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

FORM 10-Q

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

For the quarterly period ended September 30, 2008.

OR

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

For the transition period from _______ to _______

Commission File Number 0-24926

CECIL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	52-1883546 (I.R.S. Employer Identification Number)
127 North Street, Elkton, Maryland (Address of principal executive office)	21921-5547 (Zip Code)

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

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.

þ YES o NO

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-2 of the Exchange Act).

o YES þ NO

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

3,684,196 shares outstanding as of November 5, 2008

CECIL BANCORP, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

CECIL BANCORP, INC. AND SUBSIDIARIES
ITEM 1: FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS:		
Cash and due from banks	$ 6,766	$ 1,205
Interest bearing deposits with banks	15,177	4,306
Investment securities:		
Securities available-for-sale at fair value	2,138	2,470
Securities held-to-maturity (fair value of $249 in 2008 and $2,753 in 2007)	248	2,749
Restricted investment securities — at cost	3,918	4,750
Loans receivable	401,577	358,704
Less: allowance for loan losses	(3,889)	(3,109)
Net loans receivable	397,688	355,595
Other real estate owned	1,951	655
Premises and equipment, net	12,094	11,997
Accrued interest receivable	2,142	2,122
Goodwill	2,182	2,182
Other intangible assets	315	240
Bank owned life insurance	7,717	7,532
Other assets	4,294	5,629
TOTAL ASSETS	$ 456,630	$ 401,432
LIABILITIES:		
Deposits	$ 337,724	$ 267,032
Other liabilities	8,638	5,659
Guaranteed preferred beneficial interest in junior subordinated debentures	17,000	17,000
Advances from Federal Home Loan Bank of Atlanta	63,857	84,499
Total liabilities	427,219	374,190
STOCKHOLDERS’ EQUITY:		
Common stock, $.01 par value; authorized 10,000,000 shares, issued and outstanding 3,684,196 shares in 2008 and 3,678,286 shares in 2007	37	37
Additional paid in capital	11,481	11,441
Retained earnings	18,137	15,856
Accumulated other comprehensive loss	(244)	(92)
Total stockholders’ equity	29,411	27,242
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 456,630	$ 401,432

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
INTEREST INCOME:				
Interest and fees on loans	$ 7,323	$ 6,979	$ 21,454	$ 20,388
Interest on investment securities	62	67	185	217
Dividends on FHLB and FRB stock	38	36	181	105
Other interest income	10	26	34	81
Total interest income	7,433	7,108	21,854	20,791
INTEREST EXPENSE:				
Interest expense on deposits	2,366	2,992	7,388	8,572
Guaranteed preferred beneficial interest in junior subordinated debentures	282	282	842	840
Interest expense on fed funds purchased	13	—	13	—
Interest expense on advances from FHLB	767	413	2,242	1,195
Total interest expense	3,428	3,687	10,485	10,607
NET INTEREST INCOME	4,005	3,421	11,369	10,184
PROVISION FOR LOAN LOSSES	330	195	930	585
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,675	3,226	10,439	9,599
NONINTEREST INCOME:				
Deposit account fees	165	128	482	397
ATM fees	94	83	274	219
Commission income	13	5	49	24
Gain on sale of loans	32	25	140	72
Gain on sale of other real estate owned	11	—	11	—
Impairment loss on investment securities	(106)	—	(106)	—
Income from bank owned life insurance	81	96	185	222
Other	58	35	185	106
Total noninterest income	348	372	1,220	1,040
NONINTEREST EXPENSE:				
Salaries and employee benefits	1,556	1,374	4,754	4,161
Occupancy expense	180	151	531	462
Equipment and data processing expense	354	311	1,005	872
Other	448	312	1,209	999
Total noninterest expense	2,538	2,148	7,499	6,494
INCOME BEFORE INCOME TAXES	1,485	1,450	4,160	4,145
INCOME TAX EXPENSE	565	533	1,603	1,677
NET INCOME	$ 920	$ 917	$ 2,557	$ 2,468

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
(dollars in thousands, except per share data)

(Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
NET INCOME	$ 920	$ 917	$ 2,557	$ 2,468
OTHER COMPREHENSIVE INCOME				
Unrealized losses on investment securities, net of deferred taxes	(42)	(3)	(152)	(30)
TOTAL COMPREHENSIVE INCOME	$ 878	$ 914	$ 2,405	$ 2,438
Earnings per common share — basic	$ 0.25	$ 0.25	$ 0.69	$ 0.67
Earnings per common share — diluted	$ 0.25	$ 0.25	$ 0.69	$ 0.67
Dividends declared per common share	$ 0.025	$ 0.025	$ 0.075	$ 0.075

See accompanying notes to consolidated financial statements.

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CECIL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,557	$ 2,468
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	438	351
Provision for loan losses	930	585
Gain on sale of loans	(140)	(72)
Gain on sale of other real estate owned	(11)	—
Gain on disposal of premises and equipment	(3)	—
Impairment loss on investment securities	106	—
Increase in cash surrender value of bank owned life insurance	(185)	(222)
Excess servicing rights	(116)	(62)
Reinvested dividends on investments	(27)	(28)
Origination of loans held for sale	(7,861)	(4,478)
Proceeds from sales of loans held for sale	7,928	4,497
Net change in:		
Accrued interest receivable and other assets	1,417	(802)
Other liabilities	2,979	2,917
Net cash provided by operating activities	8,012	5,154
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available-for-sale	(2,162)	—
Purchases of investment securities held-to-maturity	(495)	(3,719)
Net redemption (purchases) of restricted investment securities	833	(318)
Proceeds from sales, maturities, calls and principal payments of investment securities available-for-sale	2,151	19
Proceeds from maturities, calls and principal payments of investment securities held-to-maturity	3,000	4,750
Proceeds from sale of other real estate owned	320	—
Net increase in loans	(44,555)	(32,082)
Surrender of bank owned life insurance	—	1,863
Purchases of bank owned life insurance	—	(3,163)
Proceeds from disposal of premises and equipment	5	—
Purchases of premises and equipment — net	(492)	(2,373)
Net cash used in investing activities	(41,395)	(35,023)

CECIL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

(Continued)

	For the Nine Months Ended September 30, 2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	70,692	21,185
Net (decrease) increase in advances from Federal Home Loan Bank	(20,641)	7,419
Proceeds from issuance of common stock	40	—
Payments of cash dividends	(276)	(276)
Net cash provided by financing activities	49,815	28,328
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,432	(1,541)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,511	6,575
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 21,943	$ 5,034
Supplemental disclosures of cash flows information:		
Cash paid for income taxes	$ 2,465	$ 2,438
Cash paid for interest	$ 10,482	$ 10,250
Transfer of loans to other real estate owned	$ 1,605	$ —

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

1. GENERAL

In the opinion of Cecil Bancorp, Inc. and subsidiaries (the "Company"), the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of September 30, 2008 and the results of its operations and cash flows for the three and nine months ended September 30, 2008 and 2007. These statements are condensed and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year.

2. FINANCIAL STATEMENT PREPARATION

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for uncollectible loans, depreciation and amortization, intangible assets, employee benefit plans, and contingencies, among others. Actual results could differ from those estimates.

3. EARNINGS PER SHARE

Basic earnings per common share are computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are computed after 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. For the three and nine months ended September 30, 2008 and 2007, there were no options excluded from the diluted earnings per share calculation because their effect was antidilutive. All earnings per share calculations have been adjusted to give retroactive effect to the 2-for-1 stock split approved by the Board of Directors in March 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic:				
Net income available to common stockholders	$ 920,000	$ 917,000	$2,557,000	$2,468,000
Average common shares outstanding	3,683,401	3,678,286	3,680,501	3,678,286
Basic earnings per common share	$ 0.25	$ 0.25	$ 0.69	$ 0.67
Diluted:				
Net income available to common stockholders	$ 920,000	$ 917,000	$2,557,000	$2,468,000
Average common shares outstanding	3,683,401	3,678,286	3,680,501	3,678,286
Stock option adjustment	2,549	5,675	3,507	5,855
Average common shares outstanding — diluted	3,685,950	3,683,961	3,684,008	3,684,141
Diluted earnings per common share	$ 0.25	$ 0.25	$ 0.69	$ 0.67

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4. STOCK OPTION PLANS

No options were granted or vested during the three and nine months ended September 30, 2008 and 2007. The Company's stock options have been adjusted to give retroactive effect to 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 periods indicated is as follows:

	Nine months ended September 30, 2008		Year ended December 31, 2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	16,032	$ 6.00	16,032	$ 6.00
Granted	—	—	—	—
Exercised	(4,008)	6.00	—	—
Canceled/expired	—	—	—	—
Outstanding at end of period	12,024	$ 6.00	16,032	$ 6.00
Options exercisable at end of period	12,024	$ 6.00	16,032	$ 6.00

The following table summarizes information about stock options outstanding at September 30, 2008:

	Options Outstanding and Exercisable		
Exercise Price	Number Outstanding	Life (Years)	Intrinsic Value
$6.00	12,024	0.5	$15,030

5. 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 the 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 the 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.

6. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") 157, *Fair Value Measurements* (the "Statement"). SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. While the Statement applies under other accounting pronouncements that require or permit fair value measurements, it does not require any new fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. In addition, the Statement establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Lastly, SFAS 157 requires additional disclosures for each interim and annual period separately for each major category of assets and liabilities. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of this Statement did not have a material impact on the Company's consolidated financial statements.

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 that begins after November 15, 2007. Effective January 1, 2008, the Company is able to elect the fair value option for certain assets and liabilities but has not yet elected to do so; therefore, SFAS 159 did not have a material effect on its consolidated financial statements.

In December 2007, the FASB issued SFAS 141, Revised 2007, *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.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendment to AU 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the implementation of SFAS 162 to have a material impact on its consolidated financial statements.

7. ASSETS MEASURED AT FAIR VALUE

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. In addition, SFAS 157 establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 assets are valued based on readily available pricing sources for transactions involving identical assets. Level 2 assets are valued based on transactions in less active markets. Valuations are obtained from third parting pricing services which use observable inputs for comparable assets other than Level 1 assets. Level 3 assets are valued based on unobservable inputs that are supported by little or no market activity that are significant to the fair value. Lastly, SFAS No. 157 requires additional disclosures for each interim and annual period separately for each major category of assets and liabilities. The following table shows the value (in thousands) at September 30, 2008 of each major category of assets measured at fair value on the consolidated balance sheets, which consists solely of investment securities available-for-sale. The changes in fair value were reflected as a component of other comprehensive income and did not affect net income.

	Fair Value Measurements at Reporting Date Using			
Description	Carrying Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available-for-sale	$2,138	$ 2,021	$ 117	$ —

We may be required from time to time to measure certain other financial assets and liabilities at fair value on a nonrecurring basis. These adjustments to fair value usually result from application of lower of cost or market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis at September 30, 2008, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the assets. For both other real estate owned and impaired loans, Level 3 assets are valued at the lesser of the unpaid principal balance of the loan, or the appraised value of the underlying collateral, as determined by a third party appraiser.

	Fair Value Measurements at Reporting Date Using			
Description	Carrying Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 1,951	$ —	$ —	$ 1,951
Impaired loans	7,330	—	—	7,330

The following table provides a roll forward of the changes in fair value during the nine months ended September 30, 2008 for items included in the Level 3 category:

	Other Real Estate Owned	Impaired Loans
Balance at December 31, 2007	$ 655	$ 5,065
Loans put on nonaccrual status	—	4,068
Loans returned to accrual status	—	(1,803)
Loans transferred to other real estate owned	1,605	—
Other real estate owned sold	(309)	—
Balance at September 30, 2008	$ 1,951	$ 7,330
Net realized gains included in net income	$ 11	$ —

CECIL BANCORP, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2008 AND 2007

Forward-Looking Statements

This Management's Discussion and Analysis of financial condition and results of operations and other portions of this report include forward-looking statements such as: statements of the Company's goals, intentions, and expectations; estimates of risks and of future costs and benefits; assessments of loan quality and of possible loan losses; and statements of the Company's ability to achieve financial and other goals. These forward-looking statements are subject to significant uncertainties because they are based upon: future interest rates, market behavior, and other economic conditions; future laws and regulations; and a variety of other matters. These other matters include, among other things, the direct and indirect effects of the recent unsettled national and international economic conditions on interest rates, credit quality, loan demand, liquidity, and monetary and supervisory policies of banking regulators. Because of these uncertainties, the actual future results may be materially different from the results indicated by these forward-looking statements. In addition, the Company's past growth and performance do not necessarily indicate its future results.

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 unaudited consolidated financial statements and the accompanying notes.

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 community-oriented 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 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.

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 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.

In the normal course of business, the Bank originates construction loans, the majority of which are located in the Bank's primary market of Cecil and Harford Counties in Maryland, after thoroughly reviewing the borrower and the proposed project. These loans provide short term funding primarily for the construction of residential real estate, and are granted to both builders, who are constructing homes for their customers, and to individuals, who use the proceeds to pay custom builders under a contract or act as their own contractor. Total real estate construction loans outstanding were $99.6 million at September 30, 2008 and $79.2 million at December 31, 2007. The Bank currently does not, and never has, participated in subprime lending activities.

Asset/Liability Management

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. The Company's asset/liability management policies are designed to reduce the impact of changes in interest rates on its net interest income by achieving a favorable relationship between the maturities or repricing dates of its interest-earning assets and interest-bearing liabilities. The Bank's lending policy emphasizes the origination of one-year, three-year, or five-year adjustable rate mortgage loans, adjustable rate commercial loans and lines of credit, and short-term consumer loans. The Bank is currently originating residential mortgage 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.

Comparison of Financial Condition at September 30, 2008 and December 31, 2007

The Company's assets increased by $55.2 million, or 13.8%, to $456.6 million at September 30, 2008 from $401.4 million at December 31, 2007, primarily as a result of increases in loans receivable and cash and cash equivalents, partially offset by decreases in investment securities and other assets. This increase was primarily funded by increases in deposits and other liabilities. Cash and due from banks increased by $5.6 million to $6.8 million at September 30, 2008 from $1.2 million at December 31, 2007. Interest-bearing deposits increased by $10.9 million to $15.2 million at September 30, 2008 from $4.3 million at December 31, 2007. Investment securities held-to-maturity decreased by $2.5 million, or 91.0%, to $248,000 at September 30, 2008 from $2.7 million at December 31, 2007 due to securities that matured, the proceeds of which were invested in loans. Restricted investment securities, which consist of Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock, decreased by $832,000 to $3.9 million at September 30, 2008 from $4.8 million at December 31, 2007 as a result of the ongoing review of the investment requirements by the FHLB and FRB.

The loans receivable portfolio increased by $42.9 million, or 12.0%, to $401.6 million at September 30, 2008 from $358.7 million at December 31, 2007, primarily as a result of increased marketing efforts of our business development and loan departments. During the period, we realized a $20.4 million (25.8%) increase in construction loans, a $14.0 million (11.1%) increase in commercial real estate loans, a $5.4 million (52.7%) increase in commercial business loans, a $3.8 million (3.0%) increase in one-to-four family residential and home equity loans, and a $1.2 million (35.6%) increase in land loans. These increases were partially offset by a $1.6 million (24.9%) decrease in consumer loans and a $274,000 (3.8%) decrease in multi-family residential loans. The allowance for loan losses increased by $780,000, or 25.1%, to $3.9 million at September 30, 2008 from $3.1 million at December 31, 2007 (see "Analysis of Allowance for Loan Losses" below).

Other real estate owned increased by $1.3 million to $2.0 million at September 30, 2008 from $655,000 at December 31, 2007 due to the acquisition of property in satisfaction of loans receivable in the normal course of business. Other assets decreased $1.3 million, or 23.7%, to $4.3 million at September 30, 2008 from $5.6 million at December 31, 2007 primarily due to a receivable from Money Gram Payment Systems, the Company's third party official check processing agent, which was outstanding at December 31, 2007 and received in January 2008.

The Company's liabilities increased $53.0 million, or 14.2%, to $427.2 million at September 30, 2008 from $374.2 million at December 31, 2007. Deposits increased $70.7 million, or 26.5%, to $337.7 million at September 30, 2008 from $267.0 million at December 31, 2007. This increase was primarily due to a $21.5 million increase in local core funding, which totaled $261.9 million at September 30, 2008, and a $49.2 million increase in brokered deposits, which totaled $75.8 million at September 30, 2008. Increases of $63.7 million (34.1%) in certificates of deposit, $6.3 million (35.4%) in regular checking accounts, $2.9 million (18.0%) in NOW accounts, and $645,000 (4.6%) in IRA certificates of deposit, were offset in part by declines of $2.0 million (28.0%) in money market accounts and $974,000 (17.3%) in money market certificates. Other liabilities increased $3.0 million, or 52.6%, to $8.6 million at September 30, 2008 from $5.6 million at December 31, 2007 primarily due to increases in the supplemental executive retirement plan liability and the amount owed to Money Gram Payment Systems for the official checks written on September 30, partially offset by a decrease in income taxes payable. Advances from the Federal Home Loan Bank of Atlanta decreased $20.6 million, or 24.4%, to $63.9 million at September 30, 2008 from $84.5 million at December 31, 2007 due to repayments with the excess cash received from the increase in deposits and the decrease in investment securities.

The Company's stockholders' equity increased by $2.2 million, or 8.0%, to $29.4 million at September 30, 2008 from $27.2 million at December 31, 2007. The increase was primarily the result of net income of $2.6 million, partially offset by the Company's regular dividend of $0.075 per share, or $276,000, for the nine months ended September 30, 2008 and a $152,000 loss on investment securities, net of deferred income taxes.

Comparison of Results of Operations for the Three Months Ended September 30, 2008 and 2007

Net income for the three month period ended September 30, 2008 increased $3,000, or 0.3%, to $920,000 as compared to net income of $917,000 for the same period in 2007. This increase was primarily the result of increases in net interest income, partially offset by increases in the provision for loan losses and noninterest expense and a decrease in noninterest income. Basic and diluted earnings per share both remained level at $0.25 for the third quarters of 2008 and 2007. The annualized return on average assets and annualized return on average equity were 0.84% and 12.71%, respectively, for the three-month period ended September 30, 2008. This compares to an annualized return on average assets and annualized return on average equity of 0.99% and 14.16%, respectively, for the same period in 2007.

Net interest income, the Company's primary source of income, increased 17.1%, or $584,000, to $4.0 million for the three months ended September 30, 2008, from $3.4 million over the same period in 2007. The weighted average yield on interest earning assets decreased to 7.36% for the three months ended September 30, 2008 from 8.25% for the three months ended September 30, 2007. The weighted average rate paid on interest bearing liabilities decreased to 3.40% for the three months ended September 30, 2008 from 4.32% for the three months ended September 30, 2007. The interest rate spread and the net interest margin were both 3.96% for the quarter ended September 30, 2008, as compared to 3.93% and 3.97%, respectively, for the quarter ended September 30, 2007.

Interest and fees on loans receivable increased by $344,000, or 4.9%, to $7.3 million for the three months ended September 30, 2008 from $7.0 million for the three months ended September 30, 2007. The increase is attributable to an increase in the average balance outstanding, partially offset by a decrease in the weighted-average yield. The average balance outstanding increased by $60.4 million to $393.3 million for the three months ended September 30, 2008 from $332.9 million for the three months ending September 30, 2007. The weighted-average yield decreased to 7.45% for the three months ended September 30, 2008 from 8.39% for the three months ended September 30, 2007.

Interest income on investment securities decreased $5,000, or 7.5%, to $62,000 for the three months ended September 30, 2008 from $67,000 for the three months ended September 30, 2007. The average balance outstanding decreased $937,000 to $4.4 million for the three months ended September 30, 2008 from $5.4 million for the three months ended September 30, 2007. The weighted-average yield increased to 5.56% for the three months ended September 30, 2008 from 5.05% for the three months ended September 30, 2007.

Other interest income, consisting of income on interest bearing deposits at banks and interest on outstanding official checks, decreased $16,000 to $10,000 for the three months ended September 30, 2008 from $26,000 for the three months ended September 30, 2007 due to a decrease in the fed funds interest rate, as well as a decline in the crediting rate of Money Gram Payment Systems.

Interest expense on deposits decreased $626,000, or 20.9%, to $2.4 million for the three months ended September 30, 2008 from $3.0 million for the three months ended September 30, 2007. The average balance outstanding increased $4.5 million, or 1.6%, to $296.9 million for the three months ended September 30, 2008 from $292.4 million for the same period in 2007. The weighted-average rate decreased to 3.19% for the three months ended September 30, 2008 from 4.09% for the three months ended September 30, 2007.

Interest expense on fed funds purchased increased by 100% to $13,000 for the three months ended September 30, 2008. The average balance outstanding for the third quarter of 2008 was $1.7 million, with a weighted-average rate of 3.12%.

Interest expense on advances from the FHLB increased $354,000, or 85.7%, to $767,000 for the three months ended September 30, 2008 from $413,000 for the three months ended September 30, 2007. The average balance outstanding increased $55.5 million to $87.6 million for the three months ended September 30, 2008 from $32.1 million for the three months ended September 30, 2007. The weighted average rate decreased to 3.50% for the three months ended September 30, 2008 from 5.15% for the three months ended September 30, 2007.

Noninterest income decreased 6.5%, or $24,000, to $348,000 for the three months ended September 30, 2008, from $372,000 over the same period in 2007. Deposit account fees increased $37,000 to $165,000 for the three months ended September 30, 2008 from $128,000 for the same period in 2007. ATM fees increased $11,000, or 13.3%, to $94,000 for the three months ended September 30, 2008 from $83,000 for the three months ended September 30, 2007 due to an increase in fees from increased use of debit cards. Commission income increased $8,000 to $13,000 for the three months ended September 30, 2008 from $5,000 for the three months ended September 30, 2007 due to an increase in brokerage and investment services. There was an $11,000 gain on the sale of other real estate owned during the three months ended September 30, 2008 as compared to no activity during the three months ended September 30, 2007. There was a $106,000 impairment loss on an investment during the quarter ended September 30, 2008 due to the Company's investment in Triangle Capital Corporation, as compared to no activity over the same period in 2007. Income from bank owned life insurance decreased by $15,000, or 15.6%, to $81,000 for the three months ended September 30, 2008 from $96,000 for the three months ended September 30, 2007 due to a decrease in the crediting rate paid by the carriers. Other income increased $23,000 to $58,000 for the three months ended September 30, 2008 from $35,000 for the three months ended September 30, 2007 primarily due to an increase in income from the Company's investment in Maryland Title Center LLC, as well as an increase in miscellaneous fees.

Noninterest expense increased $390,000, or 18.2%, to $2.5 million for the three months ended September 30, 2008, from $2.1 million over the same period in 2007. Salaries and employee benefits increased $182,000, or 13.3%, to $1.6 million for the three months ended September 30, 2008 as compared to $1.4 million over the same period in 2007. This increase is attributable to annual merit increases, an increase in medical insurance and other employee benefits, and an increase in the supplemental executive retirement plan expense. Occupancy expense increased by $29,000, or 19.2%, to $180,000 for the three months ended September 30, 2008 from $151,000 for the same period in 2007 primarily due to depreciation expense on the new Fair Hill branch, as well as an increase in utilities expense. Equipment and data processing expenses increased $43,000, or 13.8%, to $354,000 for the three months ended September 30, 2008 from $311,000 for the three months ended September 30, 2007 primarily due to an increase in fees for the Company's data service provider. Other expenses increased $136,000, or 43.6%, to $448,000 for the three months ended September 30, 2008 from $312,000 for the three months ended September 30, 2007, primarily as a result of increases in FDIC deposit insurance premiums, audit and accounting services, IT expense, loan collection and appraisal expense, and real estate and personal property taxes, partially offset by decreases in loan expense and ATM expense.

Income tax expense for the three-month period ended September 30, 2008 and 2007 was $565,000 and $533,000, respectively, which equates to effective rates of 38.0% and 36.8% respectively.

Comparison of Results of Operations for the Nine Months Ended September 30, 2008 and 2007

Net income for the nine month period ended September 30, 2008 increased $89,000, or 3.6%, to $2.6 million, compared to net income of $2.5 million for the same period in 2007. This increase is primarily the result of increases in net interest income and noninterest income and a decrease in income tax expense, partially offset by increases in the provision for loan losses and noninterest expense. Basic and diluted earnings per share both increased by 3.0% to $0.69 for the first nine months of 2008 from $0.67 for the same period in 2007. The earnings per share calculations have been adjusted to give retroactive effect to the 2-for-1 stock split approved by the Board of Directors in March 2007. The annualized return on average assets and annualized return on average equity were 0.81% and 12.08%, respectively, for the nine month period ended September 30, 2008. This compares to an annualized return on average assets and annualized return on average equity of 0.91% and 13.03%, respectively, for the same period in 2007.

Net interest income, the Company's primary source of income, increased 11.6%, or $1.2 million, to $11.4 million for the nine months ended September 30, 2008, from $10.2 million over the same period in 2007. The weighted-average yield on interest earning assets decreased to 7.54% for the nine months ended September 30, 2008 from 8.22% for the nine months ended September 30, 2007. The weighted average rate paid on interest bearing liabilities decreased to 3.62% for the nine months ended September 30, 2008 from 4.24% for the nine months ended September 30, 2007. The interest rate spread and the net interest margin both decreased to 3.92% for the nine-month period ended September 30, 2008 from 3.98% and 4.03%, respectively, for the same period in 2007.

Interest and fees on loans receivable increased by $1.1 million, or 5.2%, to $21.5 million for the nine months ended September 30, 2008 from $20.4 million for the nine months ended September 30, 2007. The average balance outstanding increased $51.7 million, or 15.9%, to $376.6 million for the nine months ended September 30, 2008 from $324.9 million for the nine months ended September 30, 2007. The weighted-average yield decreased to 7.60% for the nine months ended September 30, 2008 from 8.37% for the nine months ended September 30, 2007.

Interest income on investment securities decreased $32,000, or 14.8%, to $185,000 for the nine months ended September 30, 2008 from $217,000 for the nine months ended September 30, 2007. The average balance outstanding decreased $1.1 million, or 18.6%, to $4.7 million for the nine months ended September 30, 2008 from $5.8 million for the nine months ended September 30, 2007. The weighted-average yield increased to 5.20% for the nine months ended September 30, 2008 from 4.98% for the nine months ended September 30, 2007.

Dividends on FHLB and FRB stock increased $76,000 to $181,000 for the nine months ended September 30, 2008 from $105,000 for the same period in 2007. The weighted-average yield decreased to 4.92% for the nine months ended September 30, 2008 from 5.95% for the nine months ended September 30, 2007. The average balance outstanding increased $2.5 million, or 108.1%, to $4.9 million for the nine months ended September 30, 2008 as compared to $2.4 million for the nine months ended September 30, 2007.

Other interest income, consisting of income on interest bearing deposits at banks and interest on outstanding official checks, decreased $47,000 to $34,000 for the nine months ended September 30, 2008 from $81,000 for the nine months ended September 30, 2007 due to a decrease in the fed funds interest rate, as well as a decline in the crediting rate of Money Gram Payment Systems.

Interest expense on deposits decreased $1.2 million, or 13.8%, to $7.4 million for the nine months ended September 30, 2008 from $8.6 million for the nine months ended September 30, 2007. The average balance outstanding decreased $3.8 million, or 1.3%, to $282.5 million for the nine months ended September 30, 2008 from $286.3 million for the nine months ended September 30, 2007. The weighted-average rate decreased to 3.49% for the nine months ended September 30, 2008 from 3.99% for the nine months ended September 30, 2007.

Interest expense on fed funds purchased increased by 100% to $13,000 for the nine months ended September 30, 2008. The average balance outstanding for the period was $578,000, with a weighted-average rate of 3.10%.

Interest expense on advances from the FHLB increased $1.0 million, or 87.6%, to $2.2 million for the nine months ended September 30, 2008 from $1.2 million for the nine months ended September 30, 2007. The weighted average cost of funds decreased to 3.46% for the nine months ended September 30, 2008 from 5.26% for the nine months ended September 30, 2007. The average balance outstanding increased $56.0 million, or 184.8%, to $86.3 million for the nine months ended September 30, 2008 from $30.3 million for the nine months ended September 30, 2007.

Noninterest income increased 17.3%, or $180,000, to $1.2 million for the nine months ended September 30, 2008, from $1.0 million over the same period in 2007. Deposit account fees increased $85,000 to $482,000 for the nine months ended September 30, 2008 from $397,000 for the same period in 2007. ATM fees increased $55,000, or 25.1%, to $274,000 for the nine months ended September 30, 2008 from $219,000 for the nine months ended September 30, 2007 due to an increase in fees from increased use of debit cards. Commission income increased $25,000 to $49,000 for the nine months ended September 30, 2008 from $24,000 for the nine months ended September 30, 2007 due to an increase in brokerage and investment services. Gain on sale of loans increased $68,000, or 94.4%, to $140,000 for the nine months ended September 30, 2008 from $72,000 for the nine months ended September 30, 2007. There was an $11,000 gain on the sale of other real estate owned during the nine months ended September 30, 2008 as compared to no activity during the nine months ended September 30, 2007. There was a $106,000 impairment loss on an investment during the nine months ended September 30, 2008 due to the Company's investment in Triangle Capital Corporation, as compared to no activity over the same period in 2007. Income from bank owned life insurance decreased by $37,000, or 16.7%, to $185,000 for the nine months ended September 30, 2008 from $222,000 for the nine months ended

September 30, 2007 due to a decrease in the crediting rate paid by the carriers. Other income increased $79,000 to $185,000 for the nine months ended September 30, 2008 from $106,000 for the nine months ended September 30, 2007 primarily due to an increase in income from the Company’s investments in Maryland Title Center LLC, Triangle Capital Partners, and CBS Holdings LLC, a brokerage and investment and insurance services firm, as well as increases in rental income and miscellaneous fees.

Noninterest expense increased $1.0 million, or 15.5%, to $7.5 million for the nine month period ended September 30, 2008 from $6.5 million for the nine months ended September 30, 2007. Salaries and employee benefits increased $593,000, or 14.3%, to $4.8 million for the nine months ended September 30, 2008 from $4.2 million over the same period in 2007. This increase is attributable to annual merit increases, an increase in medical insurance and other employee benefits, and an increase in the supplemental executive retirement plan expense. Occupancy expense increased by $69,000, or 14.9%, to $531,000 for the nine months ended September 30, 2008 from $462,000 for the same period in 2007 primarily due to depreciation expense on the new Fair Hill branch, as well as an increase in utilities expense. Equipment and data processing expenses increased $133,000, or 15.3%, to $1.0 million for the nine months ended September 30, 2008 from $872,000 over the same period in 2007 due to increased fees from the Company’s data service provider, partially offset by a decrease in depreciation expense on furniture, fixtures, and equipment. Other expenses increased $210,000, or 21.0%, to $1.2 million for the nine months ended September 30, 2008 from $999,000 for the nine months ended September 30, 2007, primarily as a result of increases in advertising, FDIC deposit insurance premiums, and loan collection expense, partially offset by decreases in audit and accounting fees, loan expense and miscellaneous expense.

Income tax expense for the nine month period ended September 30, 2008 and 2007 was $1.6 million and $1.7 million, which equates to effective rates of 38.5% and 40.5% respectively. The decrease in the effective tax rate is due to the surrender of $1.9 million of bank owned life insurance during 2007.

Loans Receivable

The Company’s lending activities are predominantly conducted in Cecil and Harford Counties in the State of Maryland. The following table shows the composition of the loan portfolio at the indicated dates.

	September 30, 2008		December 31, 2007	
	Amount	%	Amount	%
	(Dollars in thousands)			
Type of Loan				
Real estate loans:				
Construction loans	$ 99,553	24.79%	$ 79,150	22.07%
One- to four-family residential and home equity	129,481	32.25	125,723	35.05
Multi-family residential	6,875	1.71	7,149	1.99
Land	4,422	1.10	3,262	0.91
Commercial	140,883	35.08	126,850	35.36
Commercial business loans	15,582	3.88	10,206	2.85
Consumer loans	4,781	1.19	6,364	1.77
Gross loans	401,577	100.00%	358,704	100.00%
Less: allowance for loan losses	(3,889)		(3,109)	
Net loans receivable	$397,688		$355,595	

Nonperforming Assets

Management reviews and identifies loans and investments that require designation as nonperforming assets. Nonperforming assets are: 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 (assets acquired in settlement of loans). The following table sets forth certain information with respect to nonperforming assets.

(Dollars in thousands)	September 30, 2008	December 31, 2007
Non-accrual loans and leases	$ 7,330	$ 5,065
Loans and leases 90 days or more past due	0	0
Restructured loans and leases	0	0
Total nonperforming loans and leases	7,330	5,065
Other real estate owned, net	1,951	655
Total nonperforming assets	$ 9,281	$ 5,720
Nonperforming loans and leases to total loans and leases	1.83%	1.41%
Nonperforming assets to total assets	2.03	1.42
Allowance for loan losses to nonperforming loans and leases	53.06	61.38

Analysis of 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 first nine months of 2008, 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. 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 September 30, 2008 was $3.9 million, (0.97% of total loans), an increase of $780,000, or 25.1%, from the $3.1 million allowance (0.87% of total loans) at December 31, 2007. Annualized net charge-offs for the first nine months of 2008 were 0.05% of average loans, as compared to 0.01% of average loans for the year 2007. The provision for loan losses required for the first nine months of 2008 and 2007 was $930,000 and $585,000, respectively.

A summary of activity in the allowance is shown below.

	Nine Months Ended September 30, 2008	Twelve Months Ended December 31, 2007
	(In thousands)	
Balance at beginning of period	$ 3,109	$ 2,217
Charge-offs:		
Residential real estate	(188)	0
Commercial	(47)	(30)
Consumer	(37)	(40)
Total charge-offs	(272)	(70)
Recoveries:		
Residential real estate	0	0
Commercial	110	0
Consumer	12	27
Total recoveries	122	27
Net charge-offs	(150)	(43)
Provision for loan losses	930	935
Balance at end of period	$ 3,889	$ 3,109
Net charge-offs to average loans outstanding during the period (annualized)	0.05%	0.01%
Allowance for loan losses to loans	0.97	0.87
Allowance for loan losses to nonperforming loans	53.06	61.38

Analysis of Deposits

The following table sets forth the dollar amount of deposits in the various types of accounts offered by the Bank at the dates indicated.

	Balance at September 30, 2008	% Deposits	Balance at December 31, 2007	% Deposits
	(Dollars in thousands)			
Regular checking	$ 24,050	7.12%	$ 17,764	6.65%
NOW accounts	18,801	5.57	15,927	5.96
Passbook	11,691	3.46	11,830	4.43
Statement savings	8,284	2.45	8,193	3.07
Money market	5,129	1.52	7,127	2.67
Holiday club	302	0.09	72	0.03
Certificates of Deposit	250,165	74.07	186,488	69.84
IRA Certificates of Deposit	14,655	4.34	14,010	5.25
Money Market Certificates	4,647	1.38	5,621	2.10
	$ 337,724	100.00%	$ 267,032	100.00%

Capital Adequacy

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 principal federal regulator, has established requirements for total and tier 1 (core) risk-based capital and tangible capital. The following table sets forth applicable capital ratios of the Bank as of September 30, 2008 and December 31, 2007.

	2008 Actual	2007 Actual	Regulatory Minimums Well Capitalized	Regulatory Minimums Adequately Capitalized
Total risk-based capital ratio	12.22%	13.05%	10.00%	8.00%
Tier 1 risk-based capital ratio	7.94%	8.41%	6.00%	4.00%
Tier 1 leverage ratio	7.02%	7.34%	5.00%	4.00%

As of September 30, 2008 and December 31, 2007, the Bank exceeded all applicable capital requirements to be classified as a well capitalized institution under the rules promulgated by the Board of Governors of the Federal Reserve System. Designation under these regulations does not constitute a recommendation or endorsement of the Bank’s regulators.

Item 3. Qualitative and Quantitative Disclosures about Market Risk —

Not Applicable

Item 4. Controls and Procedures —

Not Applicable

Item 4T. Controls and Procedures —

Cecil Bancorp’s management, under the supervision and with the participation of its Chief Executive Officer and its Chief Financial Officer, evaluated as of the last day of the period covered by this report, the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15 under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. There were no significant changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15 under the Securities Act of 1934) during the quarter ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings -
Not Applicable

Item 1A. Risk Factors -
Not Applicable

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds -
Not Applicable

Item 3. Defaults Upon Senior Securities -
Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders -
Not Applicable

Item 5. Other Information -
Not Applicable

Item 6. Exhibits -

Exhibit 31(a),(b) Rule 13a-14(a)/15d-14(a) Certification
Exhibit 32(a),(b) 18 U.S.C. Section 1350 Certification

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CECIL BANCORP, INC.

Date: November 7, 2008

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

Date: November 7, 2008

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

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

I, Mary B. Halsey, certify that:

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

2. Based on my knowledge, this 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; and

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 our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our 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

c) 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 control 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 issuer's internal control over financial reporting.

Date: November 7, 2008

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

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

I, Robert Lee Whitehead, certify that:

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

2. Based on my knowledge, this 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; and

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 our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our 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

c) 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 control 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 issuer's internal control over financial reporting.

Date: November 7, 2008

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

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-Q of Cecil Bancorp, Inc. ("Bancorp") for the quarterly period ended September 30, 2008, 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-Q fairly presents, in all material respects, the financial condition and results of operations of Bancorp.

Date: November 7, 2008

By: /s/ Mary B. Halsey
Mary B. Halsey
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-Q of Cecil Bancorp, Inc. ("Bancorp") for the quarterly period ended September 30, 2008, 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-Q fairly presents, in all material respects, the financial condition and results of operations of Bancorp.

Date: November 7, 2008

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