interest income by 1.96%, 1.12%, and 0.11%, respectively. Interest rate shock increases of 100, 200, and 300 basis points would increase net interest income by 1.80% and 2.05%, and 2.23%, respectively.

Liquidity

Liquidity is measured by a financial institution's ability to raise funds through deposits, borrowed funds, capital, or the sale of highly marketable assets such as residential mortgage loans and available for sale investments. Additional sources of liquidity, including cash flow from the repayment of loans, are also considered in determining whether liquidity is satisfactory. Liquidity is also achieved through growth of deposits and liquid assets, and accessibility to the capital and money markets. These funds are used to meet deposit withdrawals, maintain reserve requirements, fund loans and operate the organization.

Cash and cash equivalents decreased $1.1 million during 2007. This decrease was the result of $52.9 million in cash used by investing activities, partially offset by $49.9 million in cash provided by financing activities and $1.9 million in cash provided by operating activities.

Cash and cash equivalents increased $880,000 during 2006. This increase was the result of $74.7 million in cash provided by financing activities and $3.8 million in cash provided by operating activities, partially offset by $77.7 million in cash used by investing activities.

The Bank maintains liquid assets that can be invested in specified short-term securities, and is also permitted to make certain other investments. Liquidity levels may be increased or decreased depending upon the yields on investment alternatives, management's judgment as to the attractiveness of the yields then available in relation to other opportunities, its expectations of the level of yield that will be available in the future and its projections as to the short term demand for funds to be used in the Bank's loan origination and other activities. The general objectives of the Bank's investment policy are to (i) maintain liquidity levels sufficient to meet the operating needs of the Bank (ii) minimize interest rate risk by managing the repricing characteristics of the Bank's assets and liabilities, (iii) reduce credit risk by investing primarily in U.S. Treasury and agency securities and (iv) absorb excess liquidity when loan demand is low and/or deposit growth is high. The Bank's investment activities are conducted by senior management (specifically Chief Executive Officer Halsey and Chief Financial Officer Whitehead) and supervised by the Board of Directors. Investments are governed by an investment policy adopted by the Board, which currently provides for maintenance of an investment portfolio for the purposes of providing earnings, ensuring a minimum liquidity reserve and facilitating the Bank's asset/liability management objectives (e.g., limiting the weighted average terms to maturity or repricing of the Bank's interest-earning assets). In accordance with the policy, management has primarily invested in U.S. Treasury, government and agency securities and mutual funds.

The Bank's time deposits of $100,000 or more represented 21.58% of total deposits at December 31, 2007, and are shown by maturity in the table below.

	Months to Maturity				
(Dollars in thousands)	3 or less	Over 3 to 6	Over 6 to 12	Over 12	TOTAL
Time deposits—$100 thousand or more	$14,612	$13,861	$23,100	$6,050	$57,623

Capital

Capital adequacy refers to the level of capital required to sustain asset growth and to absorb losses. The Board of Governors of the Federal Reserve System ("Federal Reserve"), which is the Company's and the Bank's principal federal regulator, has established requirements for total and tier 1 (core) risk-based capital and tangible capital. As of December 31, 2007, since the Company had total assets less than $500 million, the capital adequacy requirements do not apply on a consolidated basis. At December 31, 2007, the Bank exceeded applicable capital requirements to be well capitalized, having a total risk based capital ratio of 13.05%, a tier 1 risk-based capital ratio of 8.41%, and a tangible capital ratio of 7.34%. See Note 13 "Regulatory Matters" in the notes to the consolidated financial statements.

Off-Balance Sheet Arrangements

In the normal course of business, Cecil Bancorp makes use of a number of different financial instruments to help meet the financial needs of its customers. In accordance with accounting principles generally accepted in the United States of America, the full notional amount of these transactions is not recorded in the accompanying consolidated financial statements and is referred to as off-balance sheet instruments. These transactions and activities include commitments to extend credit, standby letters of credit, and lease obligations.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting those commitments for which collateral is deemed necessary. The issuance of letters of credit is not a significant activity of the Bank.

Commitments to extend credit are agreements to lend funds to customers as long as there are no violations of any condition established in the loan contracts. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on credit evaluation by management. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment as well as income producing properties. Management believes that the Bank has adequate resources to fund all loan commitments.

The Bank has entered into leases for its branch and office space.

For additional information regarding off-balance sheet arrangements, please see Note 16 to the Consolidated Financial Statements.

Critical Accounting Policies

Cecil Bancorp's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements may reflect different estimates, assumptions, and judgments. Certain policies inherently rely more on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation allowance to be established, or when an asset or liability must be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available.

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (1) Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies", which requires that losses be accrued when they are probable of occurring and estimable, and (2) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", which requires that losses be accrued when it is probable that Cecil Bancorp will not collect all principal and interest payments according to the loan's contractual terms.

Management believes that the allowance is adequate. However, its determination requires significant judgment, and estimates of probable losses inherent in the credit portfolio can vary significantly from the amounts actually observed. While management uses available information to recognize probable losses, future additions to the allowance may be necessary based on changes in the credits comprising the portfolio and changes in the financial condition of borrowers, such as those that may result from changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the credit portfolio and the allowance. Such review may result in additional provisions based on their judgments of information available at the time of each examination.

Cecil Bancorp's systematic methodology for assessing the appropriateness of the allowance includes determination of specific, formula, and unallocated components, as described above under "Allowance for Loan Losses" and in Notes 1 and 4 to the Consolidated Financial Statements. At December 31, 2007, a 10% decrease or increase in all categories of risk rated credits for which specific allowances had not been recorded would have resulted in a corresponding decrease or increase of approximately $255,000 in the recommended allowance, assuming no change in other elements considered in the methodology.

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ITEM 7A. QUANTITATIVE DISCLOSURES ABOUT MARKET RISK. Not applicable.

ITEM 8. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Cecil Bancorp, Inc.
Elkton, Maryland

We have audited the accompanying consolidated balance sheets of Cecil Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, 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 Company's management. Our responsibility is to express an opinion on these 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 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 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 financial position of Cecil Bancorp, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Stegman & Company

Baltimore, Maryland
March 21, 2008

CECIL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(dollars in thousands)

ASSETS

	2007	2006
Cash and due from banks	$ 1,205	$ 1,316
Interest bearing deposits with banks	4,306	5,259
Investment securities:		
Securities available-for-sale at fair value	2,470	2,534
Securities held-to-maturity (fair value of $2,753 in 2007 and $3,738 in 2006)	2,749	3,737
Restricted investment securities — at cost	4,750	2,382
Loans receivable	358,704	312,300
Less: Allowance for loan losses	(3,109)	(2,217)
Net loans receivable	355,595	310,083
Other real estate owned	655	—
Premises and equipment, net	11,997	9,208
Accrued interest receivable	2,122	1,695
Goodwill	2,182	2,182
Other intangible assets	240	193
Bank owned life insurance	7,532	5,914
Other assets	5,629	2,948
TOTAL ASSETS	$401,432	$347,451

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	2007	2006
LIABILITIES:		
Deposits	$267,032	$270,604
Other liabilities	5,659	4,943
Guaranteed preferred beneficial interest in junior subordinated debentures	17,000	17,000
Advances from Federal Home Loan Bank of Atlanta	84,499	30,631
Total liabilities	374,190	323,178
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value; authorized 10,000,000 shares in 2007 and 4,000,000 shares in 2006, issued and outstanding 3,678,286 shares in 2007 and 1,839,143 shares in 2006	37	18
Additional paid in capital	11,441	11,460
Retained earnings	15,856	12,824
Accumulated other comprehensive loss	(92)	(29)
Total stockholders' equity	27,242	24,273
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$401,432	$347,451

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(dollars in thousands, except per share data)

	2007	2006
INTEREST INCOME:		
Interest and fees on loans	$ 27,677	$ 21,174
Interest on investment securities	284	276
Dividends on FHLB and FRB stock	173	147
Other interest-earning assets	110	49
Total interest income	28,244	21,646
INTEREST EXPENSE:		
Interest expense on deposits	11,213	7,546
Guaranteed preferred beneficial interest in junior subordinated debentures	1,121	550
Interest expense on advances from FHLB	2,012	2,071
Total interest expense	14,346	10,167
NET INTEREST INCOME	13,898	11,479
PROVISION FOR LOAN LOSSES	935	665
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	12,963	10,814
NONINTEREST INCOME:		
Checking account fees	554	540
ATM fees	302	108
Commission income	30	75
Loss on sale of other real estate owned	—	(43)
Gain on sale of loans	114	101
Income from bank owned life insurance	318	234
Other	182	246
Total noninterest income	1,500	1,261
NONINTEREST EXPENSE:		
Salaries and employee benefits	5,714	5,051
Occupancy expense	630	589
Equipment and data processing expense	1,231	896
Checking account expense	10	92
Professional fees	269	202
Stationery, printing and supplies	65	51
Advertising	96	97
Other	989	869
Total noninterest expense	9,004	7,847
INCOME BEFORE INCOME TAXES	5,459	4,228
INCOME TAX EXPENSE	2,059	1,520
NET INCOME	$ 3,400	$ 2,708
Earnings per common share — basic	$ 0.92	$ 0.74
Earnings per common share — diluted	$ 0.92	$ 0.74
Dividends declared per common share	$ 0.10	$ 0.10

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(dollars in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCES AT JANUARY 1, 2006	$ 18	$ 10,578	$ 11,372	$ (26)	$ 21,942
Comprehensive income:					
Net income	—	—	2,708	—	2,708
Other comprehensive loss, net of related income tax effect	—	—	—	(3)	(3)
Total comprehensive income	—	—	—	—	2,705
Cash dividends declared	—	—	(374)	—	(374)
Stock dividends	—	882	(882)	—	—
BALANCES AT DECEMBER 31, 2006	18	11,460	12,824	(29)	24,273
Comprehensive income:					
Net income	—	—	3,400	—	3,400
Other comprehensive loss, net of related income tax effect	—	—	—	(63)	(63)
Total comprehensive income	—	—	—	—	3,337
Cash dividends declared	—	—	(368)	—	(368)
2-for-1 stock split	19	(19)	—	—	—
BALANCES AT DECEMBER 31, 2007	$ 37	$ 11,441	$ 15,856	$ (92)	$ 27,242

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(dollars in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,400	$ 2,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	490	333
Provision for loan losses	935	665
Gain on sale of loans	(114)	(101)
Loss on sale of real estate owned	—	43
Loss on disposal of premises and equipment	—	1
Increase in cash surrender value of bank owned life insurance	(318)	(234)
Deferred income taxes	(977)	(507)
Excess servicing rights	(87)	(73)
Reinvested dividends on investments	(65)	(96)
Originations of loans held for sale	(6,337)	(5,441)
Proceeds from sales of loans held for sale	6,376	5,485
Net change in:		
Accrued interest receivable and other assets	(2,091)	(1,820)
Other liabilities	716	2,881
Net cash provided by operating activities	1,928	3,844
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities held-to-maturity	(3,719)	(7,328)
Proceeds from sales, maturities, calls and principal payments of investment securities available-for-sale	26	21
Proceeds from maturities, calls and principal payments of investment securities held-to-maturity	4,750	7,500
Net (purchase) redemption of stock in Federal Home Loan Bank	(2,368)	224
Net increase in loans	(47,026)	(77,384)
Proceeds from sale of real estate owned	—	342
Purchase of bank owned life insurance	(3,163)	(650)
Surrender of bank owned life insurance	1,863	—
Purchases of premises and equipment — net	(3,283)	(428)
Net cash used by investing activities	(52,920)	(77,703)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	(3,572)	72,397
Net increase (decrease) in advances from Federal Home Loan Bank:		
Short-term	14,510	(8,140)
Long-term	39,358	(6,144)
Net increase in guaranteed preferred beneficial interest in junior subordinated debentures	—	17,000
Payments of cash dividends	(368)	(374)
Net cash provided by financing activities	49,928	74,739

Cecil Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2007 and 2006
(dollars in thousands)

	2007	2006
(Decrease) increase in cash and cash equivalents	$ (1,064)	$ 880
Cash and cash equivalents at beginning of year	6,575	5,695
Cash and cash equivalents at end of year	$ 5,511	$ 6,575
Supplemental disclosure of cash flows information:		
Cash paid for income taxes	$ 3,208	$ 2,120
Cash paid for interest	$ 14,117	$ 10,081
Supplemental disclosure of noncash investing and financing activities:		
Transfer of loans receivable to real estate owned	$ 655	$ —
Sale of real estate owned:		
Carrying value	$ —	$ 385
Loss on sale	—	(43)
Cash received from sale	$ —	$ 342

See accompanying notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Cecil Bancorp, Inc. (the "Company") and its wholly-owned subsidiaries, Cecil Properties, Inc., 3106 Emmorton Road, LLC, 1223 Turkey Point Road, LLC, and Cecil Bank (the "Bank"), together with its subsidiaries, Cecil Service Corporation and Cecil Financial Services Corporation, conform to accounting principles generally accepted in the United States of America.

Certain reclassifications have been made to amounts previously reported to conform to the classifications made in 2007. The following is a summary of the more significant accounting policies:

Nature of Operations

Through its subsidiary bank, the Company conducts full-service commercial banking. Services to individuals and businesses include accepting deposits, and extending real estate, consumer and commercial loans and lines of credit. The Company primarily operates in the two Maryland counties of Cecil and Harford, and has a concentration in loans secured by residential and commercial real estate in these counties.

Policy for Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Consolidation has resulted in the elimination of all significant intercompany balances and transactions. The financial statements of the Company (parent only) include its investment in its subsidiaries under the equity method of accounting.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses and other-than-temporary impairment of investment securities.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents. Assets categorized in the balance sheet as cash and due from banks and interest bearing deposits with banks are considered cash and cash equivalents. Interest bearing deposits with banks generally exceed balances that are recoverable under FDIC insurance.

Investment Securities

Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities are classified as trading securities if bought and held principally for the purpose of selling them in the near-term. Trading securities are reported at estimated fair value, with unrealized gains and losses included in earnings. Securities not classified as held-to-maturity or trading securities are considered available-for-sale and are reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of tax effects, in accumulated other comprehensive income. The Company designates securities into one of the three categories at the time of purchase.

Premiums and discounts on investments are recognized in interest income over the terms of the securities using methods that approximate the interest method. Declines in the fair value of held-to-maturity and available-for-sale 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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Investment Securities

Restricted investment securities consist of Federal Reserve Bank ("FRB") and Federal Home Loan Bank of Atlanta ("FHLB") stock which are required by law and are restricted as to marketability. Because the investment securities are not marketable, they are reported at cost. The FRB and FHLB perform ongoing reviews of the Company's stock level to be sure it meets the minimum requirements. The FRB requires a minimum stock balance based on the balance of the Bank's common stock and surplus. The FHLB required stock balance is based on total assets as of December 31 of the previous year and total FHLB advances currently outstanding. As of December 31, 2007 and 2006, the Company met all requirements set forth by the FRB and FHLB.

Loans Receivable

Loans are stated at their principal balance outstanding net of any deferred fees and costs. Interest income on loans is accrued at the contractual rate based on the principal outstanding. The Company places loans, except for consumer loans, on nonaccrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, consumer installment loans are not placed on nonaccrual, but are charged off when they are three months past due.

Loans are considered impaired when, based on current information, it is probable that the Company will not collect all principal and interest payments according to contractual terms. Generally, loans are considered impaired once principal or interest payments become ninety days or more past due and they are placed on nonaccrual. Management also considers the financial condition of the borrower, cash flows of the loan and the value of the related collateral. Impaired loans do not include large groups of smaller balance homogeneous credits such as residential real estate and consumer installment loans, which are evaluated collectively for impairment. Loans specifically reviewed for impairment are not considered impaired during periods of “minimal delay” in payment (ninety days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, or the fair value of the collateral if repayment is expected to be provided by the collateral. Generally, the Company’s impairment on such loans is measured by reference to the fair value of the collateral. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received.

Loans Held for Sale

Residential mortgage loans originated for sale are carried at the lower of cost or market, which may be indicated by the committed sale price, determined on an individual basis. The Company had no loans held for sale as of December 31, 2007 and 2006.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The components of the allowance for loan losses represent an estimation done pursuant to either Statement of Financial Accounting Standards (“SFAS”) No. 5 “Accounting for Contingencies,” or SFAS No. 114 “Accounting by Creditors for Impairment of a Loan.” The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. The unallocated component is based upon management’s evaluation of various conditions that are not directly measured in the determination of the specific and general components. These conditions may include the nature and volume of the loan portfolio, overall portfolio quality, and current economic conditions that may affect the borrowers’ ability to repay the loan.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Premises and equipment, including costs related to developing or obtaining software for internal use, are depreciated on a straight-line basis over their useful lives, which range from three to seven years for furniture, fixtures and equipment to forty years for buildings and building improvements. Leasehold improvements are amortized over the shorter of their estimated useful economic lives or the lives of the leases. Maintenance and repairs are charged to expense as incurred, while improvements which extend the useful life are capitalized and depreciated over the remaining life. Interest costs on the original purchase, significant repairs, and construction expenditures relating to bank premises are capitalized at the Bank's average cost of funds and depreciated over the life of the building.

Other Real Estate Owned

Other real estate owned comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for loan losses. Subsequent write-downs that may be required are added to a valuation reserve. Gains and losses realized from sales, as well as valuation adjustments, are included in noninterest income. Expenses of operation are included in noninterest expense.

Goodwill

Goodwill represents the excess of the cost of assets acquired in business combinations accounted for under the purchase method over the fair value of the net assets at dates of acquisition and is tested annually for impairment.

Mortgage Servicing Rights

The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenue. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights exceed their fair value.

When participating interests in loans sold have an average contractual interest rate, adjusted for normal servicing fees, that differs from the agreed yield to the purchaser, gains or losses are recognized equal to the present value of such differential over the estimated remaining life of such loans. The resulting "excess servicing receivable" or "deferred servicing revenue" is amortized over the estimated life using a method approximating the interest method.

Quoted market prices are not available for the excess servicing receivables. Thus, the excess servicing receivables and the amortization thereon are periodically evaluated in relation to estimated future servicing revenue, taking into consideration changes in interest rates, current repayment rates, and expected future cash flows. The Company evaluates the carrying value of the excess servicing receivables by estimating the future servicing income of the excess servicing receivables based on management's best estimate of remaining loan lives discounted at the original discount rate.

Bank Owned Life Insurance

The Bank is the beneficiary of insurance policies on the lives of officers of the Bank. The Bank has recognized the amount that could be realized under the insurance policies as an asset in the consolidated balance sheets. Appreciation in the value of the insurance policies is classified as noninterest income.

Income Taxes

Income tax expense is based on the results of operations, adjusted for permanent differences between items of income or expense reported in the financial statements and those reported for tax purposes. Under the liability method, deferred income taxes are determined based on the differences between the financial statement carrying amounts and the income tax bases of assets and liabilities and are measured at the enacted tax rates that will be in effect when these differences reverse.

Advertising

Advertising costs are expensed as incurred. Advertising expense was $96,000 and $97,000 for the years ended December 31, 2007 and 2006, respectively.

Earnings Per Share

Basic earnings per share (EPS) are calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by adjusting the denominator of the basic earnings per share computation for the effects of all dilutive potential common shares outstanding during the period. The dilutive effects of options, warrants, and their equivalents are computed using the treasury stock method. Earnings per share have been calculated to give retroactive effect to the 1% stock dividends approved by the Board of Directors in December 2005, March 2006, May 2006, and August 2006 and the 2-for-1 stock split approved by the Board of Directors in March 2007. As of December 31, 2007 and 2006, there were no anti-dilutive options excluded from the earnings per share calculation.

Stock-Based Compensation

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*, under the prospective method on January 1, 2006. Among other things, SFAS 123(R) eliminates the ability to account for stock-based compensation using Accounting Principles Board ("APB") No. 25 and requires such transactions to be recognized as compensation cost in the income statement based on their fair value on the date of grant.

Prior to January 1, 2006, the Company accounted for its stock-based compensation plan based on the intrinsic value method set forth in APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Compensation expense for stock options is generally not recognized if the exercise price of the option equals or exceeds the fair market value of the stock on the date of the grant. The exercise price for all options granted was equal to the market price of the common stock at the date of the grant, and accordingly, no compensation expense related to options was recognized.

There were no options granted or vested during the two years ended December 31, 2007.

Comprehensive Income

The Company reports comprehensive income which includes net income, as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. The Company's only significant element of comprehensive income is unrealized gains and losses on available-for-sale securities.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 155, *"Accounting for Certain Hybrid Financial Instruments"*, an amendment of SFAS 133 and SFAS 140. This Statement permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. In addition, SFAS 155 clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133. It also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS 155 amends SFAS 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. On January 1, 2007, the Company adopted SFAS 155. The Company has determined that adoption of SFAS 155 did not have any impact on its financial condition or results of operations.

In March 2006, the FASB issued SFAS 156, "*Accounting for Servicing of Financial Assets*". This Statement amends SFAS 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*", and requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits the entities to elect either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of SFAS 140 for subsequent measurement. The subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value eliminates the necessity for entities that manage the risks inherent in servicing assets and servicing liabilities with derivatives to qualify for hedge accounting treatment and eliminates the characterization of declines in fair value as impairments or direct write-downs. The Company adopted SFAS 156 on January 1, 2007. The Company has determined that adoption of SFAS 156 did not have any impact on its financial condition or results of operations.

In September 2006, the FASB issued SFAS 157, *"Fair Value Measurements."* SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company does not expect the implementation of SFAS 157 to have a material impact on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). FIN 48 clarifies when tax benefits should be recorded in financial statements, requires certain disclosures of uncertain tax matters and indicates how any tax reserves should be classified in a balance sheet. On January 1, 2007, the Company adopted FIN 48. The Company has determined that adoption of FIN 48 did not have any impact on its financial condition or results of operations. It is the Company's policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the consolidated statements of income.

In February 2007, the FASB issued SFAS 159, "The *Fair Value Option for Financial Assets and Liabilities*". This Statement permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This pronouncement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company does not expect the implementation of SFAS 159 to have a material impact on its financial position or results of operations.

In December 2007, the FASB issued SFAS 141, Revised 2007 (SFAS 141R), *"Business Combinations"*. SFAS 141R's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after December 31, 2008. The Company does not expect the implementation of SFAS 141R to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS 160, *"Noncontrolling Interests in Consolidated Financial Statements"*. SFAS 160's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

3. INVESTMENT SECURITIES

Investment securities have been classified in the consolidated balance sheets according to management's intent and ability to hold the investment.

Investment securities at December 31, 2007 and 2006 are summarized in the following table (in thousands).

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
Mutual funds — mortgage securities	$ 1,435	$ —	$ 52	$ 1,383
Mutual funds — U.S. Government securities	760	—	2	758
Equity securities	306	—	93	213
Mortgage-backed securities	120	—	4	116
	$ 2,621	$ —	$ 151	$ 2,470
Held-to-Maturity:				
U. S. Treasury securities and obligations of U. S. Government and Federal agencies	$ 2,749	$ 4	$ —	$ 2,753

	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale:				
Mutual funds — mortgage securities	$ 1,411	$ —	$ 36	$ 1,375
Mutual funds — U.S. Government securities	747	—	6	741
Equity securities	277	—	—	277
Mortgage-backed securities	146	—	5	141
	$ 2,581	$ —	$ 47	$ 2,534
Held-to-Maturity:				
U. S. Treasury securities and obligations of U. S. Government and Federal agencies	$ 3,737	$ 1	$ —	$ 3,738

At December 31, 2007 and 2006, investment securities with a carrying value of $2.8 million and $3.8 million, respectively, were pledged to secure deposits of municipalities.

The tax effect of the net unrealized holding gains or losses of available-for-sale securities is included as a component of the net deferred tax asset and the remaining portion of the holding gain or loss is included as a component of accumulated other comprehensive income. At December 31, 2007, a deferred tax asset of $58,000 and accumulated other comprehensive loss of $92,000 relate to the unrealized holding loss on available-for-sale securities. At December 31, 2006, a deferred tax asset of $18,000 and accumulated other comprehensive loss of $29,000 relate to the unrealized holding loss on available-for-sale securities.

The U. S. Treasury securities and obligations of the U.S. Government and Federal agencies at December 31, 2007, by contractual maturities, are due within one year. All mortgage-backed securities at December 31, 2007, by contractual maturities, are due after ten years. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

As of December 31, 2007, unrealized losses (in thousands) on securities were comprised of the following based on the length of time that the securities have been in a continuous loss position:

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-Sale:						
Mutual funds — mortgage securities	$ —	$ —	$ 1,383	$ 52	$ 1,383	$ 52
Mutual funds — US Government securities	—	—	758	2	758	2
Equity securities	213	93	—	—	213	93
Mortgage-backed securities	—	—	116	4	116	4
	$ 213	$ 93	$ 2,257	$ 58	$ 2,470	$ 151

The securities with unrealized holding losses are impaired due to declines in fair value resulting from changes in interest rates. None of these securities have exhibited a decline in value due to changes in credit risk. Additionally, the Company has the intent and ability to hold the mortgage-backed securities until they mature, and the mutual funds and equity securities until the foreseeable future, and does not expect to realize losses on any of the investments. Therefore, management does not consider the declines in fair value to be other than temporary.

There were no sales of investment securities during the years ended December 31, 2007 and 2006.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Company's lending activities are predominantly conducted in Cecil and Harford Counties in the State of Maryland. A summary of loans (in thousands) follows:

	2007	2006
Real estate loans:		
1 — 4 dwelling units and home equity	$126,725	$110,086
5 or more	7,149	6,679
Nonresidential	126,850	102,348
Land	3,262	2,805
Construction	95,954	101,465
	359,940	323,383
Commercial loans	10,206	10,755
Consumer loans	6,364	6,780
Gross loans	376,510	340,918
Less:		
Undisbursed proceeds on loans in process	(16,804)	(27,683)
Deferred loan fees and costs	(1,002)	(935)
Loans receivable	$358,704	$312,300

In the normal course of banking business, loans are made to officers and directors and their affiliated interests. These loans are made on substantially the same terms and conditions as those prevailing at the time for comparable transactions with outsiders and are not considered to involve more then the normal risk of collectibility. As of December 31, activity in such loans outstanding, both direct and indirect (including guarantees), to directors, their associates and policy-making officers were as follows (in thousands):

	2007	2006
Balance at beginning of year	$ 10,687	$ 3,637
Change in related party classification	—	4,148
New loans and additional borrowings	5,450	5,217
Participations purchased	—	1,035
Participations sold	—	(575)
Repayments	(706)	(2,775)
Balance at end of year	$ 15,431	$ 10,687

An analysis of the allowance for loan losses for the years ended December 31, 2007 and 2006 is as follows (in thousands):

	2007	2006
Balance at beginning of period	$ 2,217	$ 1,738
Provision charged to operations	935	665
Charge-offs	(70)	(248)
Recoveries	27	62
Balance at end of period	$ 3,109	$ 2,217

Management reviews and identifies loans and investments that require designation as nonperforming assets. Nonperforming assets include loans accounted for on a non-accrual basis, loans past due by 90 days or more but still accruing, restructured loans, and other real estate owned.

Information (in thousands) with respect to nonperforming assets at December 31, 2007 and 2006 is as follows:

	2007	2006
Non-accrual loans	$ 5,065	$ 1,382
Loans 90 days or more past due and still accruing	—	211
Total nonperforming loans	5,065	1,593
Other real estate owned, net	655	—
Total nonperforming assets	$ 5,720	$ 1,593

Impaired loans include nonperforming loans and other loans that management has identified where it is probable that all amounts due will not be collected in accordance with the contractual terms of the loan. Loans that are returned to accrual status are no longer considered to be impaired.

Information with respect to impaired loans at December 31, 2007 and 2006 and for the years then ended is as follows (in thousands):

	2007	2006
Impaired loans with a valuation allowance	$ 956	$ 237
Impaired loans without a valuation allowance	4,109	1,356
Total impaired loans	$ 5,065	$ 1,593
Allowance for loan losses related to impaired loans	$ 145	$ 236
Allowance for loan losses related to other than impaired loans	2,964	1,981
Total allowance for loan losses	$ 3,109	$ 2,217
Average impaired loans for the year	$ 3,882	$ 2,044
Interest income on impaired loans recognized on the cash basis	$ 200	$ 53

5. SERVICING

At December 31, 2007 and 2006, the Bank was servicing loans for others amounting to approximately $23.5 million and $20.0 million, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income is recorded upon receipt and includes servicing fees from investors and certain charges collected from borrowers, such as late payment fees. Mortgage servicing rights had a carrying value of $240,000 and $193,000 as of December 31, 2007 and 2006, respectively. Estimated fair value of the servicing rights approximates carrying value. Amortization expense of servicing rights was $40,000 and $34,000 for the years ended December 31, 2007 and 2006, respectively.

The following table summarizes the activity pertaining to mortgage servicing rights (in thousands):

	2007	2006
Balance at beginning of period	$ 193	$ 154
Mortgage servicing rights capitalized	87	73
Mortgage servicing rights amortized	(40)	(34)
Balance at end of period	$ 240	$ 193

6. PREMISES AND EQUIPMENT

Premises and equipment are summarized by major classifications as follows (in thousands):

	2007	2006
Land	$ 3,036	$ 1,728
Buildings and improvements	8,967	7,155
Furniture, fixtures and equipment	2,218	2,067
Leasehold improvements	452	440
	14,673	11,390
Less: accumulated depreciation	2,676	2,182
	$ 11,997	$ 9,208

Depreciation expense for the years ended December 31, 2007 and 2006 was $494,000 and $472,000, respectively.

The Bank leases three of its branch facilities, two automated teller machine facilities, and one operations building under operating lease agreements which provide for the payment of utilities and taxes by the lessee. Future minimum payments (in thousands) for each of the five succeeding years under noncancelable leases consisted of the following at December 31, 2007:

Year ending December 31:	
2008	$130
2009	134
2010	106
2011	93
2012	95
Thereafter	94

Rent expense was $136,000 and $137,000 for the years ended December 31, 2007 and 2006, respectively.

7. GOODWILL

Goodwill represents the excess of the cost of assets acquired in business combinations accounted for under the purchase method of accounting over the fair value of the net assets acquired at the dates of acquisition. Prior to the adoption of SFAS Nos. 141 and 142, the excess purchase price was being amortized using the straight-line method over varying periods not exceeding ten years. Goodwill is no longer amortized but rather tested annually for impairment under the provisions of SFAS No. 142. A schedule of goodwill (in thousands) at December 31 is as follows:

	2007 and 2006	
Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
$2,816	$634	$2,182

8. DEPOSITS

The following is a summary of deposits (in thousands) as of December 31:

	2007		2006	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
NOW and Money Market accounts	$ 28,675	1.68%	$ 22,331	1.77%
Savings accounts	20,095	0.75	20,742	0.75
Term certificates	200,498	4.95	209,716	4.65
Checking accounts	17,764	0.00	17,815	0.00
	$267,032		$270,604	

A summary of certificate accounts (in thousands) by maturity as of December 31, 2007 follows:

Three months or less	$ 73,429
Three months to twelve months	104,716
Twelve months to twenty-four months	16,477
Twenty-four months to thirty-six months	4,323
Thirty-six months to forty-eight months	501
Forty-eight months to sixty months	1,052
	$200,498

Eligible deposits are insured up to $100,000 by the Federal Deposit Insurance Corporation.

Term certificates include certificates of deposit in denominations of $100,000 or more aggregating approximately $57,623,000 and $54,854,000 as of December 31, 2007 and 2006, respectively.

Officers' and directors' deposit accounts amounted to approximately $2,143,000 and $1,637,000 at December 31, 2007 and 2006, respectively.

As of December 31, 2007 and 2006, $74,000 and $63,000, respectively, in overdrawn demand deposit accounts was reclassified as loans receivable on the consolidated balance sheet.

9. ADVANCES FROM FHLB

At December 31, advances from the FHLB consisted of the following (in thousands):

2007				2006			
Amount	Maturity Date	Interest Rate	Type	Amount	Maturity Date	Interest Rate	Type
$ 20,570	On Demand	Variable	Overnight	$ 6,060	On Demand	Variable	Overnight
429	2010	3.930%	Fixed	571	2010	3.930%	Fixed
10,000	2012	5.060%	Fixed	14,000	2007	5.320%	30 Day
7,500	2017	3.776%	Fixed	10,000	2007	5.360%	30 Day
7,500	2017	3.690%	Fixed	—	—	—	—
11,000	2017	3.588%	Fixed	—	—	—	—
9,500	2017	3.875%	Fixed	—	—	—	—
15,000	2017	3.448%	Fixed	—	—	—	—
3,000	2017	2.955%	Fixed	—	—	—	—
$ 84,499				$ 30,631			

The Bank has lines of credit with the FHLB with a total maximum available balance of $100,114,000. As of December 31, 2007, $15,615,000 was available to be drawn against the lines of credit.

Wholly owned first mortgage loans on 1 — 4 family and multifamily dwelling units, commercial real estate loans, and second mortgages and home equity lines of credit with unpaid principal balances of approximately $243,731,000 were pledged to the FHLB as collateral on advances as of December 31, 2007.

The Bank has unsecured lines of credit with the Community Bankers Bank and Silverton Bank with total maximum available balances of $5,000,000 and $5,900,000, respectively. As of December 31, 2007 the maximum balances were available to be drawn against the lines of credit.

10. GUARANTEED PREFERRED BENEFICIAL INTEREST IN JUNIOR SUBORDINATED DEBENTURES

In March 2006, the Company formed a wholly-owned subsidiary, Cecil Bancorp Capital Trust I (the “Trust”). On March 23, 2006, the Trust sold $10.0 million of trust preferred securities in a private placement. The Trust used the proceeds to purchase $10.3 million of the Company’s 30-year junior subordinated debentures. The trust preferred securities and the junior subordinated debentures bear interest at a fixed rate of 6.51% for five years and then at a variable rate, which resets quarterly, of 3-month LIBOR plus 1.38%. Interest is cumulative and payable quarterly in arrears. The trust preferred securities and the junior subordinated debentures mature March 23, 2036 and are callable at par after five years. The trust preferred securities, classified on the balance sheet as “guaranteed preferred beneficial interest in junior subordinated debentures”, qualify as Tier 1 capital for regulatory purposes, subject to applicable limits. The Company used the proceeds to increase the regulatory capital of the Bank and for other corporate purposes.

In November 2006, the Company formed a wholly-owned subsidiary, Cecil Bancorp Capital Trust II (the “Trust”). On November 30, 2006, the Trust sold $7.0 million of trust preferred securities in a private placement. The Trust used the proceeds to purchase $7.2 million of the Company’s 30-year junior subordinated debentures. The trust preferred securities and the junior subordinated debentures bear interest at a fixed rate of 6.58% for five years and then at a variable rate, which resets quarterly, of 3-month LIBOR plus 1.68%. Interest is cumulative and payable quarterly in arrears. The trust preferred securities and the junior subordinated debentures mature March 6, 2037 and are callable at par after five years. The trust preferred securities, classified on the balance sheet as “guaranteed preferred beneficial interest in junior subordinated debentures”, qualify as Tier 1 capital for regulatory purposes, subject to applicable limits. The Company used the proceeds to increase the regulatory capital of the Bank and for other corporate purposes.

11. INCOME TAXES

Income tax expense (in thousands) for the years ended December 31 consists of:

	2007	2006
Current income taxes:		
Federal	$ 2,486	$ 1,660
State	550	367
	3,036	2,027
Deferred income taxes:		
Federal	(731)	(420)
State	(246)	(87)
	(977)	(507)
Total income tax expense	$ 2,059	$ 1,520

The tax effects (in thousands) of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 are presented below:

	2007	2006
Deferred tax assets:		
Deferred loan origination fees	$ 395	$ 361
Loan loss allowance	1,227	856
Deferred compensation	1,398	879
Net unrealized loss on available-for-sale securities	58	18
State net operating loss carry-forwards	89	61
Other	170	34
Total gross deferred tax assets	3,337	2,209
Deferred tax liabilities:		
FHLB stock dividends	28	28
Mortgage servicing rights	95	74
Carrying value in excess of tax basis of goodwill	373	291
Tax accumulated depreciation in excess of book	186	206
Total gross deferred tax liabilities	682	599
Net deferred tax assets before valuation allowance	2,655	1,610
Valuation allowance	(89)	(61)
Net deferred tax assets	$ 2,566	$ 1,549

At December 31, 2007 and 2006, the Company had state net operating loss carry-forwards of approximately $1,074,000 and $865,000, respectively, which, due to the uncertainty of realization, have a full valuation allowance established. The loss carry-forwards begin to expire in 2010 through 2027.

A two year reconcilement of the difference between the statutory federal income tax rate and the effective tax rate for the Company is as follows:

	2007	2006
Federal income tax rate	34.0%	34.0%
Increase (decrease) resulting from:		
State income taxes, net of federal income tax benefit	4.5	4.5
Other	(0.8)	(2.5)
Effective tax rate	37.7%	36.0%

12. STOCKHOLDERS' EQUITY

The Company has a dividend reinvestment and stock purchase plan which provides stockholders with the opportunity to increase their equity ownership by electing to have cash dividends automatically reinvested in additional shares of common stock without payment of any brokerage commission or service charge. Pursuant to the plan, stockholders are also permitted to make optional quarterly cash purchases of stock, subject to minimum and maximum dollar amounts. The Board has reserved 60,000 shares for issuance under the plan. During the year ended December 31, 2007, there were no shares issued under the plan.

13. REGULATORY MATTERS

The Federal Reserve has established guidelines for maintenance of appropriate levels of capital by bank holding companies and member banks. The regulations impose two sets of capital adequacy requirements: minimum leverage rules, which require bank holding companies and banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to "risk-weighted" assets.

The regulations of the Federal Reserve in effect at December 31, 2007, do not impose capital ratio requirements on bank holding companies with assets of less than $500 million. The Company is, therefore, not subject to the Federal Reserves capital ratio requirements. The Bank, however, is fully subject to the Federal Reserve's capital standards. The regulations of the Federal Reserve in effect at December 31, 2007, required all member banks to maintain a minimum leverage ratio of "Tier 1 capital" (as defined in the risk-based capital guidelines discussed in the following paragraphs) to total assets of 3.0%. The capital regulations state, however, that only the strongest bank holding companies and banks, with composite examination ratings of 1 under the rating system used by the federal bank regulators, would be permitted to operate at or near this minimum level of capital. All other banks are expected to maintain a leverage ratio of at least 1% to 2% above the minimum ratio, depending on the assessment of an individual organization's capital adequacy by its primary regulator. A bank experiencing or anticipating significant growth is expected to maintain capital well above the minimum levels. In addition, the Federal Reserve has indicated that it also may consider the level of an organization's ratio of tangible Tier 1 capital (after deducting all intangibles) to total assets in making an overall assessment of capital.

The risk-based capital regulations require all commercial banks to maintain a minimum ratio of total capital to total risk-weighted assets of 8%, with at least 4% as core capital. For the purpose of calculating these ratios: (i) supplementary capital is limited to no more than 100% of core capital; and (ii) the aggregate amount of certain types of supplementary capital is limited. In addition, the risk-based capital regulations limit the allowance for credit losses that may be included in capital to 1.25% of total risk-weighted assets.

The Federal Reserve has established regulations that classify banks by capital levels and provide for the Federal Reserve to take various "prompt corrective actions" to resolve the problems of any bank that fails to satisfy the capital standards. Under these regulations, a well-capitalized bank is one that is not subject to any regulatory order or directive to meet any specific capital level and that has a total risk-based capital ratio of 10% or more, a Tier 1 risk-based capital ratio of 6% or more, and a leverage ratio of 5% or more. An adequately capitalized bank is one that does not qualify as well-capitalized but meets or exceeds the following capital requirements: a total risk-based capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of either (i) 4% or (ii) 3% if the bank has the highest composite examination rating. A bank that does not meet these standards is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized, depending on its capital levels. A bank that falls within any of the three undercapitalized categories established by the prompt corrective action regulation is subject to severe regulatory sanctions. As of December 31, 2007, the Bank was well capitalized as defined in the Federal Reserve's regulations. There are no subsequent conditions or events that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are also presented in the table below.

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(in thousands)		(in thousands)		(in thousands)	
As of December 31, 2007:						
Total risk-based capital (to risk-weighted assets)						
The Bank	$44,190	13.05%	$33,860	10.00%	$27,088	8.00%
Tier I capital (to risk-weighted assets)						
The Bank	28,481	8.41	20,316	6.00	13,554	4.00
Tier I capital (to adjusted total assets)						
The Bank	28,481	7.34	19,406	5.00	15,525	4.00
As of December 31, 2006:						
Total risk-based capital (to risk-weighted assets)						
The Bank	$39,867	13.80%	$28,893	10.00%	$23,114	8.00%
Tier I capital (to risk-weighted assets)						
The Bank	25,050	8.67	17,336	6.00	11,557	4.00
Tier I capital (to adjusted total assets)						
The Bank	25,050	7.72	16,214	5.00	12,971	4.00

14. OFFICER, DIRECTOR AND EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan

The Board of Directors approved a contributory Employee Stock Ownership Plan (ESOP) for employees who have attained age 21 and completed one year of service with the Company or its subsidiaries, effective January 1, 1994. The ESOP acquired 38,508 shares of common stock in November 1994 for $385,080 financed by a loan from the Company. Shares acquired with such loan proceeds are to be held in a suspense account for allocation among the participants as the loan is repaid. The loan agreement is secured by a pledge of the common stock owned by the ESOP and purchased with the proceeds of the loan. The loan was repaid in annual installments of $38,508 plus interest at prime plus 1% over a ten-year period. Payments began on December 31, 1995. As of December 31, 2004, the loan had been paid in full, and thus the related liability and reduction in stockholders' equity have been eliminated.

The Company accounts for its ESOP in accordance with Statement of Position 93-6. Accordingly, the debt of the ESOP was recorded as debt and shares pledged as collateral were reported as unearned ESOP shares, a reduction of stockholders' equity. As shares were released from collateral, the Bank recorded compensation expense in an amount equal to the fair value of the shares, and the shares became outstanding for earnings per share computations. All shares were released from collateral as of December 31, 2004, as the loan balance has been paid in full. Compensation expense is also recognized for Corporation dividends on unallocated shares paid or added to participant accounts. Compensation expense is reduced by the amount of the annual interest paid by the ESOP to service the loan issued to acquire the shares of stock. There was no ESOP compensation expense recorded in 2007 or 2006.

Stock-Based Compensation Plans

In 1995, the Company formed a Management Recognition Plan (MRP), which was authorized to acquire 4% of the shares of common stock issued on the date of conversion to a stock corporation to provide them with a proprietary interest in the Company in a manner designed to encourage such employees to remain with the Company. Compensation expense in connection with the MRP was zero for the years ended December 31, 2007 and 2006, respectively.

The Company adopted stock option plans in 1992 and 1995 for the benefit of Directors, selected officers, and other key employees. The Plans provide for the granting of options for the common shares of the Company at the fair market value at the time the options are granted. The term of each option awarded is to be determined by a committee of the Board of Directors, but shall not exceed ten years. The term of an option shall not exceed five years for employees and directors owning more than 10% of the outstanding common stock at the time the option is granted. Discretionary stock appreciation rights may be granted in conjunction with, or independently of, any options granted under the Plans. Upon exercise of a stock appreciation right, the related option, or portion thereof, is cancelled.

In accordance with the stock option plans, a total of 115,676 shares of unissued common stock are reserved for issuance pursuant to incentive stock options.

The Company’s 1995 Stock Option Plan has authorized the grant of options to management personnel for up to 96,442 shares of the Company’s common stock. All options granted have 10 year terms and vest over a period of 5 years.

The Company’s stock options have been adjusted to give retroactive effect to the 1% stock dividends approved by the Board of Directors in December 2005, March 2006, May 2006, and August 2006 and the 2-for-1 stock split approved by the Board of Directors in March 2007.

A summary of the Company’s stock option activity, and related information for the years ended December 31 is as follows:

	2007		2006	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	16,032	$ 6.00	20,426	$ 5.33
Forfeited	—	—	(4,394)	2.81
Granted	—	—	—	—
Exercised	—	—	—	—
Outstanding at end of year	16,032	$ 6.00	16,032	$ 6.00
Options exercisable at year end	16,032	$ 6.00	16,032	$ 6.00

The following table summarizes information about stock options outstanding at December 31, 2007:

Options Outstanding and Exercisable			
Exercise Price	Number Outstanding	Remaining Life (Years)	Intrinsic Value
$6.00	16,032	1.3	$48,096

As of December 31, 2007, all of the Company’s outstanding stock options were considered to be in the money.

The Company had adopted a Retirement Plan for non-employee directors under which each participating director would receive monthly benefits upon termination of service based on a benefits formula. The Company accrued the liability over the service period for each participating director. All participating directors are now receiving fixed payments from the liability accrued in accordance with the Plan. The Plan has been frozen and there are not any current directors covered by the Plan, thus there is no compensation cost to the Company for the years ended December 31, 2007 and 2006.

Deferred Compensation

The Bank has entered into deferred compensation agreements with some of its executive officers. Under the agreements, the Bank is obligated to provide annual benefits for the officers or their beneficiaries, after the officer’s death, disability, or retirement. The estimated present value of the service cost to be paid is being accrued over the period from the effective date of the agreements until the full eligibility dates of the participants. The estimated present value of the interest cost to be paid is being accrued over the expected life of the participants based on current life expectancy tables. The expense incurred for this plan for the years ended December 31, 2007 and 2006 was $1,251,000 and $1,019,000, respectively. The Bank is the beneficiary of life insurance policies, with an aggregate cash surrender value of $7,532,000 and $5,914,000 at December 31, 2007 and 2006, respectively, which were purchased as a method of partially financing the benefits under this plan.

15. PROFIT SHARING PLAN

The Bank has established a defined contribution 401(k) profit sharing plan for the benefit of its employees. The Plan covers all full-time employees who meet certain eligibility requirements as to age and length of service. Contributions to the 401(k) section of the plan are based on the amounts contributed by employees. The employees may contribute a percentage of their annual compensation to the Plan. The Bank makes a discretionary matching contribution equal to a uniform percentage of the amount of the employees’ contribution. In applying the matching contribution, only employee salary reductions up to 2% will be considered. The Bank may also make a discretionary profit sharing contribution to the Plan as determined by the Board of Directors. For the years ended December 31, 2007 and 2006, the Bank’s expense related to the Plan was $200,000 and $151,000, respectively.

16. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank has various outstanding credit commitments which are properly not reflected in the financial statements. These commitments are made to satisfy the financing needs of the Bank’s clients. The associated credit risk is controlled by subjecting such activity to the same credit and quality controls that exist for the Bank's lending and investing activities. The commitments involve diverse business and consumer customers and are generally well collateralized. Management does not anticipate that losses, if any, which may occur as a result of these commitments, would materially affect the stockholders' equity of the Bank. Since a portion of the commitments have some likelihood of not being exercised, the amounts do not necessarily represent future cash requirements.

Loan and credit line commitments, excluding unused portions of home equity lines of credit, totaled approximately $46,082,000 at December 31, 2007, and $50,248,000 at December 31, 2006. These commitments are contingent upon continuing customer compliance with the terms of the agreement.

Unused portions of home equity lines at year-end amounted to approximately $1,848,000 in 2007 and $2,038,000 in 2006. The Bank's home equity line accounts are secured by the borrower's residence.

Irrevocable letters of credit, totaling $14,897,000 at December 31, 2007 and $11,891,000 at December 31, 2006, are obligations to make payments under certain conditions to meet contingencies related to customers' contractual agreements. They are primarily used to guarantee a customer's contractual and/or financial performance and are seldom exercised.

17. EARNINGS PER SHARE

In the following table, basic earnings per share are derived by dividing net income available to common stockholders by the weighted-average number of common shares outstanding, and do not include the effect of any potentially dilutive common stock equivalents. The diluted earnings per share are derived by dividing net income by the weighted-average number of shares outstanding, adjusted for the dilutive effect of outstanding stock options.

Earnings per share calculations have been adjusted to give retroactive effect to the 1% stock dividends approved by the Board of Directors in December 2005, March 2006, May 2006, and August 2006 and the 2-for-1 stock split approved by the Board of Directors in March 2007.

The calculation of net income per common share for the years ended December 31 is as follows:

	2007	2006
BASIC:		
Net income available to common stockholders	$3,400,000	$2,708,000
Average common shares outstanding	3,678,286	3,678,286
Basic net income per share	$ 0.92	$ 0.74
DILUTED:		
Net income available to common stockholders	$3,400,000	$2,708,000
Average common shares outstanding	3,678,286	3,678,286
Stock option adjustment	5,828	4,806
Average common shares outstanding — diluted	3,684,114	3,683,092
Diluted net income per share	$ 0.92	$ 0.74

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107 *Disclosure About Fair Value of Financial Instruments* requires that the Company disclose estimated fair values for both its on and off-balance-sheet financial instruments. The following methods and assumptions were used to estimate the fair value of the Company's financial instruments. Changes in estimates and assumptions could have a significant impact on these fair values.

Cash and Cash Equivalents — The fair values of cash and cash equivalents approximate their carrying values.

Investment Securities — The fair values of investment securities are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices of comparable instruments.

Loans — The fair value of the loan portfolio is estimated by evaluating homogeneous categories of loans with similar financial and credit risk characteristics. Loans are segregated by types, such as residential mortgage, commercial real estate and consumer. Each loan category is further segmented into fixed and adjustable-rate interest terms.

The fair values of each loan category are estimated by discounting contractual cash flows adjusted for estimated prepayments. Assumptions regarding prepayment estimates and discount rates are judgmentally determined by using available market information.

Accrued Interest Receivable — The fair value of the Company's interest receivable approximates its carrying value.

Restricted Investment Securities — The fair value of the Company's investment in stock of the FHLB and FRB approximates its carrying value.

Deposits — The fair values of deposits are estimated using a discounted cash flow calculation, adjusted for estimated decay rates, that applies interest rates currently offered for funding sources with similar maturities. Assumptions regarding discount rates and decay estimates are judgmentally determined by using available market information.

Advances from the FHLB — The fair value of FHLB advances was estimated by computing the discounted value of contractual cash flows payable at current interest rates for obligations with similar remaining terms.

Commitments to Extend Credit — The Company charges fees for commitments to extend credit. Interest rates on loans for which these commitments are extended are normally committed for periods of less than one month. Fees charged on standby letters of credit and other financial guarantees are deemed to be immaterial and these guarantees are expected to be settled at face amount or expire unused. It is impractical to assign any fair value to these commitments.

The estimated fair values of financial instruments (in thousands) at December 31, 2007 are as follows:

	Carrying Value	Estimated Fair Value
Financial assets:		
Cash and cash equivalents	$ 5,511	$ 5,511
Investment securities:		
Available-for-sale	2,470	2,470
Held-to-maturity	2,749	2,753
Loans receivable	358,704	376,632
Restricted investment securities	4,750	4,750
Accrued interest receivable	2,122	2,122
Financial liabilities:		
Deposits	267,032	263,836
Guaranteed preferred beneficial interest in junior subordinated debentures	17,000	17,301
Advances from FHLB	84,499	84,446

The estimated fair values of financial instruments (in thousands) at December 31, 2006 are as follows:

	Carrying Value	Estimated Fair Value
Financial assets:		
Cash and cash equivalents	$ 6,575	$ 6,575
Investment securities:		
Available-for-sale	2,534	2,534
Held-to-maturity	3,737	3,738
Loans receivable	312,300	322,557
Restricted investment securities	2,382	2,382
Accrued interest receivable	1,695	1,695
Financial liabilities:		
Deposits	270,604	266,635
Guaranteed preferred beneficial interest in junior subordinated debentures	17,000	16,835
Advances from FHLB	30,631	30,619

19. CECIL BANCORP, INC. — HOLDING COMPANY ONLY FINANCIAL INFORMATION

The following condensed balance sheets (in thousands) as of December 31, 2007 and 2006 and condensed statements of income and cash flows (in thousands) for the years then ended for Cecil Bancorp, Inc. should be read in conjunction with the consolidated financial statements and notes thereto.

BALANCE SHEETS

	2007	2006
ASSETS		
Cash	$ 220	$ 1,321
Investment in subsidiaries	31,452	27,949
Notes receivable from subsidiaries	12,923	12,600
Premises and equipment	398	—
Accrued interest receivable from subsidiaries	25	24
Other assets	100	—
Total assets	$ 45,118	$ 41,894
LIABILITIES AND STOCKHOLDERS' EQUITY		
Junior subordinated debentures	$ 17,000	$ 17,000
Loans payable to subsidiaries	200	—
Other liabilities	676	621
Total liabilities	17,876	17,621
Stockholders' equity:		
Common stock, $.01 par value, authorized 10,000,000 shares in 2007 and 4,000,000 shares in 2006, issued and outstanding 3,678,286 shares in 2007 and 1,839,143 shares in 2006	37	18
Additional paid-in capital	11,441	11,460
Retained earnings	15,856	12,824
Accumulated other comprehensive loss	(92)	(29)
Total stockholders' equity	27,242	24,273
Total liabilities and stockholders' equity	$ 45,118	$ 41,894

STATEMENTS OF INCOME

	Years Ended December 31	
	2007	2006
Income:		
Interest income on notes receivable from subsidiaries	$ 880	$ 460
Equity in undistributed earnings of subsidiaries	3,536	2,783
Other income	56	—
Total income	4,472	3,243
Operating expenses:		
Compensation and benefits	11	11
Interest expense on junior subordinated debentures	1,121	550
Interest expense on loans payable to subsidiaries	4	—
Other	9	12
Total operating expenses	1,145	573
Net income before income taxes	3,327	2,670
Income tax benefit	73	38
Net income	$ 3,400	$ 2,708

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,400	$ 2,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(3,536)	(2,783)
Net change in other assets and other liabilities	(46)	593
Net cash flows (used) provided by operating activities	(182)	518
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of premises and equipment	(398)	—
Notes receivable from subsidiaries	(323)	(12,600)
Net cash used in investing activities	(721)	(12,600)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(368)	(374)
Loans payable to subsidiaries	200	—
Proceeds from sale of junior subordinated debentures	—	17,000
Investment in subsidiaries	(30)	(3,527)
Net cash (used) provided by financing activities	(198)	13,099
NET (DECREASE) INCREASE IN CASH	(1,101)	1,017
CASH AT BEGINNING OF PERIOD	1,321	304
CASH AT END OF PERIOD	$ 220	$ 1,321

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES.

As required by SEC rules, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2007. The Company's Chief Executive Officer and Chief Financial Officer participated in the evaluation. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2007.

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. As required by SEC rules, the Company's management evaluated the effectiveness of the Company's internal control over financial reporting as defined in SEC Rule 13a-15 as of December 31, 2007. The Company's Chief Executive Officer and Chief Financial Officer participated in the evaluation, which was based upon the criteria for effective internal control over financial reporting included in the "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

Fourth Quarter 2007 Changes in Internal Control over Financial Reporting

No change occurred during the fourth quarter of 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Other Executive Officers

Following are the name, age (as of December 31, 2007), and principal position of executive officers of the Company and The Bank who are not directors.

Name	Age	Title
Brian J. Hale	48	Executive Vice President/Chief Operating Officer
Sandra D. Feltman	58	Sr. Vice President/Director of Lending
R. Lee Whitehead	30	Vice President/Chief Financial Officer

BRIAN J. HALE is Executive Vice President/Chief Operating Officer of the Bank. Before joining the Bank, Mr. Hale was employed at County Banking and Trust Company, Elkton, Maryland for 17 years in various capacities, finally as Assistant Vice President in charge of loan operations. Since joining the Bank in 1995, Mr. Hale's responsibilities as Chief Operating Officer include the administration of all human resource, lending, savings, and operational activities of the Bank. Mr. Hale is currently a Director of the United Way of Cecil County. Mr. Hale resides in North East, Maryland.

SANDRA D. FELTMAN is Senior Vice President/Director of Lending of the Bank. Ms. Feltman has previously served in various capacities since joining the Bank in 1972 and has served in her present capacity as Director of Lending since 1982. Her responsibilities include carrying out the Bank's lending policies and acting as the Community Reinvestment Act Officer. Ms. Feltman has previously served as the President and Director of the Greater Elkton Chamber of Commerce as well as a member in the committee to select a new Elkton Police Chief and the Teacher Recruitment/Retention Committee. She also participates in various activities for the Business and Education Partnership Advisory Council. Ms. Feltman is a member and past chairman of the Finance Committee of the Cecil County Board of Realtors. Ms. Feltman is also a past director of the Cecil County Home Builders Association.

R. LEE WHITEHEAD is Vice President/Chief Financial Officer of the Bank. Mr. Whitehead has previously served as accounting manager since joining the Bank in April 2004 before being appointed Chief Financial Officer in May 2005. In his present capacity, Mr. Whitehead's responsibilities include the administration of all accounting and financial reporting functions. Lee resides in Aberdeen, Maryland.

Other information required by this item is incorporated by reference from the registrant's definitive proxy statement pursuant to General Instruction G to Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference from the registrant's definitive proxy statement pursuant to General Instruction G to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information required by this item is incorporated by reference from the registrant's definitive proxy statement pursuant to General Instruction G to Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference from the registrant's definitive proxy statement pursuant to General Instruction G to Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference from the registrant's definitive proxy statement pursuant to General Instruction G to Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed as Part of this Report

(1) Financial Statements.

The following financial statements are filed in Item 8 of this report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2007 and 2006
- Consolidated Statements of Income for the Years Ended December 31, 2007 and 2006
- Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2007 and 2006
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2007 and 2006
- Notes to Consolidated Financial Statements.

(2) Financial Statement Schedules. All schedules for which provision is made in the applicable accounting regulations of the SEC are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements and related notes thereto.

(3) Exhibits. The following exhibits are filed as a part of this report:

Exhibit No.	Description	Incorporated by Reference to:
3.1	Articles of Incorporation of Cecil Bancorp, Inc.	Exhibit 3.1 to Registration Statement on Form S-1 (File No. 33-81374)
3.2	Bylaws of Cecil Bancorp, Inc.	Exhibit 3.2 to Form 10-KSB for the year ended December 31, 2003, SEC File No. 0-24926.
3.3	Articles of Incorporation of Cecil Federal Bank	Exhibit 3.3 to Form 10-KSB for the year ended December 31, 2004, SEC File No. 0-24926.
3.4	Bylaws of Cecil Federal Bank	Exhibit 3.4 to Form 10-KSB for the year ended December 31, 2004, SEC File No. 0-24926.
4	Form of Common Stock Certificate	Exhibit 4 to Registration Statement on Form S-1 (File No. 33-81374)
10.1*	Employment Agreement between Cecil Bancorp, Inc., Cecil Federal Savings Bank and Mary Halsey	Exhibit 10.1 to Registration Statement on Form S-1 (File No. 33-81374)
10.2*	Cecil Bancorp, Inc. Stock Option and Incentive Plan	Exhibit to Company's Proxy Statement for its Annual Meeting of May 25, 1995 (File No. 0-24926).
10.3*	Cecil Bancorp, Inc. Management Recognition Plan	Exhibit to Company's Proxy Statement for its Annual Meeting of May 25, 1995 (File No. 0-24926).
10.4*	Cecil Federal Savings Bank Retirement Plan for Non-Employee Directors	Exhibit 10.4 to Form 10-KSB for the year ended December 31, 1994, SEC File No. 0-24926.
10.5*	Columbian Bank, a Federal Savings Bank 1994 Stock Option and Incentive Plan	Columbian Bank, a Federal Savings Bank, Registration Statement on Form S-B.
10.6*	Cecil Federal Bank Supplemental Executive Retirement Plan covering Charles F. Sposato, Chairman; Mary B. Halsey, President and Chief Executive Officer; and Brian J. Hale, Executive Vice President and Chief Operating Officer and related agreements with such officers	Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB for the quarterly period ending June 30, 2004
21	Subsidiaries	

Exhibit No.	Description	Incorporated by Reference to:
23	Consent of Stegman & Company	
31	Rule 13a-14(a)/15d-14(a) Certification	
32	18 U.S.C. Section 1350 Certification	

* Management Contract or Compensatory Plan or Arrangement.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CECIL BANCORP, INC.

March 27, 2008

By: /s/ Mary B. Halsey
Mary B. Halsey
President and Chief Executive Officer

March 27, 2008

By: /s/ Robert Lee Whitehead
Robert Lee Whitehead
Vice President and Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Mary B. Halsey
Mary B. Halsey
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 27, 2008

By: /s/ Robert Lee Whitehead
Robert Lee Whitehead
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: March 27, 2008

By: /s/ Charles F. Sposato
Charles F. Sposato
Chairman of the Board

Date: March 27, 2008

By: /s/ Donald F. Angert
Donald F. Angert
Director

Date: March 27, 2008

By: /s/ Matthew G. Bathon
Matthew G. Bathon
Director

Date: March 27, 2008

By: /s/ Brian L. Lockhart
Brian L. Lockhart
Director

Date: March 27, 2008

By: /s/ Mark W. Saunders
Mark W. Saunders
Director

Date: March 27, 2008

By: /s/ Thomas L. Vaughan, Sr.
Thomas L. Vaughan, Sr.
Director

Date: March 27, 2008

Exhibit 21
SUBSIDIARIES OF THE REGISTRANT

The following is a list of all subsidiaries of the Registrant.

Name	Jurisdiction of Incorporation
Cecil Bank	Maryland
Cecil Bancorp Capital Trust I	Delaware
Cecil Bancorp Capital Trust II	Delaware
Cecil Properties, Inc.	Maryland
3106 Emmorton Road, LLC (99%)	Maryland
1223 Turkey Point Road, LLC (99%)	Maryland
Subsidiaries of Cecil Bank:	
Cecil Service Corporation	Maryland
Cecil Financial Services Corporation	Maryland
Cecil Ventures, LLC	Maryland
Subsidiaries of Cecil Properties, Inc.:	
3106 Emmorton Road, LLC (1%)	Maryland
1223 Turkey Point Road, LLC (1%)	Maryland

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Cecil Bancorp, Inc.
Elkton, Maryland

We hereby consent to the incorporation by reference in the Registration Statement Numbers 333-35120 on Form S-3 and 033-81374 on Form S-8 of Cecil Bancorp, Inc. and Subsidiaries (Cecil Bancorp) of our report dated March 21, 2008, relating to the consolidated balance sheets of Cecil Bancorp as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, which report appears in the December 31, 2007 annual report on Form 10-K of Cecil Bancorp.

/s/ Stegman & Company

Baltimore, Maryland
March 24, 2008

Exhibit 31(a)
Rule 13a-14(a)/15d-14(a) Certification

I, Mary B. Halsey, certify that:

1. I have reviewed this report on Form 10-K of Cecil Bancorp, Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b) N/A

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based upon such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the in the issuer's internal control over financial reporting.

By: /s/ Mary B. Halsey
Mary B. Halsey
President and Chief Executive Officer
(Principal Executive Officer)

March 27, 2008
Date

Exhibit 31(b)
Rule 13a-14(a)/15d-14(a) Certification

I, R. Lee Whitehead, certify that:

1. I have reviewed this report on Form 10-K of Cecil Bancorp, Inc.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b) N/A

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based upon such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the in the issuer's internal control over financial reporting.

By: /s/ R. Lee Whitehead
R. Lee Whitehead
Vice President and Chief Financial Officer
(Principal Financial Officer)

March 27, 2008
Date

Exhibit 32(a)
18 U.S.C. Section 1350 Certification

I hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that the accompanying Form 10-K of Cecil Bancorp, Inc. (“Bancorp”) for the annual period ended December 31, 2007, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and that the information contained in this Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Bancorp.

By: /s/ Mary B. Halsey	March 27, 2008
Mary B. Halsey	Date
President and Chief Executive Officer	
(Principal Executive Officer)	

Exhibit 32(b)
18 U.S.C. Section 1350 Certification

I hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that the accompanying Form 10-K of Cecil Bancorp, Inc. (“Bancorp”) for the annual period ended December 31, 2007, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and that the information contained in this Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Bancorp.

By: /s/ R. Lee Whitehead	March 27, 2008
R. Lee Whitehead Vice President and Chief Financial Officer (Principal Financial Officer)	Date