

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-K

(Mark One)

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

For the fiscal year ended **June 30, 2008**

OR

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

For the transition period from _____ to _____

Commission File No. **0-28032**

PATAPSCO BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

52-1951797
(I.R.S. Employer
Identification No.)

1301 Merritt Boulevard, Dundalk, Maryland
(Address of principal executive offices)

21222-2194
(Zip Code)

Registrant's telephone number, including area code: **(410) 285-1010**

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 \$.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 No

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

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

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

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of December 31, 2007, the aggregate market value of voting common stock held by nonaffiliates was approximately \$21,954,804, computed by reference to the closing sales price on December 31, 2007 as reported on the OTC Electronic Bulletin Board.

Number of shares of Common Stock outstanding as of September 22, 2008: 1,862,559.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the 2008 Annual Report to Stockholders. (Part II)
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PART I

Forward-Looking Statements

When used in this Annual Report, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the Company’s market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company’s market area, and competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company’s financial performance and could cause the Company’s actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Item 1. Business

General

Patapsco Bancorp, Inc. Patapsco Bancorp, Inc. (the “Company”) was incorporated under the laws of the State of Maryland in November 1995. On April 1, 1996, Patapsco Federal Savings and Loan Association (the “Association”), the predecessor of The Patapsco Bank (“the Bank”), converted from mutual to stock form and reorganized into the holding company form of ownership as a wholly-owned subsidiary of the Company.

Other than the note receivable for Bradford Bancorp resulting from the terminated merger agreement, the Company has no significant assets other than its investment in the Bank. The Company is primarily engaged in the business of directing, planning and coordinating the business activities of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, focuses primarily on the Bank. In the future, the Company may become an operating company or acquire or organize other operating subsidiaries, including other financial institutions. Currently, the Company does not maintain offices separate from those of the Bank or employ any persons other than its officers who are not separately compensated for such service.

The Company’s and the Bank’s executive offices are located at 1301 Merritt Boulevard, Dundalk, Maryland 21222-2194, and the main telephone number is (410) 285-1010.

The Patapsco Bank. The Bank is a Maryland commercial bank operating through five full-service offices located in Dundalk, Parkville, Carney, Glen Arm and Baltimore City, Maryland. The primary business of the Bank is to attract deposits from individual and corporate customers and to originate residential and commercial mortgage loans, commercial loans and consumer loans, primarily in the Greater Baltimore Metropolitan area. The Bank is subject to competition from other financial and mortgage institutions in attracting and retaining deposits and in making loans. The Bank is subject to the regulations of certain agencies of the federal government and undergoes periodic examination by those agencies. The Bank has two active operating subsidiaries, Prime Business Leasing and Patapsco Financial Services. The primary business of Prime Leasing is the origination and servicing of commercial leases. The primary business of Patapsco Financial Services is the sale of consumer investments.

At June 30, 2008, the Bank had \$70.0 million, \$53.5 million, \$29.9 million, \$41.3 million, \$20.9 million and \$17.7 million in residential mortgage loans, small business loans, construction loans, commercial real estate loans, home equity and other consumer loans, and equipment leases, respectively.

Available Information

The Bank maintains a website at <http://www.patapscobank.com>, which makes available the Company's Section 16 filings with the Securities and Exchange Commission ("SEC"). The SEC maintains a website at <http://www.sec.gov> that makes available the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended, free of charge, on the site as soon as reasonably practicable after the Company has electronically filed these documents with, or otherwise furnished them to, the SEC. The Company's Internet website and the information contained therein or connected thereto are not intended to be incorporated into this annual report on Form 10-K.

Termination of Proposed Acquisition

On January 3, 2008, the Company and Bradford Bancorp, Inc. announced that they had mutually terminated the Agreement and Plan of Merger that the parties had previously executed on March 19, 2007. Pursuant to the termination agreement, Bradford Bancorp, Inc. agreed to pay the Company a termination fee of \$2.0 million payable in the form of a promissory note, which matures on December 31, 2008 and provides for interest equal to the prime rate plus one percent. On August 1, 2008, this interest rate increased to the prime rate plus three percent. The termination agreement also provided for a mutual release of claims in connection with the merger.

Market Area

The Bank's market area for gathering deposits consists of the Hampden area of Baltimore City and eastern and northeastern Baltimore County, Maryland, while the Bank makes loans to customers in much of the Mid-Atlantic area with a strong emphasis on the Baltimore metropolitan area. The economy of the Bank's market area has historically been based on industries such as steel, shipyards and automobile assembly. The economy in the Bank's market area continues to be dependent, to some extent, on a small number of major industrial employers. A significant portion of eastern Baltimore County has been designated as an "Enterprise Zone." As a result, employers relocating to this area are entitled to significant tax and other economic incentives. Based on 2004 United States Census data, the per capita personal income for Baltimore County (\$42,852) is greater than that of Maryland as a whole (\$39,631) and the United States (\$33,050). The per capita personal income for Baltimore City (\$29,153) is lower than both the Maryland and United States averages.

Lending Activities

General. The Company's gross loan portfolio totaled \$233.2 million at June 30, 2008, representing 89.3% of total assets at that date. At June 30, 2008, \$70.0 million, or 30.0%, of the Company's gross loan portfolio, consisted of residential mortgage loans. Other loans secured by real estate include construction and commercial real estate loans, which amounted to \$71.2 million, or 30.5%, of the Company's gross loan portfolio at June 30, 2008. In addition, the Company originates consumer and other loans, including home equity loans, home improvement loans and loans secured by deposits. At June 30, 2008, consumer and other loans totaled \$20.9 million, or 9.0%, of the Company's gross loan portfolio. The Company's commercial loan portfolio, which consists of small business loans and commercial leases totaled \$71.2 million, or 30.5%, of the Company's gross loan portfolio.

Originations, Purchases and Sales of Loans. The Company generally has authority to originate and purchase loans throughout the United States. Consistent with its emphasis on being a community-oriented financial institution, the Company concentrates its lending activities in its Maryland market area with limited loan and equipment lease origination in Delaware, Pennsylvania and Northern Virginia and on rare occasions, outside these markets.

The Company's loan originations are derived from a number of sources, including loan brokers, advertising and referrals by depositors and borrowers. The Company's solicitation programs consist of advertisements in local media, in addition to participation in various community organizations and events. All of the Company's loan personnel are salaried; however, three originators do receive commissions on loans approved by officers of the Bank. With the exception of applications for home improvement loans and equipment leases, which loans may be originated on an indirect basis through a limited number of approved home improvement contractors and loan brokers, loan applications are accepted at the Company's office. In addition, the Company's salaried loan originators may travel to meet prospective borrowers and take applications. In all cases, the Company has final approval of the application.

In recent years, the Company has purchased whole loans and loan participation interests. During the year ended June 30, 2008, the Company purchased \$4.7 million in participation interests and \$577,000 in consumer home improvement loans. In the future, management will continue to consider purchases of whole loans or participation interests in commercial business, residential and commercial real estate loans and consumer home improvement loans.

Loan Underwriting Policies. The Company's lending activities are subject to the Company's non-discriminatory underwriting standards and to loan origination procedures prescribed by the Company's Board of Directors and management. 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. Certain officers and committees have been granted authority by the Board of Directors to approve residential and commercial real estate, commercial business loans and equipment leases in varying amounts depending upon whether the loan is secured or unsecured and, with respect to secured loans, whether the collateral is liquid or illiquid. Individual officers and certain committees of the Company have been granted authority by the Board of Directors to approve consumer loans up to varying specified dollar amounts, depending upon the type of loan.

Applications for single-family real estate loans are typically underwritten and closed in accordance with the standards of Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"). Generally, upon receipt of a loan application from a prospective borrower, a credit report and verifications are ordered to confirm specific information relating to the loan applicant's employment, income and credit standing. If a proposed loan is to be secured by a mortgage on real estate, an appraisal of the real estate is undertaken, pursuant to the Company's Appraisal Policy, by an appraiser approved by the Company and licensed by the State of Maryland. In the case of single-family residential mortgage loans, except when the Company becomes aware of a particular risk of environmental contamination, the Company generally does not obtain a formal environmental report on the real estate at the time a loan is made. A formal environmental report may be required in connection with nonresidential real estate loans.

It is the Company's policy to record a lien on the real estate securing a loan and to obtain title insurance, which insures that the property is free of prior encumbrances and other possible title defects. Borrowers must also obtain hazard insurance policies prior to closing and, when the property is in a flood plain as designated by the Department of Housing and Urban Development, pay flood insurance policy premiums. Upon receipt of a loan application from a prospective borrower, a credit report generally is ordered to verify specific information relating to the loan applicant's employment, income and credit standing.

With respect to single-family residential mortgage loans, the Company makes a loan commitment of between 30 and 60 days for each loan approved. If the borrower desires a longer commitment, the commitment may be extended for good cause and upon written approval. Typically, a \$500 commitment fee is charged in connection with the issuance of a commitment letter; however, extension fees are usually charged. The interest rate is guaranteed for the commitment term.

It is the policy of the Company that appraisals be obtained in connection with all loans for the purchase of real estate or to refinance real estate loans where the existing mortgage is held by a party other than the Company. It is the Company's policy that all appraisals be performed by appraisers approved by the Company's Board of Directors and licensed by the State of Maryland, for properties located in the state of Maryland.

Under applicable law, with certain limited exceptions, loans and extensions of credit by a commercial bank to a person outstanding, including commitments, at one time shall not exceed 15% of the bank's unimpaired capital and surplus. Under these limits, the Company's loans to one borrower were limited to \$3.2 million at June 30, 2008. At that date, the Company had no lending relationships in excess of the loans-to-one-borrower limit. At June 30, 2008, the Company's largest lending relationship was represented by multiple loans totaling \$2.8 million secured by commercial real estate, which were current and performing in accordance with their terms at June 30, 2008.

Interest rates charged by the Company on loans are affected principally by competitive factors, the demand for such loans and the supply of funds available for lending purposes. These factors are, in turn, affected by general economic conditions, monetary policies of the federal government, including the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), legislative tax policies and government budgetary matters.

Residential Real Estate Lending. The Company historically has been an originator of residential real estate loans in its market area. Residential real estate loans consist of both single-family and multi-family residential real estate loans. At June 30, 2008, residential mortgage loans totaled \$70.5 million, or 30.0%, of the Company's gross loan portfolio. Of such loans, \$8.7 million were secured by nonowner-occupied investment properties.

The Company's multi-family residential loan portfolio consists primarily of loans secured by small apartment buildings. Such loans generally range in size from \$100,000 to \$500,000. At June 30, 2008, the Company had \$4.6 million of multi-family residential real estate loans, which amounted to 2.0% of the Company's gross loan portfolio at such date. Multi-family real estate loans either are originated on an adjustable-rate basis with terms of up to 25 years or are amortized over a maximum of 25 years with a three or five-year note maturity, and are underwritten with loan-to-value ratios of up to 80% of the lesser of the appraised value or the purchase price of the property.

Multi-family residential real estate lending entails additional risks as compared with single-family residential property lending. Multi-family residential real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. The payment experience on such loans typically is dependent on the successful operation of the real estate project. These risks can be significantly impacted by supply and demand conditions in the market for residential space, and, as such, may be subject to a greater extent to adverse conditions in the economy generally. To minimize these risks, the Company generally limits itself to its market area or to borrowers with which it has prior experience or who are otherwise known to the Company. It has been the Company's policy to obtain annual financial statements of the business of the borrower or the project for which multi-family residential real estate loans are made. The Company seeks to expand multi-family residential real estate lending.

Construction Lending. The Bank also offers residential and commercial construction loans and land acquisition and development loans. Residential construction loans are offered to individuals who are having their primary or secondary residence built, as well as to local builders to construct single-family dwellings. Residential construction advances are made on a stage of completion basis. Generally, loans to owner/occupants for the construction of residential properties are originated in conjunction with the permanent mortgage on the property. The term of the construction loans is normally from 6 to 18 months and has a variable interest rate, which is normally up to 2% above the prime interest rate. Upon completion of construction, the permanent loan rate will be set at the interest rate offered by the Bank on that loan product not sooner than 60 days prior to completion. Interest rates on residential loans to builders are set at the prime interest rate plus a margin of 0.5% to 2.0% as may be adjusted from time to time. Interest rates on commercial construction loans and land acquisition and development loans are based on the prime rate plus a negotiated margin of between 0.5% and 2.0% and adjust from time to time, with construction terms generally not exceeding 18 months. Advances are made on a percentage of completion basis. At June 30, 2008, \$29.9 million, or 12.8%, of the Company's loan portfolio consisted of construction loans.

Prior to making a commitment to fund a loan, the Bank requires an appraisal of the property by appraisers approved by the Board of Directors and may require a study of the feasibility of the proposed project. The Bank also reviews and inspects each project at the commencement of construction and prior to payment of draw requests during the term of the construction loan. Dependent upon market forces, the Bank generally charges a loan fee between 1% and 2%.

Construction financing generally is considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate and the borrower is unable to meet the Bank's requirements of putting up additional funds to cover extra costs or change orders, then the Bank will demand that the loan be paid off and, if necessary, institute foreclosure proceedings, or refinance the loan. If the estimate of value proves to be inaccurate, the Bank may be confronted, at or prior to the maturity of the loan, with collateral having a value that is insufficient to assure full repayment. The Bank has sought to minimize this risk by limiting construction lending to qualified borrowers (*i.e.*, borrowers who satisfy all credit requirements and whose loans satisfy all other underwriting standards which would apply to the Bank's permanent mortgage loan financing for the subject property) in the Bank's market area. On loans to builders, the Bank works only with selected builders with whom it has experience and carefully monitors the creditworthiness of the builders.

Commercial Real Estate Lending. The Company's commercial real estate loan portfolio consists of loans to finance the acquisition of small office buildings, shopping centers and commercial and industrial buildings. Such loans generally range in size from \$100,000 to \$2,000,000. At June 30, 2008, the Company had \$41.3 million of commercial real estate loans, which amounted to 17.7% of the Company's gross loan portfolio at such date. Commercial real estate loans are typically originated on an adjustable-rate basis with terms of up to 25 years or are amortized over a maximum of 25 years with a maturity generally of three to ten years, and are underwritten with loan-to-value ratios of up to 80% of the lesser of the appraised value or the purchase price of the property. Because of the inherently greater risk involved in this type of lending, the Company generally limits its commercial real estate lending to borrowers within its market area or with which it has had prior experience. The Company seeks to expand commercial real estate lending.

Commercial real estate lending entails additional risks as compared with single-family residential property lending. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. The payment experience on such loans typically is dependent on the successful operation of the real estate project, retail establishment or business. These risks can be significantly impacted by supply and demand conditions in the market for office, retail and residential space, and, as such, may be subject to a greater extent to adverse conditions in the economy generally. To minimize these risks, the Company generally limits itself to its market area or to borrowers with which it has prior experience or who are otherwise known to the Company. It has been the Company's policy to obtain annual financial statements of the business of the borrower or the project for which commercial real estate loans are made. In addition, in the case of commercial mortgage loans made to a partnership or a corporation, the Company seeks, whenever possible, to obtain personal guarantees and annual financial statements of the principals of the partnership or corporation.

Consumer Lending. The consumer loans currently in the Company's loan portfolio consist of home improvement loans, home equity loans, loans secured by savings deposits and overdraft protection for checking accounts and other consumer loans. At June 30, 2008, consumer and other loans totaled \$20.9 million, or 9.0%, of the Company's gross loan portfolio.

In July 1995, the Company instituted a home improvement loan program. Such loans are made to finance a variety of other home improvement projects, such as replacement windows, siding and room additions. The Company's policy is to originate home improvement loans throughout Maryland, Virginia, Delaware, New Jersey and Southern Pennsylvania. While the Company originates some home improvement loans on a direct basis, most of the home improvement loans in the Company's portfolio are originated on an indirect basis through the Company's relationships with selected independent contractors. The Company's underwriting policies apply to all home improvement loans whether or not directly originated by the Company. Home improvement loans generally have terms ranging from three to 10 years and have fixed interest rates. Home improvement loans are made on both secured and unsecured basis. However, the majority of home improvement loans with a principal loan amount over \$10,000 or which have a term longer than 84 months are made on a secured basis with loan-to-value ratios up to 80% or 90%, depending on the type of project financed. At June 30, 2008, home improvement loans amounted to \$12.7 million, or 5.4%, of the Company's loan portfolio, with \$1.3 million of such loans being secured by real estate.

Consumer lending affords the Company the opportunity to earn yields higher than those obtainable with other types of lending. However, consumer loans entail greater risk than do other loans, particularly in the case of loans that are unsecured or secured by rapidly depreciable assets. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by events such as job loss, divorce, illness or personal bankruptcy.

Commercial Lending. The Bank's commercial loans consist of commercial business loans and the financing of lease transactions, which may not be secured by real estate.

At June 30, 2008, the Company's commercial loans totaled \$53.5 million, or 22.9%, of the Company's loan portfolio. This commercial lending program employs many of the alternative financing and guarantee programs available through the U.S. Small Business Administration and other state and local economic development agencies.

The Bank originates commercial business loans to small and medium-sized businesses in its market area. The Bank's commercial business loans may be structured as term loans, lines of credit, or mortgages. The Bank's

commercial borrowers are generally small businesses engaged in manufacturing, distribution or retailing, or professionals in healthcare, accounting and law. Commercial business loans are generally made to finance the purchase of inventory, new or used commercial business assets or for short-term working capital, or the purchase of real estate to be occupied by the operating company. Such loans generally are secured by business assets and, when applicable, cross-collateralized by a real estate lien, although commercial business loans are sometimes granted on an unsecured basis. Such loans are generally made for terms of seven years or less, depending on the purpose of the loan and the collateral. Interest rates on commercial business loans and lines of credit are either fixed for the term of the loan or adjusted periodically. Generally, commercial business loans are made in amounts ranging between \$10,000 and \$2.0 million.

The Bank underwrites its commercial business loans on the basis of the borrower's cash flow and ability to service the debt from earnings and the Bank seeks to structure such loans to have more than one source of repayment. The borrower is required to provide the Bank with sufficient information to allow the Bank to make its lending determination. In most instances, this information consists of at least two years of financial statements, a statement of projected cash flows, current financial information on any guarantor and any additional information on the collateral. For loans with maturities exceeding one year, the Bank requires that borrowers and guarantors provide updated financial information at least annually throughout the term of the loan.

Commercial business term loans are generally made to finance the purchase of assets and have maturities of five years or less. Commercial business lines of credit are typically made for the purpose of providing working capital and are usually approved with a term of 12 months and are reviewed at that time to determine if extension is warranted. The Bank also offers standby letters of credit for its commercial borrowers. The terms of standby letters of credit generally do not exceed one year but may contain a renewal option.

Commercial business loans are often larger and may involve greater risk than other types of lending. Because payments on such loans are often dependent on successful operation of the business involved, repayment of such loans may be subject to a greater extent to adverse conditions in the economy. The Bank seeks to minimize these risks through its underwriting guidelines, which require that the loan be supported by adequate cash flow of the borrower, profitability of the business, collateral and personal guarantees of the individuals in the business. In addition, the Bank generally limits this type of lending to its market area and to borrowers with which it has prior experience or who are otherwise well known to the Bank.

The Company offers loans to finance lease transactions, secured by the lease and the underlying equipment, to businesses of various size through its subsidiary, Prime Business Leasing. In extending the financing in a commercial lease transaction, the Company reviews the borrower's financial statements, credit reports, tax returns and other documentation. Generally, commercial lease financing is made in amounts ranging between \$3,000 and \$120,000 with terms of up to five years and carry fixed interest rates. At June 30, 2008, commercial lease finance transaction loans totaled \$17.7 million, or 7.6%, of the Company's loan portfolio.

Loan Fees and Servicing. The Company receives fees in connection with late payments and for miscellaneous services related to its loans. The Company also charges fees in connection with loan originations typically up to two points (one point being equal to 1% of the loan amount) on real estate loan originations. The Company generally does not service loans for others. The Company has sold participating interests on residential, commercial real estate and commercial business loans to other local financial institutions. At June 30, 2008, the Company was servicing these participation interests for others totaling approximately \$20.7 million.

Nonperforming Loans and Other Problem Assets. It is management's policy to continually monitor its loan portfolio to anticipate and address potential and actual delinquencies. When a borrower fails to make a payment on a loan, the Company takes immediate steps to have the delinquency cured and the loan restored to current status. Loans, which are delinquent between ten and 15 days, depending on the type of loan, typically incur a late fee of 5% of principal and interest due. As a matter of policy, the Company will contact the borrower after the date the late payment is due. If payment is not promptly received, the borrower is contacted again, and efforts are made to formulate an affirmative plan to cure the delinquency. Generally, after any loan is delinquent 90 days or more, formal legal proceedings are commenced to collect amounts owed.

Loans generally are placed on nonaccrual status if the loan becomes past due more than 90 days, except in instances where in management's judgment there is no doubt as to full collectibility of principal and interest. At June

30, 2008, all loans past due more than 90 days were on nonaccrual. Consumer loans are generally charged off after they become more than 90 days past due. All other loans are charged off when management concludes that they are uncollectible. See Notes 1 and 3 of the Notes to Consolidated Financial Statements.

Real estate acquired by the Company as a result of foreclosure is classified as foreclosed real estate until such time as it is sold. When such property is acquired, it is initially recorded at the estimated fair value less costs to sell, establishing a new cost basis. Subsequent to acquisition, the property is carried at the lower of cost or fair value less estimated costs to sell. Fair value is defined as the amount in cash or cash-equivalent value or other consideration that a real estate parcel would yield in a current sale between a willing buyer and a willing seller, as measured by market transactions. If a market does not exist, fair value of the item is estimated based on selling prices of similar items in active markets or, if there are no active markets for similar items, by discounting a forecast of expected cash flows at a rate commensurate with the risk involved. Fair value is generally determined through an appraisal at the time of foreclosure. Any required write-down of the loan to its fair value upon foreclosure is charged against the allowance for loan losses, with subsequent write-downs reflected in other expense. See Note 1 of the Notes to Consolidated Financial Statements.

Investment Activities

General. The Company makes investments in order to maintain the levels of liquid assets preferred by regulatory authorities and manage cash flow, diversify its assets, obtain yield and to satisfy certain requirements for favorable tax treatment. The investment activities of the Company consist primarily of investments in mortgage-backed securities and other investment securities. Typical investments include federally sponsored agency mortgage pass-through, federally sponsored agency debt securities, U.S. treasury obligations and investment grade corporate securities. Investment and aggregate investment limitations and credit quality parameters of each class of investment are prescribed in the Company's investment policy. The Company performs analyses on securities prior to purchase and on an ongoing basis to determine the impact on earnings and market value under various interest rate and prepayment conditions. Senior management and the Company's Asset/Liability Management Committee have limited authority to sell investment securities and purchase comparable investment securities with similar characteristics. The Board of Directors reviews all securities transactions on a monthly basis.

Under applicable accounting rules, investment securities classified as held-to-maturity are recorded at amortized cost and those classified as available for sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. At June 30, 2008, the Company's entire portfolio of investment securities was classified as available for sale and had an aggregate carrying value of \$9.6 million and an unrealized net loss after tax of \$188,000. Management of the Company currently does not anticipate that the presence of unrealized losses in the Company's portfolio of investment securities and mortgage-backed securities is likely to have a material adverse effect on the Company's financial condition, results of operations or liquidity.

Deposit Activity and Other Sources of Funds

General. Deposits are the primary source of the Company's funds for lending, investment activities and general operational purposes. In addition to deposits, the Company derives funds from loan principal and interest repayments, maturities of investment securities and mortgage-backed securities and interest payments thereon. Although loan repayments are a relatively stable source of funds, deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds, or on a long-term basis for general operational purposes. The Bank may borrow from the Federal Home Loan Bank of Atlanta and The Bankers Bank of Atlanta, Georgia.

Deposits. The Company attracts deposits principally from within its market area by offering a variety of deposit instruments, including checking accounts, Christmas Club accounts, money market accounts, statement and passbook savings accounts, Individual Retirement Accounts, and certificates of deposit which range in maturity from seven days to 66 months. Deposit terms vary according to the minimum balance required, the length of time the funds must remain on deposit, and the interest rate. Maturities, terms, service fees and withdrawal penalties for its deposit accounts are established by the Company on a periodic basis. The Company reviews its deposit mix and pricing on a weekly basis. In determining the characteristics of its deposit accounts, the Company considers the rates offered by competing institutions, lending and liquidity requirements, growth goals and federal regulations. Management believes it prices its deposits comparably to rates offered by its competitors.

The Company attempts to compete for deposits with other institutions in its market area by offering competitively priced deposit instruments that are tailored to the needs of its customers. Additionally, the Company seeks to meet customers' needs by providing convenient customer service to the community, efficient staff and convenient hours of service. Substantially all of the Company's depositors are Maryland residents. To provide additional convenience, the Company participates in the STAR Automatic Teller Machine network at locations throughout the United States, through which customers can gain access to their accounts at any time.

Borrowings. While savings deposits historically have been the primary source of funds for the Company's lending, investments and general operating activities, the Bank utilizes advances from the Federal Home Loan Bank of Atlanta to supplement its supply of lendable funds and to meet deposit withdrawal requirements. The Federal Home Loan Bank of Atlanta functions as a central reserve bank providing credit for member financial institutions. As a member of the Federal Home Loan Bank System, the Bank is required to own stock in the Federal Home Loan Bank of Atlanta and is authorized to apply for advances. Advances are pursuant to several different programs, each of which has its own interest rate and range of maturities. The Bank has a Blanket Agreement for advances with the Federal Home Loan Bank under which the Bank may borrow up to 25% of assets subject to normal collateral and underwriting requirements. As of August 1, 2008, this borrowing limit increased to 30% of assets. Advances from the Federal Home Loan Bank of Atlanta are secured by the Bank's stock in the Federal Home Loan Bank of Atlanta and other eligible assets. At June 30, 2008, the Company had outstanding Federal Home Loan Bank of Atlanta advances of \$37.3 million with an average rate of 4.46%. Additionally, the Bank has a \$5.1 million line of credit, none of which was outstanding at June 30, 2008 with The Silverton Bank of Atlanta, Georgia.

Subsidiary Activities

The Bank has three subsidiaries, PFSL Holding Corp. ("PFSL"), which it formed in November 1995 to hold certain real estate owned at that time and which is currently inactive, Prime Business Leasing that was formed in October 1998 and is discussed under commercial lending and Patasco Financial Services, Inc., which was formed in March 2000 in order to sell alternative investment products to the Company's customers.

Competition

The Company faces strong competition both in originating loans and in attracting deposits. The Company competes for loans principally on the basis of interest rates, the types of loans it originates, the deposit products it offers and the quality of services it provides to borrowers. The Company also competes by offering products that are tailored to the local community. Its competition in originating loans comes primarily from other commercial banks, savings institutions and mortgage bankers, credit unions and finance companies.

Management considers its market area for gathering deposits to be eastern Baltimore County, Baltimore City, and Harford County in Maryland. The Company originates loans throughout much of the Mid-Atlantic area. The Company attracts its deposits through its offices in Dundalk, Parkville, Carney, Hampden and Glen Arm primarily from the local community. Consequently, competition for deposits is principally from other commercial banks, savings institutions, credit unions, mutual funds and brokers in the local community. The Company competes for deposits and loans by offering what it believes to be a variety of deposit accounts at competitive rates, convenient business hours, a commitment to outstanding customer service and a well-trained staff.

Employees

As of June 30, 2008, the Company had 71 full-time and 15 part-time employees, none of who were represented by a collective bargaining agreement. Management considers the Company's relationships with its employees to be good.

Depository Institution Regulation

General. The Bank is a Maryland commercial bank and its deposit accounts are insured by the Deposit Insurance Fund (“DIF”) administered by the Federal Deposit Insurance Corporation (“FDIC”). The Bank also is a member of the Federal Reserve System. The Bank is subject to supervision, examination and regulation by the State of Maryland Commissioner of Financial Regulation (“Commissioner”), the Federal Reserve Board, Maryland and federal statutory and regulatory provisions governing such matters as capital standards, mergers and establishment of branch offices, and it is subject to the FDIC’s authority to conduct special examinations. The Bank is required to file reports with the Commissioner and the Federal Reserve Board concerning its activities and financial condition and is required to obtain regulatory approvals prior to entering into certain transactions, including mergers with, or acquisitions of, other depository institutions.

The system of regulation and supervision applicable to the Bank establishes a comprehensive framework for the operations of the Bank and is intended primarily for the protection of the FDIC and the depositors of the Bank. Changes in the regulatory framework could have a material effect on the Bank and their respective operations that in turn, could have a material adverse effect on the Company.

Business Activities. The Commissioner regulates the Bank’s internal organization as well as its deposit, lending and investment activities. The basic authority for the Bank’s activities is specified by Maryland law. Additionally, Maryland law contains a parity statute by which Maryland commercial banks may, with the approval of the Commissioner, engage in any additional activity, service or practice permitted for national banks.

The Federal Reserve and FDIC also regulate many of the areas regulated by the Commissioner and federal law may limit some of the authority provided to the Bank by Maryland law. Approval of the Commissioner and the Federal Reserve is required for, among other things, business combinations and the establishment of branch offices.

Capital Requirements. The Bank is subject to Federal Reserve Board capital requirements, as well as statutory capital requirements imposed under Maryland law. Federal Reserve Board regulations establish two capital standards for state-chartered banks that are members of the Federal Reserve System (“state member banks”): a leverage requirement and a risk-based capital requirement. In addition, the Federal Reserve may, on a case-by-case basis, establish individual minimum capital requirements for a bank that vary from the requirements that would otherwise apply under Federal Reserve Board regulations. A bank that fails to satisfy the capital requirements established under the Federal Reserve Board’s regulations will be subject to such administrative action or sanctions as the Federal Reserve Board deems appropriate.

The leverage ratio adopted by the Federal Reserve Board requires a minimum ratio of “Tier 1 capital” to adjusted total assets of 3% for banks rated composite 1 under the CAMELS examination rating system for banks. Banks not rated composite 1 under the CAMELS rating system for banks are required to maintain a minimum ratio of Tier 1 capital to adjusted total assets of at least 4%. Additional capital may be necessary for institutions with supervisory, financial, operational or managerial weaknesses, as well as institutions experiencing significant growth. For purposes of the Federal Reserve Board’s leverage requirement, Tier 1 capital consists primarily of common stockholders’ equity, certain perpetual preferred stock (which must be noncumulative with respect to banks), and minority interests in the equity accounts of consolidated subsidiaries; less most intangible assets, except for specified servicing assets and purchased credit card receivables and other specified deductions.

The risk-based capital requirements established by the Federal Reserve Board’s regulations require state member banks to maintain “total capital” equal to at least 8% of total risk-weighted assets. For purposes of the risk-based capital requirement, “total capital” means Tier 1 capital (as described above) plus “Tier 2 capital” (as described below), provided that the amount of Tier 2 capital may not exceed the amount of Tier 1 capital, less certain assets. Tier 2 capital elements include, subject to certain limitations, the allowance for losses on loans and leases, perpetual preferred stock that does not qualify for Tier 1 and 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, and subordinated debt and intermediate-term preferred stock and up to 45% of unrealized gains on equity securities. Total risk-weighted assets are determined under the Federal Reserve Board’s regulations, which generally establish four risk categories, with general risk weights of 0%, 20%, 50% and 100%, based on the risk believed inherent to the type of loan involved.

In addition, the Bank is subject to the statutory capital requirements imposed by the State of Maryland. Under Maryland statutory law, if the surplus of a Maryland commercial bank at any time is less than 100% of its capital stock, then, until the surplus is 100% of the capital stock, the commercial bank: (i) must transfer to its surplus annually at least 10% of its net earnings; and (ii) may not declare or pay any cash dividends that exceed 90% of its net earnings.

The table below provides information with respect to the Bank's compliance with its regulatory capital requirements at the dates indicated.

	Actual		Regulatory Requirements for Capital Adequacy Purposes		Regulatory Requirements to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
As of June 30, 2008:						
Total Capital (to Risk Weighted Assets)	\$21,585	10.45%	\$ 16,532	8.00%	\$ 20,665	10.00%
Tier 1 Capital (to Risk Weighted Assets)	19,572	9.56	8,266	4.00	12,399	6.00
Tier 1 Leverage	19,572	7.63	10,352	4.00	12,940	5.00
As of June 30, 2007:						
Total Capital (to Risk Weighted Assets)	\$20,091	10.31%	\$ 15,589	8.00%	\$ 19,487	10.00%
Tier 1 Capital (to Risk Weighted Assets)	18,981	9.74	7,795	4.00	11,692	6.00
Tier 1 Leverage	18,981	7.57	10,030	4.00	12,537	5.00

Prompt Corrective Regulatory Action. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the federal banking regulators are required to take prompt corrective action if an insured depository institution fails to satisfy certain minimum capital requirements. All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying any management fees if the institution would thereafter fail to satisfy the minimum levels for any of its capital requirements. An institution that fails to meet the minimum level for any relevant capital measure (an "undercapitalized institution") may be, among other things, subject to increased monitoring by the appropriate federal banking regulator, required to submit an acceptable capital restoration plan within 45 days and are subject to asset growth limits. The capital restoration plan must include a guarantee by the institution's holding company that the institution will comply with the plan until it has been adequately capitalized on average for four consecutive quarters, under which the holding company would be liable up to the lesser of 5% of the institution's total assets or the amount necessary to bring the institution into capital compliance as of the date it failed to comply with its capital restoration plan. A "significantly undercapitalized" institution, as well as any undercapitalized institution that did not submit an acceptable capital restoration plan, may be subject to regulatory demands for recapitalization, broader application of restrictions on transactions with affiliates, limitations on interest rates paid on deposits, asset growth and other activities, possible replacement of directors and officers, and restrictions on capital distributions by any bank holding company controlling the institution. Any company controlling the institution could also be required to divest the institution or the institution could be required to divest subsidiaries. In their discretion, the federal banking regulators may also impose the foregoing sanctions on an undercapitalized institution if the regulators determine that such actions are necessary to carry out the purposes of the prompt corrective action provisions. If an institution's ratio of tangible capital to total assets falls below a "critical capital level," the institution will be subject to conservatorship or receivership within 90 days unless periodic determinations are made that forbearance from such action would better protect the deposit insurance fund. Unless appropriate findings and certifications are made by the appropriate federal bank regulatory agencies, a critically undercapitalized institution must be placed in receivership if it remains critically undercapitalized on average during the calendar quarter beginning 270 days after the date it became critically undercapitalized.

For purposes of these restrictions, an "undercapitalized institution" is a depository institution that has (i) a total risk-based capital ratio less than 8.0%; or (ii) a Tier 1 risk-based capital ratio of less than 4.0%; or (iii) a leverage ratio of less than 4.0% (or less than 3.0% if the institution has a composite 1 CAMELS rating). A "significantly undercapitalized" institution is defined as a depository institution that has: (i) a total risk-based capital ratio of less than 6.0%; or (ii) a Tier 1 risk-based capital ratio of less than 3.0%; or (iii) a leverage ratio of less than 3.0%. A "critically undercapitalized" institution is defined as a depository institution that has a ratio of "tangible equity" to total assets of less than 2.0%. The appropriate federal banking agency may reclassify a well capitalized depository institution as adequately capitalized and may require an adequately capitalized or undercapitalized institution to comply with the

supervisory actions applicable to institutions in the next lower capital category (but may not reclassify a significantly undercapitalized institution as critically under-capitalized) if it determines, after notice and an opportunity for a hearing, that the institution is in an unsafe or unsound condition or that the institution has received and not corrected a less-than-satisfactory rating for any examination rating category. At June 30, 2008, the Bank was classified as well capitalized under Federal Reserve regulations.

Safety and Soundness Guidelines. Under FDICIA, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, each federal banking agency was required to establish safety and soundness standards for institutions under its authority. The federal banking agencies, including the Federal Reserve Board, have released Interagency Guidelines Establishing Standards for Safety and Soundness. The guidelines require depository institutions to maintain internal controls and information systems and internal audit systems that are appropriate for the size, nature and scope of the institution's business, establish certain basic standards for loan documentation, credit underwriting, asset quality, capital adequacy, earnings, interest rate risk exposure and asset growth, information security and further provide that depository institutions should maintain safeguards to prevent the payment of compensation, fees and benefits that are excessive or that could lead to material financial loss. If the appropriate federal banking agency determines that a depository institution is not in compliance with the safety and soundness guidelines, it may require the institution to submit an acceptable plan to achieve compliance with the guidelines. Failure to submit or implement a compliance plan may subject the institution to regulatory sanctions.

Federal Home Loan Bank System. The Federal Home Loan Bank System consists of 12 district Federal Home Loan Banks. The Federal Home Loan Banks provide a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of Atlanta, the Bank is required to acquire and hold specified amounts of capital stock in that Federal Home Loan Bank. The Bank was in compliance with this requirement with an investment in Federal Home Loan Bank of Atlanta stock at June 30, 2008 of \$2.2 million.

Federal Reserve System. Pursuant to regulations of the Federal Reserve Board, a financial institution must maintain average daily reserves equal to 3% on transaction accounts of between \$9.3 million and \$43.9 million, plus 10% on the remainder. The first \$9.3 million of transaction accounts are exempt. These percentages are subject to adjustment by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or in a noninterest-bearing account at a Federal Reserve Bank, the effect of the reserve requirement is to reduce the amount of the institution's interest-earning assets. As of June 30, 2008, the Bank met its reserve requirements.

The monetary policies and regulations of the Federal Reserve Board have a significant effect on the operating results of commercial banks. The Federal Reserve Board's policies affect the levels of bank loans, investments and deposits through its open market operation in United States government securities, its regulation of the interest rate on borrowings from Federal Reserve Banks and its imposition of nonearning reserve requirements on all depository institutions, such as the Bank, that maintain transaction accounts or non-personal time deposits.

Insurance of Deposit Accounts. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. The FDIC amended its risk-based assessment system to implement authority granted by the Federal Deposit Insurance Reform Act of 2005 ("Reform Act"). Under this risk-based system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Risk Category I, which contains the least risky depository institutions, includes more than 90% of all institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. No institution may pay a dividend if in default of the FDIC assessment.

The Reform Act also provided for a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. The Bank's one-time credit was approximately \$188,000, of which \$47,000 remains unused as of June 30, 2008. The Reform Act also provided for the possibility that the FDIC may pay dividends to insured institutions once the Deposit Insurance fund reserve ratio equals or exceeds 1.35% of estimated insured deposits.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and during the four quarters ending June 30, 2008 averaged 1.12 basis points of assessable deposits.

The Reform Act provided the FDIC with authority to adjust the Deposit Insurance Fund ratio to insured deposits within a range of 1.15% and 1.50%, in contrast to the prior statutorily fixed ratio of 1.25%. The ratio, which is viewed by the FDIC as the level that the fund should achieve, was established by the agency at 1.25% for 2008, which remains unchanged from 2007.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future although increases are likely given recent bank failures and increases in the numbers of problem institutions.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Dividend Restrictions. The Bank's ability to pay dividends is governed by Maryland law and the regulations of the Federal Reserve Board. Maryland law provides that dividends may be paid out of individual profits or with approval of the Commissioner, surplus of 100% of capital stock. Under Maryland law relating to financial institutions, if the surplus of a commercial bank at any time is less than 100% of its capital stock, then, until the surplus is 100% of the capital stock, the commercial bank: (i) must transfer to its surplus annually at least 10% of its net earnings; and (ii) may not declare or pay any cash dividends that exceed 90% of its net earnings.

The Bank's payment of dividends is also subject to the Federal Reserve Board's Regulation H, which provides that a state member bank may not pay a dividend if the total of all dividends declared by the bank in any calendar year exceeds the total of its net profits for the year combined with its retained net profits for the preceding two calendar years, less any required transfers to surplus or to a fund for the retirement of preferred stock, unless the bank has received the prior approval of the Federal Reserve Board. The previously referenced prompt corrective action requirements prohibit dividends where the Bank would be "undercapitalized", "significantly undercapitalized", or "critically undercapitalized" after the dividend. Additionally, both the Commissioner and the Federal Reserve Board has the authority to prohibit the payment of dividends by a Maryland commercial bank when it determines such payment to be an unsafe and unsound banking practice. Finally, the Bank is not able to pay dividends on its capital stock if its regulatory capital would thereby be reduced below the remaining balance of the liquidation account established in connection with its conversion in April 1996 from mutual to stock form. See Note 10 of the Notes to Consolidated Financial Statements appearing in Item 7 of this Annual Report on Form 10-K.

Uniform Lending Standards. Under Federal Reserve Board regulations, state member banks must adopt and maintain written policies that establish appropriate limits and standards for extensions of credit that are 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. The real estate lending policies of state member banks must reflect consideration of the Interagency Guidelines for Real Estate Lending Policies (the "Interagency Guidelines") that have been adopted by the federal banking agencies.

Management will periodically evaluate its lending policies to assure conformity to the Interagency Guidelines and does not anticipate that the Interagency Guidelines have a material effect on its lending activities.

Limits on Loans to One Borrower. The Bank has chosen to be subject to federal law with respect to limits on loans to one borrower. Generally, under federal law, the maximum amount that a commercial bank may loan to one

borrower at one time may not exceed 15% of the unimpaired capital and surplus of the commercial bank, plus an additional 10% if secured by specified “readily marketable collateral.” The Bank’s lending limit to one borrower as of June 30, 2008 was \$3.2 million.

Transactions with Related Parties. Transactions between a state member bank and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a state member bank is any company or entity, which controls, is controlled by or is under common control with the state member bank. In a holding company context, at a minimum, the parent holding company of a state member bank and any companies which are controlled by such parent holding company are affiliates of the state member bank. Generally, Sections 23A and 23B (i) limit the extent to which an institution or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of such institution’s capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a nonaffiliate. The term “covered transaction” includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions. Certain types of covered transactions must be collateralized according to a schedule set forth in the statute based on the type of collateral.

State member banks are also subject to the restrictions contained in Section 22(h) of the Federal Reserve Act and the Federal Reserve’s Regulation O on loans to executive officers, directors and principal stockholders (“insiders”). Under Section 22(h), aggregate loans to directors, executive officers and greater than 10% stockholders may not exceed the institution’s unimpaired capital and unimpaired surplus. Section 22(h) also prohibits loans, above amounts prescribed by the appropriate federal banking agency, to insiders of a state member bank, and their respective affiliates, unless such loan is approved in advance by a majority of the board of directors of the institution with any “interested” director not participating in the voting. Regulation O prescribes the loan amount (which includes all other outstanding loans to such person) as to which prior board of director approval is required as being the greater of \$25,000 or 5% of capital and surplus; however loans aggregating to \$500,000 or more always require such approval. Further, Section 22(h) requires that loans to insiders be made on terms substantially the same as offered in comparable transactions to other persons with an exception for loans made to a bank-wide benefit or compensation program that does not give preference to insiders. Section 22(g) of the Federal Reserve Act places further restrictions on the types of loans that can be made to executive officers.

Additionally, Maryland statutory law imposes restrictions on certain transactions with affiliated persons of Maryland commercial banks. Generally, under Maryland law, a director, officer or employee of a commercial bank may not borrow, directly or indirectly, any money from the bank, unless the loan has been approved by a resolution adopted at and recorded in the minutes of the board of directors of the bank, or the executive committee of the bank, if that committee is authorized to make loans. If such a loan is approved by the executive committee, the loan approval must be reported to the board of directors at its next meeting. Certain commercial loans made to non-employee directors of a bank and certain consumer loans made to nonofficer and nondirector employees of the bank are exempt from the statute’s coverage.

Enforcement. The Federal Reserve has primary federal enforcement responsibility over member banks and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution or receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to \$25,000 per day, or even \$1 million per day in especially egregious cases. The FDIC has the authority to recommend to the Federal Reserve Board that enforcement action to be taken with respect to a particular savings institution. If action is not taken by the Federal Reserve Board, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

The Commissioner has extensive enforcement authority over Maryland banks. Such authority includes the ability to issue cease and desist orders and civil money penalties and to remove directors or officers. The Commissioner may also take possession of a Maryland bank whose capital is impaired and seek to have a receiver appointed by a court.

Regulation of the Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company and is registered as such with the Federal Reserve Board. Bank holding companies are subject to comprehensive regulation and examination by the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended (the “BHCA”), and the regulations of the Federal Reserve Board. The Federal Reserve Board also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Under the BHCA, a bank holding company must obtain Federal Reserve Board approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company. In evaluating such applications, the Federal Reserve Board considers a variety of financial, managerial and competitive factors.

The BHCA also prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by Federal Reserve Board regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The list of activities includes, among other things, operating a savings institution, mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing certain investment and financial advice; real estate and personal property appraising; providing tax planning and preparation services; and, subject to certain limitations, providing securities brokerage services for customers.

The Gramm-Leach-Bliley Act of 1999 authorized bank holding companies that meet certain management, capital and other criteria to choose to become a “financial holding company” and thereby engage in a broader array of financial activities including insurance underwriting and investment banking. The Company has not, up to now, opted to become a financial holding company.

Acquisitions of Bank Holding Companies and Banks. Under the BHCA, any company must obtain approval of the Federal Reserve Board prior to acquiring control of the Company or the Bank. For purposes of the BHCA, control is defined as ownership of more than 25% 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. Any bank holding company must secure Federal Reserve Board approval prior to acquiring 5% or more of the stock of the Company or the Bank.

The Change in Bank Control Act and the related regulations of the Federal Reserve Board require any person or persons acting in concert (except for companies required to make application under the BHCA), to file a written notice with the Federal Reserve Board before such person or persons may acquire control of the Company or the Bank. The Change in Bank Control Act presumes control as the power, directly or indirectly, to vote 10% or more of any voting securities or to direct the management or policies of a bank holding company, such as the Company, that has securities registered under the Securities Exchange Act of 1934.

Under Maryland law, acquisitions of 25% or more of the voting stock of a commercial bank or a bank holding company and other acquisitions of voting stock of such entities which affect the power to direct or to cause the direction of the management or policy of a commercial bank or a bank holding company must be approved in advance by the Commissioner. Any person proposing to make such an acquisition must file an application with the Commissioner at least 60 days before the acquisition becomes effective. The Commissioner may deny approval of any such acquisition if the Commissioner determines that the acquisition is anticompetitive or threatens the safety or soundness of a banking institution. Any voting stock acquired without the approval required under the statute may not be voted for a period of five years. This restriction is not applicable to certain acquisitions by bank holding companies of 5% or more of the stock of Maryland banks or Maryland bank holding companies which are governed by Maryland’s holding company statute and also require prior approval of the Commissioner.

Dividends. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board'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 earning retention that is consistent with the company's capital needs, asset quality and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the Federal Reserve Board pursuant to FDICIA, the Federal Reserve Board may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized." See "Depository Institution Regulation — Prompt Corrective Regulatory Action."

Capital Requirements. The Federal Reserve Board has established capital requirements generally similar to the capital requirements for state member banks described above, for bank holding companies. Formerly, these were applied to bank holding companies with total assets of \$150 million or above, including the Company. However, in 2007, the Federal Reserve Board raised the threshold for the applicability of its capital requirements to a \$500 million asset size except where the company (i) engages in significant non-banking activities; (ii) conducts significant off balance sheet activities or has a material amount of debt or equity securities outstanding registered with the Securities Exchange Commission. The Federal Reserve Board has reserved the right to apply its requirements to bank holding companies of any size when required for supervisory purposes.

Stock Repurchases. As a bank holding company, the Company is required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the Company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would violate any law, regulation, Federal Reserve Board order, directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. This requirement does not apply to bank holding companies that are "well-capitalized," received one of the two highest examination ratings at their last examination and are not the subject of any unresolved supervisory issues.

Taxation

For fiscal year 2008, the Company's maximum federal income tax rate was 34%. The Company and the Bank, together with the Bank's subsidiary, to date have not filed a consolidated federal income tax return for the fiscal year ended June 30, 2008.

The Bank's federal income tax returns have been audited through June 30, 1995. The Company's tax returns have never been audited.

State Income Taxation. The State of Maryland imposes an income tax of approximately 7.00% on income measured substantially the same as federally taxable income, except that U.S. Government interest is not fully taxable. Effective July 1, 2008, the rate increased to 8.25%.

For additional information regarding taxation, see Note 8 of Notes to Consolidated Financial Statements.

Item 1A. Risk Factors

This item is not applicable as the Company is a smaller reporting company.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The following table sets forth the location and certain additional information regarding the Bank's offices at June 30, 2008.

	<u>Year Opened</u>	<u>Owned or Leased</u>	<u>Net Book Value at June 30, 2008</u> (Dollars in thousands)	<u>Approximate Square Footage</u>
Headquarters and Branch Office				
1301 Merritt Boulevard Dundalk, Maryland 21222	1970	Owned	\$ 395	9,600
Branch Office				
2028 Joppa Road Baltimore, Maryland 21234	2007	Leased	3,003	7,000
Branch Office				
7802 Harford Road Baltimore, Maryland 21234	1979	Owned	220	2,000
Branch Office				
821 W. 36 th Street Baltimore, Maryland 21211	1988	Owned	110	1,100
Branch Office				
12128 Long Green Pike Glen Arm, Maryland 21057	1988	Leased	22	1,400
Branch Office				
11630 Glen Arm Road Glen Arm, Maryland 21057	2006	Leased	—	400

The net book value of the Bank's investment in premises and equipment totaled \$4.2 million at June 30, 2008. See Note 4 of Notes to Consolidated Financial Statements.

Item 3. Legal Proceedings

From time to time, the Bank is a party to various legal proceedings incident to its business. At June 30, 2008, there were no legal proceedings to which the Company or the Bank was a party, or to which any of their property was subject, which were expected by management to result in a material loss to the Company or the Bank. There are no pending regulatory proceedings to which the Company, the Bank or its subsidiary is a party or to which any of their properties is subject which are currently expected to result in a material loss.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

(a) The information contained under the section captioned "Market Information" in the Company's Annual Report to Stockholders for the Fiscal Year Ended June 30, 2008 (the "Annual Report") filed as Exhibit 13 hereto is incorporated herein by reference.

(b) Not applicable.

(c) The Company did not repurchase any shares of its common stock during the fourth quarter of the fiscal year ended June 30, 2008.

Item 6. Selected Financial Data

The information contained in the section captioned “Selected Consolidated Financial and Other Data” in the Annual Report is incorporated herein by reference.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The information contained in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

This item is not applicable as the Company is a smaller reporting company.

Item 8. Financial Statements and Supplementary Data

The financial statements contained in the Annual Report and listed in Item 15 hereof are incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants in Accounting and Financial Disclosure

None.

Item 9A(T). Controls and Procedures

(a) Disclosure Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Internal Control Over Financial Reporting

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Patapsco Bancorp, Inc. (the Company) is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, as such, include some amounts that are based on the best estimates and judgments of management.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system is designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of the company's financial reporting and the preparation and presentation of financial statements for external reporting purposes in conformity with accounting principles generally accepted in the United States of America, as well as to safeguard assets from unauthorized use or disposition. The system of internal control over financial reporting is evaluated for effectiveness by management and tested for reliability through a program of internal audit with actions taken to correct potential deficiencies as they are identified. Because of inherent limitations in any internal control system, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of the company's internal control over financial reporting as of June 30, 2008 based upon criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment and on the forgoing criteria, management has concluded that, as of June 30, 2008, the Company's internal control over financial reporting is effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's 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.

/s/ Michael J. Dee

Michael J. Dee

President and Chief Executive Officer

/s/ William C. Wiedel, Jr.

William C. Wiedel, Jr.

Senior Vice President and Chief Financial Officer

September 26, 2008

(c) Changes to Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended June 30, 2008 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

Item 10. Directors, Executive Officers and Corporate Governance

Directors

The information relating to the directors of the Company is incorporated herein by reference to the section captioned “Proposal I - Election of Directors” in the Company’s Proxy Statement for the 2008 Annual Meeting of Stockholders (the “Proxy Statement”).

Executive Officers

The information relating to executive officers of the Company is incorporated herein by reference to the section captioned “Proposal I - Election of Directors - Executive Officers Who Are Not Directors” in the Proxy Statement.

Corporate Governance

Information regarding the Company’s Audit Committee and audit committee financial expert is incorporated herein by reference to the section captioned “Corporate Governance – Meetings and Committees of the Board of Directors – Audit Committee” in the Proxy Statement.

Compliance with Section 16(a) of the Exchange Act

With respective information regarding compliance with Section 16(a) of the Exchange Act, the cover page to this Annual Report on Form 10-K and the section captioned “Section 16(a) Beneficial Ownership Compliance Reporting” in the Proxy Statement is incorporated herein by reference.

Code of Ethics

The Company has adopted a written code of ethics, which applies to all employees and Directors. The Company intends to disclose any amendments to or waivers from our Code of Ethics applicable to any senior financial officers on our website at <http://www.patapscobank.com> or in a report on Form 8-K. A copy of the Code of Ethics is available, without charge, upon written request to Douglas H. Ludwig, Secretary, Patapsco Bancorp, Inc., 1301 Merritt Boulevard, Dundalk, Maryland 21222-2194.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the sections captioned “Director Compensation” and “Executive Compensation” in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Security Ownership of Certain Beneficial Owners. Information with respect to security ownership of certain beneficial owners required by this item is incorporated herein by reference to the section captioned “Voting Securities and Principal Holders of Voting Securities” in the Proxy Statement.

(b) Security Ownership of Management. Information with respect to security ownership of management required by this item is incorporated herein by reference to the section captioned “Security Ownership of Management” in the Proxy Statement.

(c) Changes in Control. Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) **Equity Compensation Plans.** The following table sets forth certain information with respect to the Company’s equity compensation plans.

	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants & rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	62,819	\$6.29	60,484
Equity compensation plans not approved by security holders	—	—	—
Total	<u>62,819</u>	<u>\$6.29</u>	<u>60,484</u>

Item 13. Certain Relationships and Related Transactions; and Director Independence

Certain Relationships and Related Transactions

The information required by this item is incorporated herein by reference to the section captioned “Transactions with Management” in the Proxy Statement.

Corporate Governance

With respect to the information regarding director independence, the section captioned “Proposal I – Election of Directors” is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned “Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV

Item 15. Exhibits

(a) **List of Documents Filed as Part of this Report**

(1) **Financial Statements.** The following consolidated financial statements are incorporated by reference from Item 7 hereof (see Exhibit 13 to this Annual Report on Form 10-K):

- Report of Registered Independent Accounting Firm
- Consolidated Statements of Financial Condition as of June 30, 2008 and 2007
- Consolidated Statements of Income for the Years Ended June 30, 2008 and 2007
- Consolidated Statements of Stockholders’ Equity for the Years Ended June 30, 2008 and 2007
- Consolidated Statements of Cash Flows for the Years Ended June 30, 2008 and 2007
- Notes to Consolidated Financial Statements

(2) **Exhibits.** The following is a list of exhibits filed as part of this Annual Report on Form 10-K and also constitutes the Exhibit Index.

No.	Description
3.1	Articles of Incorporation of Patapsco Bancorp, Inc. and Articles Supplementary (1)
3.2	Bylaws of Patapsco Bancorp, Inc., as amended (2)
4	Form of Common Stock Certificate of Patapsco Bancorp, Inc. (3)
10.1	Patapsco Bancorp, Inc. 1996 Stock Option and Incentive Plan† (4)
10.2	Form of Severance Agreement by and between The Patapsco Bank and John McClean, Francis Broccolino and William Peters† (5)
10.3	Form of Amended and Restated Severance Agreement by and between The Patapsco Bank and Laurence S. Mitchell and Frank J. Duchacek, Jr.† (6)
10.4	Patapsco Bancorp, Inc. 2000 Stock Option and Incentive Plan† (1)
10.5	Patapsco Bancorp, Inc. 2004 Stock Incentive Plan† (7)
10.6	Employment Agreement by and between The Patapsco Bank and Michael J. Dee† (8)
10.7	Severance Agreement by and between The Patapsco Bank and William C. Wiedel, Jr.† (8)
13	Annual Report to Stockholders for the Fiscal Year Ended June 30, 2008
21	Subsidiaries of the Registrant
23	Consent of Beard Miller Company LLP
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications

† Management contract or compensatory plan or arrangement.

- (1) Incorporated herein by reference from the Company's Annual Report on Form 10-KSB for the year ended June 30, 2000 (File No. 0-28032).
- (2) Incorporated herein by reference from the Company's Current Report on Form 8-K for the event on July 23, 2008, filed with the SEC on July 25, 2008 (File No. 0-28032).
- (3) Incorporated herein by reference from the Company's Registration Statement on Form 8-A (File No. 0-28032).
- (4) Incorporated herein by reference from the Company's Annual Report on Form 10-KSB for the year ended June 30, 1996 (File No. 0-28032).
- (5) Incorporated herein by reference from the Company's Annual Report on Form 10-KSB for the year ended June 30, 2005 (File No. 0-28032).
- (6) Incorporated herein by reference from the Company's Annual Report on Form 10-KSB/A for the year ended June 30, 2006 filed on December 6, 2006 (File No. 0-28032).
- (7) Incorporated herein by reference from the Company's Registration Statement on Form S-8 (File No. 333-122300).
- (8) Incorporated herein by reference from the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2008 (File No. 0-28032).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

September 26, 2008

PATAPSCO BANCORP, INC.

By: /s/ Michael J. Dee
Michael J. Dee
President and Chief Executive Officer
(Duly Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Michael J. Dee September 26, 2008

Michael J. Dee
President, Chief Executive Officer and Director
(Principal Executive Officer)

/s/ William C. Wiedel, Jr. September 26, 2008

William C. Wiedel, Jr.
Senior Vice President and Chief Financial
Officer
(Principal Financial and Accounting Officer)

/s/ Thomas P. O'Neill September 26, 2008

Thomas P. O'Neill
Chairman of the Board

Douglas H. Ludwig
Director and Secretary

/s/ Nicole N. Glaeser September 26, 2008

Nicole N. Glaeser
Director

/s/ William R. Waters September 26, 2008

William R. Waters
Director

/s/ Gary R. Bozel September 26, 2008

Gary R. Bozel
Director

/s/ J. Thomas Hoffman September 26, 2008

J. Thomas Hoffman
Director

PATAPSCO BANCORP, INC.

[LOGO]

2008 ANNUAL REPORT

PATAPSCO BANCORP, INC.

Patapsco Bancorp, Inc. (the “Company”) is the holding company for The Patapsco Bank (the “Bank”). The Bank is a Maryland commercial bank operating through three offices located in Dundalk, Parkville and Carney, Maryland and serving eastern Baltimore County. The principal business of the Bank consists of attracting deposits from the general public and investing these deposits in loans secured by residential and commercial real estate, construction loans, commercial business loans, commercial leases and consumer loans. The Bank derives its income principally from interest earned on loans and, to a lesser extent, interest earned on mortgage-backed securities and investment securities and noninterest income. Principally operating revenues, deposits and repayments of outstanding loans and investment securities and mortgage-backed securities provide funds for these activities.

MARKET INFORMATION

The Company’s common stock trades under the symbol “PATD” on the OTC Electronic Bulletin Board. There were 1,861,855 shares of common stock outstanding and approximately 381 holders of record at June 30, 2008. Following are the high and low closing sale prices, by fiscal quarter, as reported on the OTC Electronic Bulletin Board during the periods indicated, as well as the dividends declared during each quarter.

	<u>High</u>	<u>Low</u>	<u>Dividends Per Share</u>
<u>Fiscal 2008:</u>			
First Quarter	\$22.75	\$19.00	\$.0700
Second Quarter	21.00	12.75	.0000
Third Quarter	13.82	10.75	.1400
Fourth Quarter	10.75	7.20	.0700
<u>Fiscal 2007:</u>			
First Quarter	\$11.00	\$10.05	\$.0625
Second Quarter	13.75	10.30	.0700
Third Quarter	23.25	11.65	.0700
Fourth Quarter	23.25	22.75	.0700

The stated high and low closing sale prices reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

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Dear Shareholder,

The directors, officers and staff of Patapsco Bancorp, Inc. and The Patapsco Bank respectfully present our thirteenth Annual Report to our shareholders.

To refer to the previous twenty months as tumultuous would be an understatement. Let's recap a little:

- On October 30, 2006, the Company announced that Joseph J. Bouffard had resigned his position as Director, President and Chief Executive Officer and that Michael J. Dee had been named the Company's new President and Chief Executive Officer.
- On March 19, 2007, we announced that Patapsco Bancorp, Inc. had entered into an agreement and plan of merger with Bradford Bancorp whereby Bradford would acquire Patapsco and its subsidiary, The Patapsco bank for \$23.00 in cash or 2.3 shares of Bradford common stock to be issued as part of an initial public offering.
- During the summer of 2007, the "credit crisis" arrived with the difficulties in the sub-prime mortgage markets. In the year since then, these difficulties have spilled over to other sectors of the economy.
- On December 6, 2007 it was announced that Bradford would be unable to consummate the merger at the previously agreed upon \$23.00 per share and had communicated a significantly lower offer.
- The Merger Agreement was terminated on January 3, 2008 following Bradford Bancorp's inability to raise sufficient capital to consummate the transaction. As part of the termination agreement, Bradford agreed to pay Patapsco a merger termination payment of \$2.0 million in the form of a promissory note.

During this time, employees of the bank continued to service our existing customers and open new loan and deposit accounts all the while dealing the uncertainties regarding their positions and place of work. The Board of Directors expresses its gratitude to the Company's employees for their perseverance and professionalism.

Your Company completed its fiscal year 2008 with assets, loans and deposits of \$261.3 million, \$227.5 million and \$197.9 million, respectively. This compares to fiscal year 2007 totals of \$255.5

million, \$220.2 million and \$191.1 million. Earnings for the year were \$1.38 million compared to \$1.19 million the previous year. This resulted in diluted earnings per share increasing by 16.4% to \$.71/share. Your Company remains well capitalized according to all regulatory benchmarks.

As a result of the termination of the merger agreement and the slowing economy, the financial results noted above reflect some unusual items. These include the aforementioned \$2.0 million merger termination fee, a \$1.9 million addition to the loan loss reserve and \$228,000 in merger related expenses.

Although we did not participate in the sub-prime mortgage origination frenzy, your Company has not been immune to the problems in the real estate markets. In June, we charged-off as uncollectible \$740,000 of a \$1.8 million residential development loan. Net charge-offs for the year totaled \$1.2 million, the highest in the history of the Company. At June 30, 2008, non-performing assets totaled \$2.5 million or 0.97% of total assets. While this number is high by historical standards, it compares favorably with many of our competitors and peers.

We are cautiously optimistic; however, we are prepared to deal with any additional problem loans as they arise. We recently underwent a third party loan review. This review did not result in any loans being downgraded to classified asset status. Ultimately however, the severity of any future losses will be dependent on the regional and national economy.

The challenges for the following year include working out of our problem assets and managing the loan portfolio to ensure that any evolving problems are identified and addressed. Additionally we are reviewing our internal operations in order to determine opportunities to gain efficiencies and determine where to best deploy our capital and ensuring that the Company remains in compliance with the myriad and increasing number of regulations that a publicly traded commercial bank is subject to.

The Board of Directors and Management remain committed to enhancing shareholder value while operating the Patapsco Bank in a safe and sound manner. We are taking a new look at all the Company's operations and options with an eye on both the short and long term. While this has been a difficult year for everyone, we look forward to a successful new year.

/s/ Thomas P. O'Neill

Thomas P. O'Neill

Chairman of the Board of Directors

/s/ Michael J. Dee

Michael J. Dee

President and Chief Executive Officer

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

PATAPSCO BANCORP, INC.

Selected Consolidated Financial Condition Data

	At June 30,	
	2008	2007
(In thousands)		
Total assets	\$261,294	\$255,458
Loans receivable, net	227,514	220,239
Cash, federal funds sold and other interest bearing deposits	9,193	7,470
Investment securities	9,601	13,147
Deposits	197,886	191,074
Borrowings	42,300	43,800
Stockholders' equity	19,391	18,916

Selected Consolidated Operating Data

	Year Ended June 30,	
	2008	2007
(In thousands, except for per share amounts)		
Interest income	\$ 17,191	\$ 16,426
Interest expense	8,565	7,503
Net interest income before provision for loan losses	8,626	8,923
Provision for loan losses	1,920	430
Net interest income after provision for loan losses	6,706	8,493
Noninterest income	2,819	866
Noninterest expenses:		
Compensation and employee benefits	4,206	4,382
Professional fees	646	591
Equipment expenses	325	331
Net occupancy costs	565	565
Advertising	33	110
Data processing	318	304
Amortization of intangible asset	51	51
Telephone, postage and delivery	252	250
Other	977	863
Total noninterest expenses	7,373	7,447
Income before provision for income taxes	2,152	1,912
Income tax provision	775	727
Net income	\$ 1,377	\$ 1,185
Net income per share of common stock		
Basic	\$ 0.72	\$ 0.62
Diluted	\$ 0.71	\$ 0.61

KEY OPERATING RATIOS

PATAPSCO BANCORP, INC.

	At June 30,	
	2008	2007
Performance Ratios:		
Return on average assets (net income divided by average total assets)	0.53%	0.48%
Return on average stockholders' equity (net income divided by average stockholders' equity)(1)	7.13	6.22
Interest rate spread (weighted average interest rate earned less weighted average interest rate cost)	3.23	3.58
Net interest margin (net interest income divided by average interest-earning assets)	3.51	3.87
Ratio of average interest-earning assets to average interest-bearing liabilities	107.91	108.91
Ratio of noninterest expense to average total assets	2.83	3.04
Asset Quality Ratios:		
Non-accrual loans to loans receivable	1.10%	0.22%
Allowance for loan losses to total loans	0.80	0.50
Allowance for loan losses to nonperforming loans	72.40	230.34
Net charge-offs to average loans outstanding	0.53	0.15
Capital Ratios:		
Stockholders' equity to total assets at end of period (1)	7.42%	7.40%
Average stockholders' equity to average assets (1)	7.41	7.78
Dividends declared per share to diluted net income per share	39.44	43.55
Tier one leverage ratio (2)	7.63	7.57
Tier one capital to risk-weighted assets (2)	9.56	9.69
Total regulatory capital to risk-weighted assets (2)	10.45	10.26

(1) Stockholders' equity includes temporary equity.

(2) Bank level ratios.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Company's results of operations depend primarily on its level of net interest income, which is the difference between interest earned on interest-earning assets, consisting primarily of loans, investment securities, and other investments, and the interest paid on interest-bearing liabilities, consisting primarily of deposits and advances from the Federal Home Loan Bank of Atlanta. The net interest income earned on interest-earning assets ("net interest margin") and the ratio of interest-earning assets to interest-bearing liabilities have a significant impact on net interest income. The Company's net interest margin is affected by regulatory, economic and competitive factors that influence interest rates, loan and deposit flows. The Company, like other financial institutions, is subject to interest rate risk to the degree that its interest-earning assets mature or reprice at different times, or on a different basis than its interest-bearing liabilities. To a lesser extent, the Company's results of operations are also affected by the amount of its noninterest income, including loan fees and service charges, and levels of noninterest expense, which consists principally of compensation and employee benefits, insurance premiums, professional fees, equipment expense, occupancy costs, advertising, data processing and other operating expenses.

The Company's operating results are significantly affected by general economic and competitive conditions, in particular, changes in market interest rates, government policies and actions taken by regulatory authorities. Lending activities are influenced by general economic conditions, competition among lenders, the level of interest rates and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market rates of interest, primarily on competing investments, account maturities and the level of personal income and savings in the Company's market area.

Forward-Looking Statements

When used in this Annual Report, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area, and competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

The Company'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 industry in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements. Accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments. Certain policies inherently have a greater reliance 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. These estimates, assumptions

and judgments are necessary when financial instruments are required to be recorded at fair value or when the decline in the value of an asset carried on the balance sheet at historic cost requires an impairment write-down or a valuation reserve to be established.

The allowance for loan losses (“allowance”) represents an amount, that in the judgment of management, will be adequate to absorb probable losses on outstanding loans and leases that may become uncollectible. The allowance represents an estimate made based upon two principles of accounting: (1) Statement of Financial Accounting Standards (“SFAS”) No. 5 “Accounting for Contingencies”, that requires losses to be accrued when their occurrence is probable and estimable, and (2) SFAS No. 114 “Accounting by Creditors for Impairment of a Loan”, that requires losses be accrued when it is probable that the lender will not collect all principal and interest when due under the original terms of the loan. The adequacy of the allowance is determined through careful evaluation of the loan portfolio. This determination is inherently subjective and requires significant estimates, including estimated losses on pools of homogeneous loans based on historical loss experience and consideration of the current economic environment that may be subject to change. Loans and leases deemed uncollectible are charged against the allowance and recoveries of previously charged-off amounts are credited to it. The level of the allowance is adjusted through the provision for loan losses that is recorded as a current period expense.

The methodology for assessing the appropriateness of the allowance includes a specific allowance, a formula allowance and a nonspecific allowance. The specific allowance is for risk rated credits on an individual basis. The formula allowance reflects historical losses by credit category. The nonspecific allowance captures losses whose impact on the portfolio have occurred but have yet to be recognized in either the specific allowance or the formula allowance. The factors used in determining the nonspecific allowance include trends in delinquencies, trends in volumes and terms of loans, the size of loans relative to the allowance, concentration of credits, the quality of the risk identification system and credit administration and local and national economic trends.

In accordance with the provisions of Statement of Financial Accounting Standards No. 114, the Company determines and recognizes impairment of certain loans. A loan is determined to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is not considered impaired during a period of insignificant delay in payment if the Company expects to collect all amounts due, including past-due interest. The Company generally considers a period of insignificant delay in payment to include delinquency up to and including 90 days. Statement 114 requires that impairment be measured through a comparison of the loan’s carrying amount to the present value of its expected future cash flows discounted at the loan’s effective interest rate, or at the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent.

Statement 114 is generally applicable for all loans except large groups of smaller-balance homogeneous loans that are evaluated collectively for impairment, including residential first and second mortgage loans and consumer installment loans. Impaired loans are therefore generally comprised of commercial mortgage, real estate development, and certain restructured residential loans. In addition, impaired loans are generally loans which management has placed in non-accrual status since loans are placed in non-accrual status on the earlier of the date that management determines that the collection of principal and/or interest is in doubt or the date that principal or interest is 90 days or more past due.

Management believes that the allowance is adequate. However, its determination requires significant judgment, and estimates of the probable losses in the loan and lease portfolio can vary significantly from losses that actually occur.

Marketable equity securities and debt securities not classified as held to maturity or trading are classified as available for sale. Securities available for sale are acquired as part of the Company’s asset/liability management strategy and may be sold in response to changes in interest rates, loan demand, changes in prepayment risk and other factors. Securities available for sale are carried at fair value, with unrealized gains or losses based on the difference between amortized cost and fair value, reported net of deferred tax, as accumulated other comprehensive income (loss), a separate component of stockholders’ equity. Realized gains and losses, using the specific identification method, are included as a separate component of non-interest income. Related interest and dividends are included in interest income. Declines in the fair value of individual securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value through the Statement of Income. Factors affecting the determination of whether an other-

than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Effective July 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 revised the accounting for purchased intangible assets and, in general, requires that goodwill no longer be amortized, but rather that it be tested for impairment on an annual basis at the reporting unit level, which is either at the same level or one level below an operating segment. Other acquired intangible assets with finite lives, such as purchased customer accounts, are required to be amortized over their estimated lives. Prior to July 1, 2002, substantially all of the Company's goodwill was amortized using the straight-line method over 15 years. Other intangible assets are amortized using the straight-line method over estimated useful lives of 10 years. The Company periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and other intangible assets may be impaired.

Average Balance, Interest and Average Yields and Rates

The following table sets forth certain information relating to the Company's average interest-earning assets and interest-bearing liabilities and reflects the average yield on assets and average cost of liabilities for the periods indicated. Dividing income or expense by the average daily balance of assets or liabilities, respectively, derives such yields and costs for the periods presented. Average balances are derived from daily balances.

The table also presents information for the periods indicated with respect to the institution's net interest margin, which is net interest income divided by the average balance of interest earning assets. This is an important indicator of commercial bank profitability. The net interest margin is affected by yields on interest earning assets, the costs of interest bearing liabilities and the relative amounts of interest earning assets and interest bearing liabilities. Another indicator of an institution's net interest income is the interest rate spread or the difference between the average yield on interest earning assets and the average rate paid on interest-bearing liabilities.

	Year Ended June 30,								
	2008			2007			2006		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)								
Interest-earning assets:									
Loans receivable (1)	\$225,164	\$16,320	7.25%	\$209,228	\$15,461	7.39%	\$177,598	\$12,501	7.04%
Investment securities (2)	13,821	662	4.79	17,866	802	4.49	23,412	941	4.02
Short-term investments and other interest-earning assets	7,004	209	2.98	3,283	163	4.98	3,036	114	3.75
Total interest-earning assets	245,989	17,191	6.99	230,377	16,426	7.13	204,046	13,556	6.64
Noninterest-earning assets	14,524			14,581			12,848		
Total assets	\$260,513			\$244,958			\$216,894		
Interest-bearing liabilities:									
Deposits (3)	\$182,388	\$ 6,285	3.45	\$169,324	\$ 5,458	3.22	\$152,904	\$ 3,486	2.28
Short-term borrowings	3,565	188	5.27	661	37	5.61	3,116	140	4.49
Long-term borrowings	42,004	2,092	4.98	41,538	2,008	4.83	28,444	1,323	4.65
Total interest-bearing liabilities	227,957	8,565	3.76	211,523	7,503	3.55	184,464	4,949	2.68
Noninterest-bearing liabilities	13,252			14,369			14,528		
Total liabilities	241,209			225,892			198,992		
Total equity	19,304			19,066			17,902		
Total liabilities and equity	\$260,513			\$244,958			\$216,894		
Net interest income		<u>\$ 8,626</u>			<u>\$ 8,923</u>			<u>\$ 8,607</u>	
Interest rate margin			<u>3.51%</u>			<u>3.87%</u>			<u>4.22%</u>
Net interest spread			<u>3.23%</u>			<u>3.58%</u>			<u>3.96%</u>
Ratio of average interest-earning assets to average interest-bearing liabilities			<u>107.91%</u>			<u>108.91%</u>			<u>110.62%</u>

(1) Includes nonaccrual loans.

(2) Includes investments required by law.

(3) Includes escrow accounts.

Rate/Volume Analysis

The following table sets forth certain information regarding changes in interest income and interest expense of the Company for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (i) changes in volume (changes in volume multiplied by the prior year's rate); and (ii) changes in rate (changes in rate multiplied by the prior year's volume). Combined rate/volume variances, a third element of the calculation, are allocated to the volume and rate variances based on their relative size.

	Year Ended June 30, 2008 vs. 2007			Year Ended June 30, 2007 vs. 2006		
	Increase (Decrease) Due to Volume	Rate	Total	Increase (Decrease) Due to Volume	Rate	Total
	(In thousands)			(In thousands)		
Interest income:						
Loans receivable (1)	\$1,149	\$(290)	\$ 859	\$2,312	\$ 648	\$2,960
Investment securities	(199)	59	(140)	(274)	135	(139)
Short-term investments and other interest-earning assets	72	(26)	46	10	39	49
Total interest-earning assets	1,082	(317)	765	1,831	1,039	2,870
Interest expense:						
Deposits (2)	436	391	827	406	1,566	1,972
Short-term borrowings	153	(2)	151	(150)	47	(103)
Long-term borrowings	23	61	84	631	54	685
Total interest-bearing liabilities	603	459	1,062	799	1,755	2,554
Change in net interest income	\$ 479	\$(776)	\$ (297)	\$1,032	\$ (716)	\$ 316

(1) Includes impact of non-accrual loans

(2) Includes interest-bearing escrow accounts.

(3) The subtotals of the volume and rate columns do not foot due to the change in mix of the respective components.

Comparison of Financial Condition at June 30, 2008 and 2007

General. Total assets increased by \$5.8 million or 2.3% to \$261.3 million at June 30, 2008 from \$255.5 million at June 30, 2007. Growth was funded principally with interest-bearing deposits, primarily certificate accounts.

Loans Receivable. Gross loans receivable increased by \$8.2 million, or 3.7%, to \$233.2 million at June 30, 2008 from \$225.0 million at June 30, 2007. Construction loans increased by \$6.0 million, or 25.0%, commercial real estate loans increased by \$5.0 million, or 13.8%, commercial business loans increased by \$0.7 million, or 1.4%, consumer loans increased \$0.5 million, or 2.6%, and commercial leases increased by \$0.3 million, or 2.0%. Residential mortgages decreased by \$4.4 million, or 5.9%.

The following table sets forth selected data relating to the composition of the Company's loan portfolio by type of loan at the dates indicated. At June 30, 2008, the Company had no concentrations of loans exceeding 10% of gross loans other than as disclosed below:

(Dollars in thousands)	At June 30,									
	2008		2007		2006		2005		2004	
	Amount	% Total	Amount	% Total	Amount	% Total	Amount	% Total	Amount	% Total
Real Estate Loans:										
Residential	\$ 69,953	30.00%	\$ 74,332	33.03%	\$ 80,693	40.58%	\$ 74,600	44.46%	\$ 78,303	49.27%
Commercial	41,316	17.71	36,302	16.13	29,712	14.94	25,109	14.96	16,545	10.41
Construction	29,878	12.81	23,907	10.62	13,913	7.00	5,520	3.29	6,510	4.10
Consumer Loans:										
Home Improvement	12,688	5.44	12,481	5.55	11,442	5.75	7,910	4.71	8,063	5.07
Home Equity	5,341	2.29	4,964	2.21	4,400	2.21	5,205	3.10	4,244	2.67
Other Consumer	2,893	1.24	2,955	1.31	2,483	1.25	2,401	1.43	2,170	1.36
Commercial Loans:										
Commercial Loans	53,453	22.92	52,711	23.43	34,827	17.51	28,102	16.75	21,919	13.79
Commercial Leases	17,714	7.59	17,366	7.72	21,409	10.76	18,969	11.30	21,182	13.33
Gross Loans	233,236	100.00%	225,018	100.00%	198,879	100.00%	167,816	100.00%	158,936	100.00%
Less:										
Deferred Origination Fees, net of costs	201		240		178		99		94	
Unearned Interest Consumer Loans	1,068		1,147		1,245		503		465	
Unearned Interest Commercial Leases	2,779		2,480		6,091		5,446		6,473	
Purchase Accounting (Premium) discount, net	(160)		(198)		(224)		(271)		(445)	
Allowance for Loan Loss	1,834		1,110		1,000		945		936	
Net Loans	<u>\$227,514</u>		<u>\$220,239</u>		<u>\$190,589</u>		<u>\$161,094</u>		<u>\$151,413</u>	

The following table sets forth certain information at June 30, 2008 regarding the dollar amount of selected loan types maturing or repricing in the Company's portfolio. The table does not include any estimate of prepayments that may significantly shorten the average life of all loans and cause the Company's repayment experience to differ from that shown below.

(In thousands)	Due during the year ending June 30, 2009	Due after 1 through 5 years after June 30, 2008	Due after 5 years after June 30, 2008	Total
Construction loans	\$ 29,878	\$ —	\$ —	\$29,878
Commercial loans	6,151	—	47,302	53,453
Total	<u>\$ 36,029</u>	<u>\$ —</u>	<u>\$ 47,302</u>	<u>\$83,331</u>

The following table sets forth at June 30, 2008 the dollar amount of the above loans which may reprice or are due one year or more after June 30, 2008 which have predetermined interest rates and have floating or adjustable interest rates.

(In thousands)	Predetermined Rates	Floating or Adjustable Rates	Total
Construction	\$ —	\$ 29,878	\$29,878
Commercial	190	53,263	53,453
Total	<u>\$ 190</u>	<u>\$ 83,141</u>	<u>\$83,331</u>

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their contractual terms because of prepayments.

Investment Securities. U.S. government agency and corporate securities decreased by \$2.1 million, or 32.9% to \$4.4 million at June 30, 2008 from \$6.6 million at June 30, 2007, due to scheduled maturities. Mortgage-backed securities decreased by \$1.4 million, or 21.0% in the year ended June 30, 2008 as pay-downs in the portfolio were not replaced with any purchases. Stock in the Federal Home Loan Bank of Atlanta and the Federal Reserve Bank of Richmond increased by \$50,000 due to the membership requirements of these organizations.

The Company owned \$1.5 million in U.S. Agency senior notes as of June 30, 2008. Of these, \$1.0 million matured on August 15, 2008. The Company does not own U.S. Agency common or preferred stock as of June 30, 2008.

The following table sets forth the carrying value of the Company's investments at the dates indicated.

(In thousands)	At June 30 ,		
	2008	2007	2006
Securities available for sale, at fair value:			
U.S. Government and agency securities	\$ 1,501	\$ 4,676	\$ 6,559
Equity securities	—	—	78
Corporate bonds	2,917	1,913	1,903
Mortgage-backed securities	5,183	6,558	8,127
Total securities available for sale	9,601	13,147	16,667
Investments required by law, at cost:			
Federal Home Loan Bank of Atlanta stock	2,239	2,190	2,018
Federal Reserve Bank of Richmond stock	410	409	398
Total investments required by law, at cost	2,649	2,599	2,416
Total investments	<u>\$12,250</u>	<u>\$15,746</u>	<u>\$19,083</u>

The following table sets forth the scheduled maturities, carrying amounts, fair values and average yields for the Company's investment portfolio at June 30, 2008:

(Dollars in thousands)	<u>One Year or Less</u>		<u>One to Five Years</u>		<u>Five to Ten Years</u>		<u>More than Ten Years</u>		<u>Total Investment Portfolio</u>		
	<u>Amortized Cost</u>	<u>Average Yield</u>	<u>Amortized Cost</u>	<u>Average Yield</u>	<u>Amortized Cost</u>	<u>Average Yield</u>	<u>Amortized Cost</u>	<u>Average Yield</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Average Yield</u>
Securities available for sale:											
Mortgage-backed securities	\$ —	— %	\$ —	— %	\$ 1,922	4.68%	\$ 3,512	4.96%	\$ 5,434	\$ 5,183	4.86%
U.S. Government & agency	1,000	3.25	500	4.88	—	—	—	—	1,500	1,501	3.79
Corporate securities	500	3.55	500	5.37	1,977	7.53	—	—	2,977	2,917	6.50
Investments required by law	—	—	—	—	—	—	2,649	5.88	2,649	2,649	5.88
Total	<u>\$ 1,500</u>	3.35%	<u>\$ 1,000</u>	5.13%	<u>\$ 3,899</u>	6.13%	<u>\$ 6,161</u>	5.36%	<u>\$ 12,560</u>	<u>\$12,250</u>	5.34%

Deposits. Total deposits increased by \$6.8 million, or 3.6% to \$197.9 million at June 30, 2008 from \$191.1 million at June 30, 2007. Decreases in savings (\$3.8 million) were offset by increases in certificates of deposit (\$5.8 million) and money market (\$2.8 million) accounts. Rising rates paid on deposits in the Company's market area have resulted in depositors moving money into higher yielding certificate accounts. Competition for deposits in the Company's market area remains intense. The \$5.8 million increase in certificates of deposit included a \$4.0 million decrease in brokered deposits.

The following table sets forth deposit balances by type as of the dates indicated.

	At June 30,					
	(Dollars in thousands)					
	2008		2007		2006	
	Balance	% Total	Balance	% Total	Balance	% Total
Savings accounts	\$ 16,464	8.32%	\$ 20,228	10.58%	\$ 25,819	15.35%
NOW checking	14,817	7.49	13,157	6.89	13,244	7.87
Money market	34,988	17.68	32,235	16.87	28,968	17.22
Certificates of deposits	118,504	59.88	112,751	59.01	86,079	51.16
Interest-bearing deposits	184,773	93.37	178,371	93.35	154,110	91.60
Noninterest-bearing checking	13,113	6.63	12,703	6.65	14,128	8.40
Total	\$197,886	100.00%	\$191,074	100.00%	\$168,238	100.00%

The following table sets forth the average balances based on daily balances and interest rates for various types of deposits for the years ended June 30:

	Year Ended June 30,					
	(Dollars in thousands)					
	2008		2007		2006	
	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
Savings accounts	\$ 17,483	0.44%	\$ 22,512	0.43%	\$ 29,021	0.42%
NOW checking	13,681	0.43	12,732	0.24	12,423	0.25
Money market	33,265	2.30	29,561	2.49	28,968	1.49
Certificates of deposits	117,665	4.58	104,118	4.41	82,152	3.54
Noninterest-bearing checking	12,525	—	15,598	—	15,462	—
Total	\$194,619		\$184,521		\$168,026	

The following table indicates the amount of the Company's certificates of deposit of \$100,000 or more by time remaining until maturity as of June 30, 2008. At such date, such deposits represented 14.11% of total deposits and had a weighted average rate of 4.44%.

<u>Maturity Period</u>	<u>Certificates of Deposit</u> (In thousands)
Three months or less	\$ 11,525
Over three through 6 months	5,185
Over six through 12 months	4,247
Over 12 months	6,965
Total	\$ 27,922

Borrowings. The Company's long-term borrowings decreased by \$1.5 million, or 3.9%, to \$37.3 million at June 30, 2008 from \$38.8 million at June 30, 2007. Strong deposit growth during the year mitigated the need for wholesale funds.

The following table sets forth certain information regarding borrowings, excluding subordinated debt, as of or for the year ended June 30:

(Dollars in thousands)	2008	2007	2006
Amounts outstanding at end of period:			
Federal Home Loan Bank advances	\$37,300	\$38,800	\$35,050
Other borrowings	—	—	—
Weighted average rate paid on:			
Federal Home Loan Bank advances	4.46%	4.65%	4.33%
Other borrowings	—	—	—
Maximum amount of borrowings outstanding at any month end:			
Federal Home Loan Bank advances	\$42,300	\$38,800	\$35,050
Other borrowings	\$ 11	—	—
Approximate average borrowings outstanding with respect to:			
Federal Home Loan Bank advances	\$40,514	\$37,044	\$27,407
Other borrowings	\$ 54	\$ 155	\$ 164
Weighted average rate for the year ended June 30, on:			
Federal Home Loan Bank advances	4.82%	4.65%	4.39%
Other borrowings	5.65%	5.95%	4.58%

Comparison of Operating Results for the Years Ended June 30, 2008 and 2007

The company's net income increased by \$192,000 to \$1.4 million for the year ended June 30, 2008 from \$1.2 million for the year ended June 30, 2007. The increase in the Company's net income over last year resulted primarily from the \$2 million fee recognized in the mutual agreement to terminate the Agreement and Plan of Merger with Bradford Bancorp, Inc. offset in part by lower net interest income and higher provision for loan losses.

Net Interest Income. The Company's net interest income decreased \$297,000 from \$8.9 million in the year ended June 30, 2007 to \$8.6 million in the current year as the net interest margin declined 36 basis points from 3.87% in the year ended June 30, 2007 to 3.51% in 2008. The lower margin more than offset the impact of the \$15.6 million increase in average earning assets.

The decline in the net interest margin was caused primarily by an increase in the Company's cost of funds while the yield on earning assets declined. The increase in the cost of funds totaled 21 basis points and was the result of an extremely competitive market for deposits. The decline in yield on average earning assets reflected the impact of lower short term interest rates in 2008 on the prime and LIBOR based products within the Company's loan portfolio.

Interest Income. Total interest income increased by \$765,000 or 4.7% to \$17.2 million for the year ended June 30, 2008 compared to \$16.4 million in the year ended June 30, 2007. This increase was due to a \$15.9 million or 7.6% rise in average loan volume as the Company benefited from sustained loan demand. This higher volume was the primary driver in loan interest income increasing \$859,000 to \$16.3 million in 2008 from \$15.5 million in 2007 and more than offset the 14 basis point decline in the yield on loans discussed above.

Interest income generated by the investment portfolio declined \$140,000 in 2008 due to a \$4.0 million decrease in average volume to \$13.8 million. This lower volume resulted from the maturing of lower yielding securities during the year which resulted in a 30 basis point improvement in the portfolio yield.

Interest Expense. Total interest expense increased \$1.1 million from \$7.5 million in the year ended June 30, 2007 to \$8.6 million in the current year as the average rate paid on interest bearing liabilities increased 21 basis points from 3.55% in 2007 to 3.76% in 2008. In addition, the volume of average interest bearing liabilities increased \$16.4 million or 7.8% from \$211.5 million in the year ended June 30, 2007 to \$228.0 million in the current year.

The increase in rate paid on interest bearing liabilities was caused principally by a 21 basis point increase in the rate paid on interest bearing deposits caused by the aforementioned competitive market environment for deposits. This environment prevented the Company from lowering the rates paid on deposits consistent with the related decline in market interest rates during the year. In addition, our customers exhibited a preference for higher cost time and money market deposits. This shift in deposit mix also contributed to the increased cost of deposits in 2008.

While the deposit environment was competitive during 2008, the Company was successful in growing average deposits by \$11.9 million or 6.5% to \$194.6 million in the year ended June 30, 2008 over \$183.7 million in the prior year.

Interest expense on borrowings increased \$235,000 to \$2.3 million in 2008 compared to \$2.0 million in 2007 as balances were \$3.4 million higher in 2008. In addition, the average rate paid on borrowings increased 16 basis points in 2008 impacted primarily by the flat treasury rate curve in the first half of the current year.

Provision for Loan Losses. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by management to provide for probable loan losses. The method utilized for the determination of the allowance is described in "Critical Accounting Policies" above and in Note 1 of the Consolidated Financial Statements.

The provision for loan losses was \$1.9 million in fiscal year 2008, an increase of \$1.5 million, or 346.5%, from the 2007 provision of \$430,000. The increase in the provision was due to an \$876,000 increase in net charge-offs and \$8.0 million growth in loan balances and takes into consideration the deterioration in the housing market as well as a dramatic slowdown in the economy. Of the \$1.2 million in net charge-offs, \$740,000, or 62%, represents the partial charge-off of a land acquisition and development loan. The remaining balance of this loan amounts to \$1.1 million and is included in non-accrual loans at June 30, 2008. Excluding this charge-off, total net charge-offs in 2008 would have been \$456,000, a \$136,000 or 43% increase over 2007. The provision for loan losses (\$1.9 million) in excess of net charge-offs (\$1.2 million) amounted to \$724,000 and was the primary determinant in the Company's allowance for loan losses as a percentage of total loans increasing to 0.80% at June 30, 2008 from 0.50% at June 30, 2007. The increase in this percentage reflects the \$2.1 million increase in non-accrual loans from \$482,000 at June 30, 2007, to \$2.5 million at June 30, 2008. The Company's allowance for loan losses as a percentage of non-performing loans was 72.4% at June 30, 2008 as compared to 230.3% at June 30, 2007.

The primary driver of the level of the allowance for loan losses is the Company's determination of the level of risk in the loan portfolio. While there has been a slight shift in the portfolio from residential mortgage to commercial real estate loans, residential mortgages still represent the largest component at 30.0% of the total. The Company has determined that there is minimal risk in the residential loan portfolio. It consists of conventionally underwritten mortgages that generally conform to Fannie Mae and Freddie Mac guidelines. The Company has not participated in the sub-prime mortgage market. In the Company's estimation, the most risk in the portfolio resides in the real estate construction portfolio whose balance of \$29.9 million represents 12.8% of the portfolio. The Company conservatively underwrites all commercial real estate, as well as commercial business loans with multiple sources of repayment. Loans granted must cash-flow on their own and be backed by substantial collateral. Additionally, \$5.1 million of the commercial business loan portfolio, including the two commercial loans on nonaccrual, are guaranteed by the Small Business Administration with an average guarantee percentage of 76% or \$3.9 million at June 30, 2008.

In response to the challenging real estate and general economic environment, the Company has established an unallocated portion of the allowance for loan losses amounting to \$820,000 at June 30, 2008. Beyond the amounts allocated based on historical experience and risk rated loans requiring a specific reserve, the unallocated portion of the allowance is intended to reflect uncertainty created by the local housing market and the slowing economic environment. If

circumstances differ materially from the assumptions used in determining the allowance, future adjustments to the allowance may be necessary and results of operations could be affected. Because events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases to the allowance will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above.

The following table shows the activity in the allowance for loan losses in the periods indicated:

	Year Ended June 30,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Balance at beginning of period	\$1,110	\$ 1,000	\$ 945	\$ 936	\$ 1,139
Loans charged off:					
Real estate mortgage	740	—	—	—	40
Commercial loan	37	9	—	5	16
Commercial leases	250	265	40	184	178
Consumer	262	202	146	143	212
Total charge-offs	<u>1,289</u>	<u>476</u>	<u>186</u>	<u>332</u>	<u>446</u>
Recoveries:					
Real estate mortgage	—	—	41	—	—
Commercial loan	6	33	16	5	51
Commercial leases	47	48	78	54	95
Consumer	40	75	41	57	55
Total recoveries	<u>93</u>	<u>156</u>	<u>176</u>	<u>116</u>	<u>201</u>
Net loans charged off	1,196	320	10	216	245
Provision for loan losses	1,920	430	65	225	42
Balance at end of period	<u>\$1,834</u>	<u>\$ 1,110</u>	<u>\$ 1,000</u>	<u>\$ 945</u>	<u>\$ 936</u>
Ratio of net charge-offs to average loans outstanding during the period	<u>0.53%</u>	<u>0.15%</u>	<u>0.01%</u>	<u>0.14%</u>	<u>0.20%</u>
Ratio of allowance to non-performing loans	<u>72.40%</u>	<u>230.34%</u>	<u>409.84%</u>	<u>2,487.45%</u>	<u>188.01%</u>

The following table allocates the allowance for loan losses by loan category at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	As of June 30, 2008		As of June 30, 2007		As of June 30, 2006		As of June 30, 2005		As of June 30, 2004	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
(Dollars in thousands)										
Real estate mortgage:										
Residential	\$ 70	30.0%	\$ 45	33.1%	\$ 61	40.6%	\$ 60	44.5%	\$ 78	49.3%
Commercial	41	17.7	144	16.1	67	14.9	79	15.0	70	10.4
Construction	381	12.8	146	10.6	64	7.0	55	3.3	65	4.1
Consumer and other	191	9.0	137	9.1	67	9.2	99	9.2	95	9.1
Commercial Business	94	22.9	413	23.4	558	17.5	494	16.7	428	13.8
Commercial Leases	237	7.6	225	7.7	183	10.8	158	11.3	200	13.3
Unallocated	820	—	—	—	—	—	—	—	—	—
Total allowance for loan Losses	<u>\$ 1,834</u>	<u>100.00%</u>	<u>\$ 1,110</u>	<u>100.0%</u>	<u>\$ 1,000</u>	<u>100.0%</u>	<u>\$ 945</u>	<u>100.0%</u>	<u>\$ 936</u>	<u>100.0%</u>

The following table sets forth information with respect to the Company's nonperforming assets at the dates indicated.

	At June 30,				
	2008	2007	2006	2005	2004
(Dollars in thousands)					
Loans accounted for on a non-accrual basis: (1)					
Real estate:					
Residential	\$ 81	\$ 168	\$ 13	\$ —	\$ —
Commercial	—	—	146	—	—
Construction	1,989	—	—	—	—
Consumer	6	14	7	16	12
Commercial Loan/Lease	457	300	78	22	486
Total	<u>\$2,533</u>	<u>\$ 482</u>	<u>\$ 244</u>	<u>\$ 38</u>	<u>\$ 498</u>
Accruing loans which are contractually past due 90 days or more	—	—	—	—	—
Total nonperforming loans	<u>\$2,533</u>	<u>\$ 482</u>	<u>\$ 244</u>	<u>\$ 38</u>	<u>\$ 498</u>
Nonperforming loans to total loans	<u>1.10%</u>	<u>0.21%</u>	<u>0.12%</u>	<u>0.02%</u>	<u>0.31%</u>
Nonperforming assets to total assets	<u>0.97%</u>	<u>0.19%</u>	<u>0.11%</u>	<u>0.05%</u>	<u>0.24%</u>
Troubled debt restructuring	<u>\$1,550</u>	—	—	—	—
Other nonperforming assets (2)	<u>\$ 7</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 60</u>	<u>\$ —</u>

(1) Nonaccrual status denotes loans on which, in the opinion of management, the collection of additional interest is unlikely. Payments received on a nonaccrual loan are either applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the collectability of the loan.

(2) Other nonperforming assets represents property and equipment acquired by the Company through foreclosure or repossession.

At June 30, 2008, non-accrual loans consist of two land acquisition and development loans totaling \$1.5 million, not including a commitment to fund an additional \$200,000, a residential construction loan with a balance of \$505,000, three commercial business loans totaling \$349,000, three commercial leases totaling \$108,000, one home equity loan with a balance of \$81,000, and one consumer loan amounting to \$6,000. The one acquisition and development loan has been written down to its recently appraised value of \$1.1 million. The remaining acquisition and development loan as well as the residential construction loan are both considered to have sufficient collateral for the Bank to recover the balance due. Two of the three commercial business loans have been written down to the SBA guarantee; the third loan for \$140,000 has been allocated a \$40,000 reserve reflecting its expected net realizable value. Management believes the property securing the home equity loan, having a balance of \$81,000, has sufficient collateral value to recover the balance due.

During the twelve months ended June 30, 2008, the Company modified the terms of one real estate construction loan in the amount of \$1.55 million in a troubled debt restructuring. The original terms were modified to defer a portion of interest to the end of the loan term in order to lessen the near term cash requirements of the borrowers' obligations. The Company recorded \$92,000 in interest income on this loan in the year ended June 30, 2008. The Company currently expects to collect all principal and interest of this loan based on the modified loan terms. The Company is committed to lend additional monies totaling \$124,000 pertaining to this loan.

During the year ended June 30, 2008 the amount of interest that would have been recorded on non-accrual and restructured loans at June 30, 2008 had the loans performed in accordance with their terms was approximately \$289,000. The amount of interest actually recorded during fiscal year 2008 was \$135,000.

At June 30, 2008, the Company had no loans not classified as nonaccrual, 90 days past due or restructured where known information about possible credit problems of borrowers caused management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and may subsequently result in disclosure as nonaccrual, 90 days past due or restructured.

The Company accepted a \$2 million note receivable from Bradford Bancorp, Inc. as payment for the merger termination fee. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Comparison of Operating Results for the Years Ended June 30, 2008 and 2007." This note receivable is currently paying in accordance with the note agreement. Bradford Bancorp, Inc. filed a Registration Statement on Form S-1 with the Securities and Exchange Commission on September 19, 2008 with respect to an offering of shares of common stock. In that Registration Statement, Bradford Bancorp, Inc. disclosed that if it successfully completed the offering, it would use a portion of the net offering proceeds to pay off the note receivable. Bradford Bancorp, Inc. further disclosed that if it is unable to complete the offering, it will be unable to pay off the note when it matures on December 31, 2008. If that were to occur, the note would need to be restructured.

Noninterest Income. The Company's noninterest income generally consists of deposit fees, service charges, fees on the sale of annuities and investment products, and gains and losses on sales of securities, loans and repossessed and other assets. Total non-interest income increased by \$2.0 million or 226% to \$2.8 million during the year ended June 30, 2008 from \$866,000 during the year ended June 30, 2007. This increase was due to the \$2.0 million fee recognized in the mutual agreement to terminate the agreement and Plan of Merger with Bradford Bancorp, Inc. Refer to the section above regarding the collectibility of this loan.

Noninterest Expense. The Company's total noninterest expense decreased by \$74,000 or 1.0%, to \$7.37 million during fiscal 2008, as compared to \$7.45 million in fiscal 2007. The decrease resulted from lower compensation and benefit expense due to open positions, as well as lower advertising expenses caused in large part to efforts in anticipation of the merger with Bradford Bancorp. Accordingly, these costs are expected to increase going forward. These lower costs were partially offset by higher merger related professional fees and other expenses. Merger costs totaled \$300,000 in the twelve months ended June 30, 2008 as compared to \$385,000 in the prior year.

Income Tax Provision. The Company had income tax expense of \$0.78 million in 2008, compared to \$0.73 million in 2007. The resulting effective tax rates were 36.0% and 38.0% respectively. The lower effective tax rate in 2008 was due to merger-related expenses, which had been non-deductible in the previous year, becoming deductible in the current year given that the Company terminated the merger agreement in January of 2008.

Asset/Liability Management

The Company's net income is largely dependent on the Bank's net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than interest-earning assets. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. 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, other liabilities and stockholders' equity.

The Company has established an Asset/Liability Management Committee ("ALCO") that currently is comprised of four non-employee directors, the President, the Chief Financial Officer and the Senior Vice Presidents of Lending and Operations. This Committee meets on a monthly basis and reviews the maturities of the Company's assets and liabilities and establishes policies and strategies designed to regulate the Company's flow of funds and to coordinate the sources, uses and pricing of such funds. The first priority in structuring and pricing the Company's assets and liabilities is to maintain an acceptable net interest margin while reducing the net effects of changes in interest rates.

Management's principal strategy in managing the Company's interest rate risk has been to maintain short and

intermediate-term assets in the portfolio, including locally originated adjustable-rate commercial real estate and commercial business loans. In addition, the Company has investment securities available for sale, carried at fair value, totaling \$9.6 million as of June 30, 2008. The Company is holding these investment securities as available for sale because it may sell these securities prior to maturity should it need to do so for liquidity or asset and liability management purposes.

The Company's Board of Directors is responsible for reviewing the Company's asset and liability management policies. The Asset/Liability Management Committee reports to the Board monthly on interest rate risk and trends, as well as, liquidity and capital ratios and requirements. The Company's management is responsible for administering the policies of the Board of Directors with respect to the Company's asset and liability goals and strategies.

The Bank's interest rate sensitivity, as measured by the re-pricing of its interest sensitive assets and liabilities at June 30, 2008, is presented in the following table. The table was derived using assumptions which management believes to be reasonable.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at June 30, 2008 that are expected to mature or reprice in each of the time periods shown.

	<u>Three Months or Less</u>	<u>Over Three Months Through One Year</u>	<u>Over One Through Five Years</u>	<u>Over Five Through Ten Years</u>	<u>Over Ten Through Twenty Years</u>	<u>Over Twenty Years</u>	<u>Total</u>
(Dollars in thousands)							
Rate sensitive assets:							
Loans receivable	\$66,436	\$ 53,484	\$ 83,617	\$ 20,569	\$ 4,791	\$ 451	\$229,348
Investment securities	5,128	832	3,997	2,159	127	7	12,250
Short-term investments and other interest-earning assets	4,576	—	—	—	—	—	4,576
Total	76,140	54,316	87,614	22,728	4,918	458	246,174
Rate sensitive liabilities:							
Deposits	54,475	54,910	64,408	8,806	1,734	440	184,773
Borrowings	14,500	9,000	13,800	5,000	—	—	42,300
Total	68,975	63,910	78,208	13,806	1,734	440	227,073
Interest sensitivity gap	\$ 7,165	\$ (9,594)	\$ 9,406	\$ 8,922	\$ 3,184	\$ 18	
Cumulative interest sensitivity gap	\$ 7,165	\$ (2,429)	\$ 6,977	\$ 15,899	\$ 19,083	\$19,101	
Ratio of cumulative gap to total assets	2.74%	(0.93)%	2.67%	6.08%	7.30%	7.31%	

The interest rate-sensitivity of the Company's assets and liabilities illustrated in the table above could vary substantially if different assumptions were used or actual experience differs from the assumptions used. If passbook and NOW accounts were assumed to mature in one year or less, the Company's one-year positive gap would be negative.

Certain shortcomings are inherent in the method of analysis presented in the above table. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgages, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. The ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

The Company utilizes two additional measures of risk. These are quantitative measures of the percentage change in net interest income and equity capital resulting from a hypothetical change of plus or minus 200 basis points in market interest rates for maturities from one day to thirty years. As of June 30, 2008, the Bank had the following estimated sensitivity profile for net interest income and fair value of equity:

	<u>+ 200 basis points</u>	<u>-200 basis points</u>	<u>Policy Limit</u>
% Change in Net Interest Income	2.4%	-10.1%	+10.0%
% Change in Fair Value of Equity	-9.7%	1.8%	+25.0%

Liquidity And Capital Resources

An important component of the Company's asset/liability structure is the level of liquidity available to meet the needs of customers and creditors. The Company's Asset/Liability Management Committee has established general guidelines for the maintenance of prudent levels of liquidity. The Committee continually monitors the amount and source of available liquidity, the time to acquire it and its cost.

The Company's most liquid assets are cash on hand, interest-bearing deposits and Federal funds sold, which are short-term, highly liquid investments with original maturities of less than three months that are readily convertible to known amounts of cash. The levels of these assets are dependent on the Company's operating, financing and investing activities during any given period. At June 30, 2008, the Company's cash on hand, interest-bearing deposits and Federal funds sold totaled \$9.2 million.

The Company anticipates that it will have sufficient funds available to meet its current loan origination, and unused lines-of-credit commitments of approximately \$31.9 million and \$34.4 million at June 30, 2008 and 2007, respectively. Certificates of deposit that are scheduled to mature in less than one year at June 30, 2008 totaled \$89.5 million. Historically, a high percentage of maturing deposits have remained with the Company.

The Company's primary sources of funds are deposits, borrowings and proceeds from maturing investment securities and mortgage-backed securities and principal and interest payments on loans. While maturities and scheduled amortization of mortgage-backed securities and loans are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, competition and other factors.

The Company, as the holding company for the Bank, has an annual cash requirement of approximately \$850,000 for the payment of common stock dividends and debt service on the subordinated debentures. The only source of internal funds for the holding company is dividends from the Bank. The amount of dividends that can be paid to the Company from the Bank is limited by the earnings of the Bank.

At June 30, 2008, the Bank exceeded all regulatory minimum capital requirements. The table below presents certain information relating to the Bank's regulatory capital compliance at June 30, 2008.

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	<u>(Dollars in thousands)</u>					
Total Regulatory Capital (to Risk Weighted Assets)	\$21,585	10.45%	\$ 16,532	8.00%	\$ 20,665	10.00%
Tier 1 Capital (to Risk Weighted Assets)	19,752	9.56	8,266	4.00	12,399	6.00
Tier 1 Leverage Ratio	19,752	7.63	10,352	4.00	12,940	5.00

Contingencies and Off-Balance Sheet Items

The Company is a party to financial instruments with off-balance sheet risk including commitments to extend credit under both new facilities and under existing lines of credit. Commitments to fund loans typically expire after 60 days, commercial lines of credit are subject to annual reviews and home equity lines of credit are generally for a term of 20 years. These instruments contain, to varying degrees, credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

Off-balance sheet financial instruments whose contract amounts represent credit and interest rate risk are summarized as follows at June 30:

	<u>2008</u>	<u>2007</u>
	<u>(In thousands)</u>	
Commitments to originate new loans	\$20,087	\$19,452
Undisbursed lines of credit	11,787	14,909
Financial standby letters of credit	2,055	1,749

Impact of Inflation and Changing Prices

The Consolidated Financial Statements and Notes thereto presented in this Annual Report have been prepared in accordance with accounting principles generally accepted in The United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Patapsco Bancorp, Inc.
Dundalk, Maryland

We have audited the accompanying consolidated statements of financial condition of Patapsco Bancorp, Inc. and subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of income, stockholder's equity, and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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, and audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patapsco Bancorp, Inc. and subsidiaries as of June 30, 2008 and 2007 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Baltimore, Maryland
September 26, 2008

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

June 30, 2008 and 2007

(dollars in thousands except for per share data)

	2008	2007
Assets		
Cash on hand and due from banks	\$ 4,617	\$ 4,308
Federal funds sold	2,473	2,255
Total Cash and Cash Equivalents	7,090	6,563
Interest bearing deposits in other financial institutions	2,103	907
Securities available for sale	9,601	13,147
Loans receivable, net of allowance for loan losses of \$1,834 and \$1,110, respectively	227,514	220,239
Investment securities required by law, at cost	2,649	2,599
Property and equipment, net	4,178	4,474
Goodwill and other intangible assets	3,251	3,303
Accrued interest and other assets	4,908	4,226
Total Assets	<u>\$261,294</u>	<u>\$255,458</u>
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing deposits	\$ 13,113	\$ 12,703
Interest bearing deposits	184,773	178,371
Total Deposits	197,886	191,074
Junior subordinated debentures	5,000	5,000
Long-term debt	37,300	38,800
Accrued expenses and other liabilities	1,717	1,668
Total liabilities	241,903	236,542
Temporary equity - ESOP shares subject to put option	—	935
Stockholders' equity		
Common stock \$0.01 par value; authorized 4,000,000 shares; issued and outstanding 1,861,855 shares at June 30, 2008 and 1,864,985 shares at June 30, 2007	18	18
Additional paid-in capital	7,346	6,937
Obligation under deferred compensation	442	423
Deferred compensation contra	(78)	(78)
Retained earnings, substantially restricted	11,851	10,994
Accumulated other comprehensive loss, net of taxes	(188)	(313)
Total Stockholders' Equity - Permanent	19,391	17,981
Total Stockholders' Equity - including Temporary Equity	19,391	18,916
Total Liabilities and Stockholders' Equity	<u>\$261,294</u>	<u>\$255,458</u>

See accompanying notes to consolidated financial statements.

PATAPSCO BANCORP, INC. AND SUBSIDIARIESConsolidated Statements of Income
Years Ended June 30, 2008 and 2007

<i>(in thousands except for per share data)</i>	2008	2007
Interest Income:		
Loans receivable	\$16,320	\$15,461
Investment securities	662	802
Federal funds sold and other investments	209	163
Total Interest Income	17,191	16,426
Interest Expense:		
Deposits	6,285	5,458
Interest on short-term debt	188	37
Interest on long-term debt and junior subordinated debentures	2,092	2,008
Total Interest Expense	8,565	7,503
Net interest income	8,626	8,923
Provision for loan losses	1,920	430
Net interest income after provision for loan losses	6,706	8,493
Non-Interest Income:		
Fees and service charges	706	730
Merger termination fee	2,000	—
Other	113	136
Total Non-Interest Income	2,819	866
Non-Interest Expenses:		
Compensation and employee benefits	4,206	4,382
Professional fees	646	591
Equipment expenses	325	331
Net occupancy costs	565	565
Advertising	33	110
Data processing	318	304
Amortization of core deposit intangible	51	51
Telephone, postage and delivery	252	250
Other	977	863
Total Non-Interest Expenses	7,373	7,447
Income Before Income Taxes	2,152	1,912
Income tax provision	775	727
Net Income	\$ 1,377	\$ 1,185
Basic earnings per share	\$ 0.72	\$ 0.62
Diluted earnings per share	\$ 0.71	\$ 0.61
Cash dividends declared per common share	\$ 0.28	\$ 0.27

See accompanying notes to consolidated financial statements.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years Ended June 30, 2008 and 2007

<i>(dollars in thousands except for per share data)</i>	Common Stock	Additional Paid-In Capital	Temp. Equity ESOP Shares Subject to Put	Obligation Under Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total Stockholders' Equity
Balance at June 30, 2006	\$ 18	\$ 6,950	\$1,121	\$ 317	\$10,317	\$ (435)	\$ 18,288
Comprehensive income:							
Net income	—	—	—	—	1,185	—	1,185
Change in unrealized losses on Securities available-for-sale, net of taxes of \$76	—	—	—	—	—	122	122
Comprehensive income							1,307
Common stock dividends (\$0.27 per share)	—	—	—	—	(508)	—	(508)
Compensation under stock-based benefit plan	—	105	—	—	—	—	105
Options exercised and related tax benefit, 90,623 shares	—	538	—	—	—	—	538
Shares surrendered in exercise of stock options, 13,831 shares	—	(152)	—	—	—	—	(152)
Purchase of shares under ESOP put option, 29,992 shares	—	(690)	—	—	—	—	(690)
Transfer from temporary equity	—	186	(186)	—	—	—	—
Obligation under deferred compensation	—	—	—	28	—	—	28
Balance at June 30, 2007	\$ 18	\$ 6,937	\$ 935	\$ 345	\$10,994	\$ (313)	\$ 18,916
Comprehensive income:							
Net income	—	—	—	—	1,377	—	1,377
Change in unrealized losses on Securities available-for-sale, net of taxes of \$76	—	—	—	—	—	125	125
Comprehensive income							1,502
Common stock dividends (\$0.28 per share)	—	—	—	—	(520)	—	(520)
Common stock issued	—	9	—	—	—	—	9
Amortization of deferred compensation-restricted stock awards	—	57	—	—	—	—	57
Options exercised and related tax benefit, 27,040 shares	—	225	—	—	—	—	225
Shares surrendered in exercise of stock options, 6,942 shares	—	(158)	—	—	—	—	(158)
Purchase of shares under ESOP put option, 28,676 shares	—	(659)	—	—	—	—	(659)
Transfer from temporary equity	—	935	(935)	—	—	—	0
Obligation under deferred compensation	—	—	—	19	—	—	19
Balance at June 30, 2008	<u>\$ 18</u>	<u>\$ 7,346</u>	<u>\$ 0</u>	<u>\$ 364</u>	<u>\$11,851</u>	<u>\$ (188)</u>	<u>\$ 19,391</u>

See accompanying notes to consolidated financial statements.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2008 and 2007

<i>(in thousands)</i>	2008	2007
Cash flows from operating activities:		
Net income	\$ 1,377	\$ 1,185
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	352	316
Provision for losses on loans	1,920	430
Non-cash compensation under stock-based benefit plans	63	116
Income tax benefit from exercise of stock options	(47)	48
Amortization of core deposit intangible	51	51
Amortization of premiums and discounts, net	47	42
Income from bank-owned life insurance	(75)	(68)
Amortization of deferred loan origination fees, net of costs	(21)	(34)
Gain on sale of office building	—	(14)
Loss on sale of repossessed asset	—	9
Increase in accrued interest and other assets	(660)	(165)
Termination fee earned, not collected	(2,000)	—
(Decrease) increase in accrued expenses and other liabilities	50	156
Net cash provided by operating activities	<u>\$ 1,057</u>	<u>\$ 2,072</u>
Cash flows from investing activities:		
(Increase) decrease in int-bearing deposits in other financial institutions	(1,196)	61
Proceeds from maturing time deposit investments	—	600
Purchase of securities available for sale	(977)	(20)
Proceeds from sale of securities available for sale	—	92
Proceeds from maturing securities available for sale and principal payments on mortgage-backed securities available for sale	4,695	3,612
Loan principal disbursements, net of repayments	(6,632)	(28,498)
Purchase of consumer loans	(577)	(1,577)
Proceeds from sale of repossessed asset	—	15
Increase in investment required by law	(50)	(183)
Cash received in sale of premises and equipment	—	50
Purchases of property and equipment	(56)	(2,651)
Net cash used in investing activities	<u>(4,793)</u>	<u>\$(28,499)</u>
Cash flows from financing activities:		
Net increase in deposits	\$ 6,796	\$ 22,905
Net increase (decrease) in advance payments by borrowers	32	(43)
Proceeds from long-term borrowings	19,200	8,000
Repayments of long-term borrowings	(20,700)	(4,250)
Cash received in exercise of stock options	114	338
Repurchase of common stock due to ESOP put options	(659)	(690)
Dividends paid	(520)	(490)
Net cash provided by financing activities	<u>4,263</u>	<u>25,770</u>
Net increase (decrease) in cash and cash equivalents	527	(657)
Cash and cash equivalents at beginning of year	6,563	7,220
Cash and cash equivalents at end of year	<u>\$ 7,090</u>	<u>\$ 6,563</u>
Supplemental cash flow information:		
Interest paid	\$ 8,371	\$ 7,351
Income taxes paid	<u>1,535</u>	<u>837</u>

See accompanying notes to consolidated financial statements.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

(1) Basis of Presentation and Summary of Significant Accounting Policies

Description of Business

Patapsco Bancorp, Inc. (the Company) is the holding company of The Patapsco Bank (Patapsco). Patapsco owns 100% of Prime Business Leasing, Inc. (Prime Leasing) and Patapsco Financial Services, Inc. (Financial). The primary business of Patapsco is to attract deposits from individual and corporate customers and to originate residential and commercial mortgage loans, commercial loans and consumer loans, primarily in the Greater Baltimore Metropolitan area. Patapsco is subject to competition from other financial and mortgage institutions in attracting and retaining deposits and in making loans. Patapsco is subject to the regulations of certain agencies of the federal government and undergoes periodic examination by those agencies. The primary business of Prime Leasing is the origination and servicing of commercial finance leases. The primary business of Financial is the sale of consumer investment products.

Termination of Merger Agreement

On January 3, 2008, Patapsco Bancorp, Inc. and Bradford Bancorp, Inc. announced that they have mutually terminated the Agreement and Plan of Merger that the parties previously executed on March 19, 2007. Pursuant to the termination agreement, Bradford Mid-Tier Company has agreed to pay Patapsco Bancorp a termination fee of \$2.0 million payable in the form of a promissory note. This \$2.0 million was recognized as income in the quarter ended March 31, 2008. The promissory note matures on December 31, 2008 and provides for interest equal to the prime rate plus one percent. On August 1, 2008, this rate will increase to the prime rate plus three percent. The termination agreement also provides for a mutual release of claims in connection with the merger.

This note receivable is currently paying in accordance with the note agreement. Bradford Bancorp, Inc. filed a Registration Statement on Form S-1 with the Securities and Exchange Commission on September 19, 2008 with respect to an offering of shares of common stock. In that Registration Statement, Bradford Bancorp, Inc. disclosed that if it successfully completed the offering, it would use a portion of the net offering proceeds to pay off the note receivable. Bradford Bancorp, Inc. further disclosed that if it is unable to complete the offering, it will be unable to pay off the note when it matures on December 31, 2008. If that were to occur, the note would need to be restructured.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Patapsco, Prime Leasing and Financial. All significant intercompany accounts and transactions have been eliminated in consolidation.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and income and expenses for the periods then ended. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.

Management believes that the allowance for loan losses is adequate. While management uses and considers available information in making the required estimates, additional provisions for losses may be necessary based on changes in economic conditions, particularly in Baltimore and the State of Maryland. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Patapsco's allowance for loan losses. Such agencies may require Patapsco to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Significant Concentrations of Credit Risk

Most of the Company's activities are with customers in the Greater Baltimore Metropolitan Area. Note 2 discusses the types of securities the Company invests in. Note 3 discusses the types of lending that the Company engages in. The Company's largest lending relationship is \$2.7 million.

The Company's residential lending operations are focused in the State of Maryland, primarily the Baltimore Metropolitan area. While residential lending is generally considered to involve less risk than other forms of lending, payment experience on these loans is dependent to some extent on economic and market conditions in the Company's primary lending area.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

Cash and Cash Equivalents

Cash equivalents include short-term investments, with an original maturity of 90 days or less, which consist of federal funds sold.

Securities

Debt 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. As the Company does not engage in securities trading, the balance of its debt and equity securities are classified as available-for-sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of tax effects. All of the Company's securities are classified as available-for sale at June 30, 2008 and 2007.

If a decline in value of an individual security classified as held-to-maturity or available-for-sale is judged to be other than temporary, the cost basis of that security is reduced to its fair value and the amount of the write-down is included in earnings. Fair value is determined based on bid prices published in financial newspapers or bid quotations received from securities dealers. In estimating other-than-temporary impairment losses, management considers the length of time and extent to which fair value has been less than cost, the financial condition and near term prospects of the issuer and the intent and ability of the Company to hold the securities until the earlier of market price recovery or maturity. For purposes of computing realized gains or losses on the sales of securities, cost is determined using the specific identification method. Premiums and discounts on securities are amortized over the term of the security using the interest method.

Investments Securities Required by Law

Investment securities required by law represent Federal Reserve Bank of Richmond and Federal Home Loan Bank of Atlanta stock, which are considered restricted as to marketability.

Loans Held For Sale

Loans held for sale are carried at the lower of aggregate cost or fair value. Fair value is determined based on outstanding investor commitments or, in the absence of such commitments, based on current investor yield requirements. Gains and losses on loan sales are determined using the specific identification method.

There were no loans held for sale at June 30, 2008 and 2007.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The Company accounts for loans in accordance with SFAS No. 15 "Accounting by Debtor and Creditors for Troubled Debt Restructurings," when due to a deterioration in a borrower's financial position, the Company

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grants concessions that would not otherwise be considered. Troubled debt restructured loans are tested for impairment under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan". Interest income is recognized on these loans using the accrual method of accounting, provided they are performing in accordance with their restructured terms and are considered collectible.

Loan Fees

Loan origination fees are deferred and amortized to income over the contractual lives of the related loans using the interest method. Certain incremental direct loan origination costs are deferred and recognized over the contractual lives of the related loans using the interest method as a reduction of the loan yield. Deferred fees and costs are combined where applicable and the net amount is amortized.

Allowance for Loan Losses

The allowance for loan losses ("allowance") represents an amount, that in the judgment of management, will be adequate to absorb probable losses on outstanding loans and leases that may become uncollectible. The allowance represents an estimate made based upon two principles of accounting: (1) Statement of Financial Accounting Standards ("SFAS") No. 5 "Accounting for Contingencies", that requires losses to be accrued when their occurrence is probable and estimable, and (2) SFAS No. 114 "Accounting by Creditors for Impairment of a Loan", that requires losses be accrued when it is probable that the lender will not collect all principal and interest due under the original term of the loan. The adequacy of the allowance is determined through careful evaluation of the loan portfolio. This determination is inherently subjective and requires significant estimates, including estimated losses on pools of homogeneous loans based on historical loss experience and consideration of the current economic environment that may be subject to change. Loans and leases deemed uncollectible are charged against the allowance and recoveries of previously charged-off amounts are credited to it. The level of the allowance is adjusted through the provision for loan losses that is recorded as a current period expense.

The methodology for assessing the appropriateness of the allowance includes a specific allowance, a formula allowance and a nonspecific allowance. The specific allowance is for risk rated credits on an individual basis. The formula allowance reflects historical losses by credit category. The nonspecific allowance captures losses whose impact on the portfolio have occurred but have yet to be recognized in either the specific allowance or the formula allowance. The factors used in determining the nonspecific allowance include trends in delinquencies, trends in volumes and terms of loans, the size of loans relative to the allowance, concentration of credits, the quality of the risk identification system and credit administration and local and national economic trends.

A loan is determined to be impaired when, based on current information and events, it is probable that Patapsco will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is not considered impaired during a period of insignificant delay in payment if Patapsco expects to collect all amounts due, including past-due interest. Patapsco generally considers a period of insignificant delay in payment to include delinquency up to and including 90 days. Impairment is measured through a comparison of the loan's carrying amount to the present value of its expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller-balance homogeneous loans are evaluated collectively for impairment. Accordingly, the Company does not separately identify individual residential first and second mortgage loans and consumer installment loans for impairment disclosures, unless such loans are the subject of a restructuring agreement. Impaired loans are therefore generally comprised of commercial mortgage, real estate development, and certain restructured residential loans. In addition, impaired loans are generally loans which management has placed in nonaccrual status since loans are placed in nonaccrual status on the earlier of the date that management determines that the collection of principal and/or interest is in doubt or the date that principal or interest is 90 days or more past-due.

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Patapsco recognized interest income for impaired loans consistent with its method for nonaccrual loans. Specifically, interest payments received are recognized as interest income or, if the ultimate collectibility of principal is in doubt, are applied to principal.

Property and Equipment

Land is carried at cost. Property and equipment are stated at cost less accumulated depreciation computed by use of the straight-line method over the estimated useful lives of the related assets. Additions and betterments are capitalized and costs of repairs and maintenance are expensed when incurred. The related costs and accumulated depreciation are eliminated from the accounts when an asset is sold or retired and the resultant gain or loss is credited or charged to income.

Foreclosed Real Estate and Other Repossessed Assets

Foreclosed real estate and other repossessed assets are initially recorded at the estimated fair value, net of estimated selling costs, and subsequently at the lower of carrying cost or fair value less estimated costs to sell. Costs relating to holding such property are charged against income in the current period, while costs relating to improving such real estate are capitalized until a salable condition is reached. At June 30, 2008 and 2007, the Company had other repossessed assets of \$7,000 and \$5,000, respectively.

Deferred Income Taxes

Deferred income taxes are recognized, with certain exceptions, for temporary differences between the financial reporting basis and income tax basis of assets and liabilities based on enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on consideration of available evidence, including tax planning strategies and other factors. The effects of changes in tax laws or rates on deferred tax assets and liabilities are recognized in the period that includes the enactment date.

Earnings per Share of Common Stock

Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. Diluted earnings per share assume the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. No adjustments were made to net income (numerator) for all periods presented.

(in thousands, except per share data)

	Year Ended			
	June 30, 2008		June 30, 2007	
	Basic	Diluted	Basic	Diluted
Net income	\$1,377	\$1,377	\$1,185	\$1,185
Weighted average common shares outstanding	1,914	1,914	1,906	1,906
Diluted securities:				
Stock options	—	16	—	48
Adjusted weighted average shares	1,914	1,930	1,906	1,954
Per share amount	<u>\$ 0.72</u>	<u>\$ 0.71</u>	<u>\$ 0.62</u>	<u>\$ 0.61</u>

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Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123 (revised), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123(R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides services in exchange for the award. The Company adopted effective July 1, 2006, the new standard using the modified prospective method. Under the modified prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively, and to record compensation cost prospectively on the non-vested portion, at the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. No change to prior periods presented is permitted under the modified prospective method. The Company recognized a pre-tax expense of approximately \$5,600 in the quarter ending September 30, 2006 for the expense related to the final scheduled vesting of all outstanding stock option awards. Any additional impact of adopting the new accounting standard will be determined by share-based payments granted in future periods.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the statement of financial condition, such items, along with net income are components of comprehensive income.

Goodwill and Intangible Assets

Goodwill is not amortized, but rather is tested for impairment on an annual basis at the reporting unit level, which is either at the same level or one level below an operating segment. Other acquired intangible assets with finite lives, such as purchased customer accounts, are required to be amortized over their estimated lives which for the Company is 10 years. The Company periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and other intangible assets may be impaired.

Intangible assets were composed of the following:

	June 30, 2008		June 30, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<i>(Dollars in Thousands)</i>				
Goodwill	\$ 2,954	\$ —	\$ 2,954	\$ —
Amortizable intangible assets, acquisition of deposit accounts	\$ 516	\$ 219	\$ 516	\$ 168

Amortization expense was \$51,000 for each year presented and is expected to be \$51,000 annually until the year ended June 30, 2014 when the amortization expense will be \$42,000.

Advertising Costs

The Company expenses advertising costs as they are incurred.

Segment Reporting

The Company acts as an independent community financial services provider, and offers traditional banking and related financial services to individual, business and government customers. Through its branch and automated

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teller machine networks, the Bank offers a full array of commercial and retail financial services, including taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and the providing of other financial services.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, and mortgage operations of the Bank. As such, discrete financial information is not available and segment reporting would not be meaningful.

Reclassification

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

Guarantees

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Company, generally, holds collateral and/or personal guarantees supporting these commitments. The Company had \$2,055,000 and \$1,749,000 of standby letters of credit as of June 30, 2008 and June 30, 2007, respectively. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of June 30, 2008 and June 30, 2007 for guarantees under standby letters of credit issued is not material.

Off Balance Sheet Arrangements

In the ordinary course of business, the Company has entered into commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when funded.

New Accounting Pronouncements

FASB Statement No. 141(R)

FASB statement No. 141 (R) "Business Combinations" was issued in December of 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. The impact to the Company is dependent upon acquisitions consummated after the effective date.

SAB 110

Staff Accounting Bulletin No. 110 (SAB 110) amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 is effective January 1, 2008.

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FSP 157-2

In December 2007, the FASB issued FASB Staff Position (FSP) 157-2, "Effective Date of FASB Statement No. 157," that permits a one-year deferral in applying the measurement provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of Statement 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, which the adoption of FSP 157-2 will have on the Company's operating income or net earnings.

EITF 06-11

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares, nonvested equity share units and outstanding equity share options charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The Company expects that EITF 06-11 will not have an impact on its consolidated financial statements.

FSP FAS 142-3

In April 2008, the FASB issues FASB Staff Position ("FSP") FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, and other GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years.

Early adoption is prohibited. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

FASB Statement No. 157

In September 2006, the Financial Accounting Standards Board issued FASB No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. Effective July 1, 2008, the Company adopted FASB Statement No. 157 without material impact to the consolidated financial statements.

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FASB Statement No. 159

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. The Company adopted SFAS No. 159 on July 1, 2008 and did not elect the fair value option for any financial assets or financial liabilities at that time.

(2) Securities Available for Sale

Investment securities, classified as available for sale, are summarized as follows as of June 30:

<i>(In thousands)</i>	2008			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Corporate Bonds	\$ 2,977	\$ —	\$ 60	\$ 2,917
U.S. Government agencies	1,500	1	—	1,501
Mortgage-backed securities	5,434	9	260	5,183
	<u>\$ 9,911</u>	<u>\$ 10</u>	<u>\$ 320</u>	<u>\$ 9,601</u>

	2007			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Corporate Bonds	\$ 2,000	\$ —	\$ 87	\$ 1,913
U.S. Government agencies	4,746	—	70	4,676
Mortgage-backed securities	6,911	5	358	6,558
	<u>\$ 13,657</u>	<u>\$ 5</u>	<u>\$ 515</u>	<u>\$ 13,147</u>

The scheduled maturities of investments available for sale at June 30, 2008 are as follows:

<i>(In thousands)</i>	2008	
	Amortized Cost	Fair Value
Due in less than one year	\$ 1,500	\$ 1,499
Due in one to five years	1,000	991
Due after five through ten years	3,899	3,403
Due after ten years	3,512	3,708
	<u>\$ 9,911</u>	<u>\$ 9,601</u>

There were no sales of securities in fiscal 2008. The Company sold \$92,000 of equity securities in the year ended June 30, 2007. No gain or loss was recognized.

The following table shows the Company's investment securities gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2008.

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	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
	(In Thousands)					
Corporate Bonds	\$ 974	\$ (3)	\$1,943	\$ (57)	\$2,917	\$ (60)
Mortgage-backed securities	790	(12)	3,697	(248)	4,487	(260)
Total Temporarily Impaired Securities	\$1,764	\$ (15)	\$5,640	\$ (305)	\$7,404	\$ (320)

At June 30, 2008, the Company had 9 securities in an unrealized loss position. Unrealized losses detailed above relate primarily to U.S. Government agency mortgage-backed securities issued by FNMA, FHLMC, and GNMA. The decline in fair value is considered temporary and is primarily due to interest rate fluctuations and the reduced liquidity in mortgage-backed securities issued by FNMA and FHLMC. The Company has the intent and ability to hold such investments until maturity or market price recovery. None of the individual unrealized losses are significant.

The following table shows the Company's investment securities gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2007.

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
	(In Thousands)					
U.S. Government agencies	\$ —	\$ —	\$ 4,676	\$ (70)	\$ 4,676	\$ (70)
Corporate Bonds	—	—	1,913	(87)	1,913	(87)
Mortgage-backed securities	1,097	(13)	5,319	(345)	6,416	(358)
Total Temporarily Impaired Securities	\$1,097	\$ (13)	\$11,908	\$ (502)	\$13,005	\$ (515)

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(3) Loans Receivable

Loans receivable are summarized as follows as of June 30:

<u>(In thousands)</u>	<u>2008</u>	<u>2007</u>
Real estate secured by first mortgage:		
Residential	\$ 69,953	\$ 74,332
Commercial	41,316	36,302
Construction, net of loans in process	29,878	23,907
	<u>141,147</u>	<u>134,541</u>
Home improvement loans	12,688	12,481
Home equity loans	5,341	4,964
Other consumer loans	2,893	2,955
Commercial loans	53,453	52,711
Commercial leases	17,714	17,366
	<u>233,236</u>	<u>225,018</u>
Less:		
Deferred loan origination fees, net of costs	201	240
Unearned interest-consumer loans	1,068	1,147
Unearned interest-commercial leases	2,779	2,480
Purchase accounting premium, net	(160)	(198)
Allowance for loan losses	1,834	1,110
Loans receivable, net	<u>\$227,514</u>	<u>\$220,239</u>

The purchase accounting premium results from the April 2004 acquisition of Parkville Federal Savings Bank. The purchase premium was determined by comparing the fair values of the loans purchased to their carrying values on the books of the acquired entity, before consideration of uncollectibility. Fair values were determined through the use of a discounted cash-flow analysis. The premium is being amortized against interest income using the level-yield method.

The total recorded investment in impaired loans was \$4,083,000 and \$482,000 at June 30, 2008 and 2007 respectively. The recorded investment in the impaired loans at June 30, 2008 June 30, 2007 which have a related allowance for losses was \$166,000 and \$482,000, respectively. Average recorded investment in impaired loans during 2008 and 2007 was \$1,749,000 and \$389,000, respectively. There was an allocated allowance for losses related to those loans of \$66,000 and \$200,000 at June 30, 2008 and 2007, respectively. The amount of interest that would have been recorded on non-accrual loans at June 30, 2008 and 2007, respectively had the loans performed in accordance with their terms was approximately \$197,000 and \$41,000, respectively. The Company is obligated to lend additional monies totaling \$288,000 pertaining to the aforementioned impaired and non-accrual loans at June 30, 2008.

Loans on which the accrual of interest has been discontinued amounted to \$2,533,000 and \$482,000 at June 30, 2008 and 2007, respectively. The Company had no loan balances past due 90 days or more accruing interest at June 30, 2008 and 2007.

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The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, officers, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with others. The following table presents a summary of the activity of loans receivable from related parties:

<i>(in thousands)</i>	At June 30,	
	2008	2007
Beginning balance	\$ 123	\$ 220
New loans or draws on existing loans	325	64
Loan repayments	(125)	(18)
Change in related party classification	—	(143)
Ending balance	<u>\$ 323</u>	<u>\$ 123</u>

(4) Property and Equipment

Property and equipment are summarized as follows at June 30:

<i>(In thousands)</i>	2008	2007	Estimated Useful lives
Land	\$ 152	\$ 152	—
Building and improvements	4,507	4,490	30 - 40 years
Leasehold improvements	238	238	3 - 10 years
Furniture, fixtures and equipment	3,038	2,999	3 - 10 years
Total, at cost	7,935	7,879	
Less accumulated depreciation	3,757	3,405	
Property and equipment, net	<u>\$4,178</u>	<u>\$4,474</u>	

Rent expense was \$219,000 and \$270,000 in the years ended June 30, 2008 and June 30, 2007, respectively.

At June 30, 2008, the minimal rental commitments under noncancellable operating leases are as follows:

Year ending June 30,	
2009	\$ 180,000
2010	163,000
2011	161,000
2012	157,000
2013	155,000
Thereafter	2,306,000
	<u>\$3,122,000</u>

(5) Deposits

The aggregate amount of jumbo certificates of deposit, each with a minimum denomination of \$100,000, was approximately \$27,922,000 and \$23,818,000 at June 30, 2008 and 2007, respectively.

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At June 30, 2008, the scheduled maturities of certificates of deposit are as follows:

(In thousands)

Twelve months ending June 30,	
2009	\$ 89,526
2010	13,615
2011	9,325
2012	4,551
2013	1,137
Thereafter	350
	<u>\$118,504</u>

(6) Borrowings

At June 30, 2008 and 2007, the Company has an agreement under a blanket-floating lien with the Federal Home Loan Bank of Atlanta providing the Company a line of credit of \$50.5 million and \$63.6 million, respectively. Borrowings totaled \$37.3 million and \$38.8 million at June 30, 2008 and 2007, respectively. The Company is required to maintain as collateral for its FHLB borrowings qualified mortgage loans in an amount equal to 133% of the outstanding advances. At June 30, 2008, and 2007 the Bank has a Federal Funds accommodation with the Silverton Bank of Atlanta, GA of \$5.1 million. As of June 30, 2008 and 2007, there were no balances outstanding on this line. At June 30, 2008 and 2007, all borrowings are at fixed rates.

At June 30, the scheduled maturities of borrowings are as follows:

	2008		2007	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Under 12 months	\$17,500	4.95%	\$ 9,700	4.81%
12 months to 24 months	5,700	2.53	4,000	4.71
24 months to 36 months	5,100	5.57	—	—
36 months to 48 months	—	—	5,100	5.57
48 months to 60 months	—	—	—	—
60 months to 120 months	9,000	4.09	20,000	4.33
	<u>\$37,300</u>	<u>4.46%</u>	<u>\$38,800</u>	<u>4.65%</u>

The borrowings from the Federal Home Loan Bank of Atlanta with conversion or call features at June 30, 2008 are detailed below:

Balance	Rate	Maturity	Call/Conversion feature
\$3,000,000	5.26%	04/21/2009	Callable on 07/22/08 and every three months thereafter
5,100,000	5.57	11/17/2010	Callable every three months
6,000,000	4.24	11/18/2015	Callable on 11/18/08 and every three months thereafter

(7) Junior Subordinated Debentures

On October 31, 2005, Patapsco Statutory Trust I, a Connecticut statutory business trust and an unconsolidated wholly-owned subsidiary of the Company, issued \$5 million of capital trust pass-through securities to investors. The interest rate is fixed for the first seven years at 6.465%. Thereafter, the interest rate adjusts on a quarterly basis at the rate of the three month LIBOR plus 1.48%. Patapsco Statutory Trust I purchased \$5,155,000 of junior subordinated deferrable interest debentures from Patapsco Bancorp. The debentures are the sole asset of the Trust. The terms of the junior subordinated debentures are the same as the terms of the capital securities. Patapsco Bancorp has also fully and unconditionally guaranteed the obligations of the Trust under the capital securities. The capital securities are redeemable by Patapsco Bancorp on or after October 31, 2010, at par. The capital securities must be redeemed upon final maturity of the subordinated debentures on December 31, 2035. The funds are available to make capital contributions to the Bank and for other corporate purposes.

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June 30, 2008 and 2007

(8) Income Taxes

The provision for income taxes is composed of the following for the years ended June 30:

<u>(In thousands)</u>	<u>2008</u>	<u>2007</u>
Current:		
Federal	\$1,012	\$645
State	195	172
Total Current Income Tax Expense	<u>1,207</u>	<u>817</u>
Deferred:		
Federal	(342)	(74)
State	(90)	(16)
Total Deferred Income Tax Expense/(Benefit)	<u>(432)</u>	<u>(90)</u>
Total Income Tax Expense	<u>\$ 775</u>	<u>\$727</u>

The net deferred tax assets consist of the following at June 30:

<u>(In thousands)</u>	<u>2008</u>	<u>2007</u>
Unrealized losses on securities available for sale	\$ 122	\$ 197
Allowance for losses on loans and leases	723	429
Reserve for uncollectable interest	66	1
Deferred compensation	288	242
Other	8	4
Total deferred tax assets	<u>1,207</u>	<u>873</u>
Purchase accounting adjustment	(198)	(219)
Federal Home Loan Bank stock dividends	(168)	(164)
Depreciation	(37)	(42)
Other	—	(1)
Total deferred tax liabilities	<u>(403)</u>	<u>(426)</u>
Net deferred tax assets	<u>\$ 804</u>	<u>\$ 447</u>

A reconciliation of the income tax provision and the amount computed by multiplying income before income taxes by the statutory Federal income tax rate of 34% is as follows for the years ended June 30:

<u>(In thousands)</u>	<u>2008</u>	<u>2007</u>
Tax at statutory rate	\$ 732	\$ 650
State income taxes, net of Federal income tax benefit	69	114
Other	(26)	(37)
Income tax provision	<u>\$ 775</u>	<u>\$ 727</u>
Effective tax rate	<u>36.00%</u>	<u>38.00%</u>

The Company has qualified under provisions of the Internal Revenue Code which permit it to deduct from taxable income a provision for bad debts based on actual bad debt experience. Therefore, the provision for bad debts deducted from taxable income for Federal income tax purposes was based on the experience method.

Effective July 1, 2007, the Company adopted the provision of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes". The Interpretation provides clarification on accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB No. 109, "Accounting for Income Taxes." The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As a result of the Company's evaluation of the implementation of FIN 48, no significant income tax uncertainties were identified. Therefore, the Company recognized no adjustment for unrecognized income tax benefits for the year ended June 30, 2008. Our policy is to recognize interest and penalties on unrecognized tax benefits in income taxes expense in the Consolidated Statement of Income. The Company did not recognize any interest and penalties for the year ended June 30, 2008. The tax years subject to examination by the taxing authorities are the years ended June 30, 2007, 2006, 2005, and 2004.

In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to July 1, 2007 for the Company. The implementation of this standard did not have a material impact on our consolidated financial position or results of operation.

(9) Regulatory Matters

The Federal Deposit Insurance Corporation (FDIC) insures deposits of account holders up to \$100,000. Patapsco pays an annual premium to provide for this insurance. Patapsco is also a member of the Federal Home Loan Bank System and is required to maintain an investment in the stock of the Federal Home Loan Bank of Atlanta (FHLBA) equal to at least 4.50% of the outstanding borrowings from the FHLBA plus the lesser of 0.20% of total assets or \$25 million. The investment in the FHLBA stock is reported in the balance sheet as investment securities required by law. Purchases and sales of stock are made directly with Patapsco at par value.

Pursuant to regulations of the Federal Reserve Board, all FDIC-insured depository institutions must maintain average daily reserves against their transaction accounts. No reserves are required to be maintained on the first \$9.3 million of transaction accounts, reserves equal to 3% must be maintained on the next \$34.6 million of transaction accounts, and a reserve of 10% must be maintained against all remaining transaction accounts. These reserve requirements are subject to adjustments by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or in a non-interest bearing account at a Federal Reserve Bank, the effect of the reserve requirement is to reduce the amount of the institution's interest-earning assets. At June 30, 2008 and 2007, the Bank met its reserve requirements of \$461,000 and \$533,000, respectively.

The Company, as the holding company for the Bank, has an annual cash requirement of approximately \$850,000 for the payment of common stock dividends and debt service on the subordinated debentures. The only source of internal funds for the holding company is dividends from the Bank. The amount of dividends that can be paid to the Company from the Bank is limited by the retained earnings of the Bank in the current calendar year and the prior two calendar years. However, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

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

Quantitative measures established by regulation to ensure capital adequacy require Patapsco to maintain minimum amounts and ratios (as defined in the regulations and as set forth in the table below, as defined) of total and Tier I capital (as defined) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of June 30, 2008 and 2007, that Patapsco meets all capital adequacy requirements to which it is subject.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

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June 30, 2008 and 2007

As of June 30, 2008, the most recent notification from banking regulators categorized Patapsco as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well or adequately capitalized Patapsco must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in tables below. There are no conditions or events since that notification that management believes have changed the institution's category.

At June 30, 2008 the Bank exceeded all regulatory minimum capital requirements. The table below presents certain information relating to the Bank's regulatory compliance at June 30, 2008.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total Capital (to Risk Weighted Assets)	\$21,585	10.45%	\$ 16,532	8.00%	\$20,665	10.00%
Tier 1 Capital (to Risk Weighted Assets)	19,752	9.56%	8,266	4.00%	12,399	6.00%
Tier 1 Leverage Ratio	19,752	7.63%	10,352	4.00%	12,940	5.00%

At June 30, 2007, the Bank exceeded all regulatory minimum capital requirements. The table below presents certain information relating to the Bank's regulatory compliance at June 30, 2007.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total Capital (to Risk Weighted Assets)	\$20,091	10.26%	\$ 15,665	8.00%	\$19,582	10.00%
Tier 1 Capital (to Risk Weighted Assets)	18,981	9.69%	7,833	4.00%	11,749	6.00%
Tier 1 Leverage Ratio	18,981	7.57%	10,030	4.00%	12,537	5.00%

(10) Stockholders' Equity and Related Matters

In 1995, the Bank converted from a federally chartered mutual savings association to a capital stock savings bank.

Simultaneously, the Bank consummated the formation of a holding company, Patapsco Bancorp, Inc., of which the Bank is a wholly-owned subsidiary. In connection with the Conversion, the Company publicly issued 362,553 shares of its common stock.

Federal regulations required that, upon conversion from mutual to stock form of ownership, a "liquidation account" be established by restricting a portion of net worth for the benefit of eligible savings account holders who maintain their savings accounts with Patapsco after conversion. In the event of complete liquidation (and only in such event), each savings account holder who continues to maintain his savings account shall be entitled to receive a distribution from the liquidation account after payment to all creditors, but before any liquidation distribution with respect to capital stock. This account will be proportionately reduced for any subsequent reduction in the eligible holders' savings accounts. At conversion the liquidation account totaled approximately \$6,088,000. In addition to the foregoing, certain bad debt reserves of approximately \$2,561,000 deducted from income for federal income tax purposes and included in retained earnings of Patapsco, are not available for the payment of cash dividends or other distributions to stockholders without payment of taxes at the then-current tax rate by Patapsco, on the amount removed from the reserves for such distributions. The unrecorded deferred income tax liability on the above amount was approximately \$989,000.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

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(11) Benefit Plans**Employee Stock Ownership Plan**

Patapsco had previously established an Employee Stock Ownership Plan (ESOP) for its employees. All ESOP shares contained a "Put Option" which required the Company to repurchase the share at the then fair market value subject to the availability of retained earnings.

The ESOP shares have been fully allocated, the Plan terminated and as of June 30, 2008 all shares subject to put option have been repurchased.

For the years ended June 30, 2008 and 2007 there was no compensation expense recognized related to the ESOP.

2004 Stock Incentive Plan

In October 2004, the shareholders' of the Company approved the 2004 Stock Incentive Plan. Under this plan, 90,000 shares of common stock are available for issuance under a variety of awards. An additional 40,146 shares were made available for issuance to settle past deferred compensation obligations. This new plan replaced the Director's retirement plan that became effective in September 1995. At the time of adoption, the directors had the option to reallocate their deferred compensation assets.

As of June 30, 2008, there are 54,893 deferred shares under this plan of which 12,906 are issued and outstanding. These deferred shares are allocated in lieu of cash compensation to Directors of the Company. These shares are included in shares outstanding for the purposes of computing earnings per share. Additionally, as of June 30, 2008 there are 12,649 non-vested shares outstanding under this plan.

Compensation expense recognized in connection with these plans during the years ended June 30, 2008 and 2007 was \$60,000 and \$67,000, respectively.

A summary of the status of the Company's non-vested shares as of June 30, 2008 is presented below:

	Common Shares	Weighted Average Grant-Date Fair Value
Non-Vested as of June 30, 2007	14,453	\$ 13.71
Vested	—	\$ —
Forfeited	1,804	\$ 13.71
Non-vested at June 30, 2008	<u>12,649</u>	<u>\$ 13.71</u>

As of June 30, 2008, there was \$70,000 of total unrecognized compensation costs related to non-vested share-based compensation. The cost is expected to be recognized over a weighted average period of 13 months. At grant date, vesting of the shares was "cliff" vesting at the end of either a two or three year period.

Stock Options

The Company's 1996 Stock Options and Incentive Plan (Plan) was approved by the stockholders at the 1996 annual meeting. The Plan provides for the granting of options to acquire common stock to directors and key employees. Option prices are equal or greater than the estimated fair market value of the common stock at the date of the grant. In October 1996 the Company granted options to purchase 137,862 shares at \$4.60 per share.

The Company's 2000 Stock Option and Incentive Plan was approved by the stockholders at the 2000 annual meeting. The Plan provides for the granting of options to acquire common stock to directors and key employees. Option prices are equal or greater than the estimated fair market value of the common stock at the date of the grant.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

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The Plan provides for one-fifth of the options granted to be exercisable on each of the first five anniversaries of the date of grant. Under this plan, in August 2001 the Company granted options to purchase 99,975 shares at \$6.29 per share.

The following table summarizes the status of and changes in the Company's stock option plans during the past two years.

	Options	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value(000s)
Outstanding, June 30, 2006	138,495	\$ 5.62	122,877	\$ 5.51	
Granted	—	—			
Exercised	(90,623)	5.41			
Cancelled	—	—			
Outstanding, June 30, 2007	47,872	6.02	47,872	\$ 6.02	\$ 801
Granted	—	—			
Exercised	(27,040)	5.82			
Cancelled	—	—			
Outstanding, June 30, 2008	<u>20,832</u>	<u>\$ 6.29</u>	<u>20,832</u>	<u>\$ 6.29</u>	<u>\$ 19</u>

The following table summarizes information about stock options outstanding at June 30, 2008.

Exercise Price of All Options	Number Outstanding	Remaining Contractual Life	Number Exercisable
6.29	20,832	3.14 years	20,832

401(K) Retirement Savings Plan

The Company has a 401(k) Retirement Savings Plan. Employees may contribute a percentage of their salary subject to limitations established by the Internal Revenue Service. The Company is obligated to contribute 3% of each employee's salary, whether or not the employee contributes their own money. All employees who have completed six months of service with the Company in which they have worked more than 500 hours, and are at least 21 years old, are eligible to participate. The Company's contribution to this plan was \$88,000 and \$91,000 for the years ended June 30, 2008 and 2007, respectively. Additionally, since the ESOP is fully allocated, the Compensation Committee of the Board of Directors has approved a discretionary profit sharing component to the 401K plan. The accrual for this component of the plan for the years ended June 30, 2008 and 2007 was \$108,000 and \$113,000, respectively.

(12) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments* (SFAS 107) requires the Company to disclose estimated fair values for certain on- and off-balance sheet financial instruments. Fair value estimates, methods, and assumptions are set forth below for the Company's financial instruments as of June 30, 2008 and 2007.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

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The carrying amount and estimated fair value of financial instruments is summarized as follows at June 30:

<u>(In thousands)</u>	<u>2008</u>		<u>2007</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Assets:				
Cash and interest-bearing deposits	\$ 6,720	\$ 6,720	\$ 5,215	\$ 5,215
Federal funds sold	2,473	2,473	2,255	2,255
Investment securities available for sale	9,601	9,601	13,147	13,147
Loans receivable, net	227,514	231,277	220,239	217,376
Investment securities required by law	2,649	2,649	2,599	2,599
Accrued interest receivable	1,198	1,198	1,063	1,063
Liabilities:				
Deposits	197,886	198,623	189,712	183,343
Long-term debt	42,300	42,750	43,800	43,032
Accrued interest payable	666	666	472	472
Off balance sheet instruments:				
Commitments to extend credit	—	—	—	—

Cash and Due from Banks, Interest Bearings Deposits with Banks and Federal Funds Sold

The statement of financial condition carrying amounts for cash and due from banks, interest bearing deposits with banks and federal funds sold approximate the estimated fair values of such assets.

Securities

The fair value of securities is based on quoted market values.

Loans Receivable

Loans receivable were segmented into portfolios with similar financial characteristics. Loans were also segmented by type such as residential and nonresidential, construction and land, second mortgage loans, commercial, and consumer. Each loan category was further segmented by fixed and adjustable rate interest terms.

The fair value of loans was calculated by discounting anticipated cash flows based on weighted average contractual maturity, weighted average coupon and current loan origination rates.

Accrued Interest Receivable

The carrying amount of accrued interest receivable approximates its fair value.

Securities required by Law

The carrying amount of securities required by law approximates its fair value.

Deposits

Under SFAS 107, the fair value of deposits with no stated maturity, such as non-interest bearing deposits, interest bearing NOW accounts and statement savings accounts, is equal to the carrying amounts. The fair value of certificates of deposit was based on the discounted value of contractual cash flows. The discount rate for certificates of deposit was estimated using the rate currently offered for deposits of similar remaining maturities.

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

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Long-Term Debt

The fair value of long-term debt was based on the discounted value of contractual cash flows, using rates currently available.

Accrued Interest Payable

The carrying amount of accrued interest payable approximates its fair value.

Off-Balance Sheet Financial Instruments and Standby Letters of Credit

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business, including mortgage loan commitments, undisbursed lines of credit on commercial business loans and standby letters of credit. These instruments involve, to various degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The fair values of such commitments are immaterial.

The disclosure of fair value amounts does not include the fair values of any intangibles, including core deposit intangibles. Core deposit intangibles represent the value attributable to total deposits based on an expected duration of customer relationships.

(13) Condensed Financial Information (Parent Company Only)

Summarized financial information for the Company is as follows as of and for the years ended June 30:

(In thousands)

<u>Statements of Financial Condition</u>	<u>2008</u>	<u>2007</u>
Cash	\$ 327	\$ 1,671
Loans	1,375	—
Equity in net assets of the bank	22,815	22,369
Other assets	209	251
Total Assets	\$24,726	\$24,291
Accrued expenses and other liabilities	\$ 335	\$ 375
Subordinated Debentures	5,000	5,000
Stockholders' equity	19,391	18,916
Total Liabilities & Stockholders Equity	\$24,726	\$24,291

(In thousands)

<u>Statements of Income</u>	<u>2008</u>	<u>2007</u>
Total Interest Income	\$ 67	\$ 5
Total Interest Expense	324	323
Non-interest Income	2,000	2
Non-interest Expense	14	11
Income(loss) before equity in net income of subsidiary and income taxes	1,729	(327)
Net income of subsidiary	292	1,399
Income before income tax provision	2,021	1,072
Income tax provision (benefit)	644	(113)
Net income	\$1,377	\$1,185

PATAPSCO BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(In thousands)

<u>Statements of Cash Flows</u>	<u>2008</u>	<u>2007</u>
Operating activities:		
Net income	\$ 1,377	\$ 1,185
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net income of subsidiary	(292)	(1,399)
Termination fee earned, not collected	(2,000)	—
Increase in other assets	(34)	(51)
Increase in accrued expenses and other liabilities	45	172
Net cash used in operating activities	<u>(904)</u>	<u>(93)</u>
Investing activities:		
Purchase of equity securities	—	(20)
Proceeds from sale of equity security	—	92
Additional investment in subsidiary stock	—	(300)
Dividend received from subsidiary	625	—
Net cash provided by/(used in) investing activities	<u>625</u>	<u>(228)</u>
Financing activities:		
Payment to purchase common stock	(659)	(690)
Cash received in exercise of stock options	114	338
Cash dividend paid	(520)	(490)
Net cash used in financing activities	<u>(1,065)</u>	<u>(842)</u>
Decrease in cash and cash equivalents	(1,344)	(1,163)
Cash and cash equivalents, beginning of year	1,671	2,834
Cash and cash equivalents, end of year	<u>\$ 327</u>	<u>\$ 1,671</u>

Noncash Transaction: A portion of a loan in the amount of \$625,000 was contributed to a subsidiary.

BOARD OF DIRECTORS

Thomas P. O'Neill
Chairman of the Board
Managing Director of American
Express Tax and Business Services

Nicole N. Glaeser
Budget Director for Baltimore County
Police Department

William R. Waters
Retired Automobile Dealer
Owner Bel Air Medicine, Inc.

Michael J. Dee
President and Chief Executive Officer
of the Company and the Bank

Douglas H. Ludwig
Retired Principal of the Baltimore
County Public School System
Secretary of the Company

J. Thomas Hoffman
Self-employed financial consultant

Gary R. Bozel
Managing Principal
Gary R. Bozel & Associates, P.A.

MANAGEMENT

Michael J. Dee
President and Chief Executive Officer

Frank J. Duchacek, Jr.
Senior Vice President - Branch &
Deposit Administration

William C. Wiedel, Jr.
Senior Vice President - Treasurer
Chief Financial Officer

John W. McClean
Senior Vice President - Loan
Administration

Alan H. Herbst
Vice President – Consumer Lending

Laurence S. Mitchell
Senior Vice President – Lending

Brian G. Connelly
Vice President – Commercial Leasing

Francis C. Broccolino
Vice-President – Real Estate Lending

Keith Zickar
Vice-President –Commercial Lending

HONORARY DIRECTORS

Joseph N. McGowan

Dr. Theodore C. Patterson

CORPORATE INFORMATION

Independent Registered Public Accounting Firm

Beard Miller Company LLP
100 West Road, Suite 404
Towson, Maryland 21204-2368

General Counsel

Nolan Plumhoff & Williams
Suite 700, Nottingham Centre
502 Washington Avenue
Towson, Maryland 21204-4528

Transfer Agent and Registrar

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016-3572
1-(800) 368-5948

Special Counsel

Kilpatrick Stockton LLP
607 14th Street, NW, Suite 900
Washington, DC 20005

Annual Meeting

The 2008 Annual Meeting of Stockholders will be held on November 6, 2008 at 5:00 p.m. at the office of The Patapsco Bank located at 1301 Merritt Boulevard, Dundalk, Maryland 21222.

Annual Report on Form 10-K A copy of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2008 as filed with the Securities and Exchange Commission, will be furnished without charge to stockholders as of the record date for the 2008 Annual Meeting upon written request to: Secretary, Patapsco Bancorp, Inc., 1301 Merritt Boulevard, Dundalk, Maryland 21222-2194.

Subsidiaries of the Registrant

	<u>State or Other Jurisdiction of Incorporation</u>	<u>Percentage Ownership</u>
<u>Parent</u>		
Patapsco Bancorp, Inc.	Maryland	—
<u>Subsidiary (1)</u>		
The Patapsco Bank	Maryland	100%
<u>Subsidiaries of The Patapsco Bank (1)</u>		
PFSL Holding Corp.	Maryland	100%
Prime Business Leasing	Maryland	100%
Patapsco Financial Services, Inc.	Maryland	100%

(1) The assets, liabilities and operations of the subsidiaries are included in the consolidated financial statements appearing in Item 7 to this Annual Report on Form 10-K.

Consent of Independent Registered Public Accounting Firm

Patapsco Bancorp, Inc.
Dundalk, Maryland

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-13975, No. 333-49908 and No. 333-122300) of Patapsco Bancorp, Inc. of our report dated September 26, 2008, relating to the consolidated financial statements, which appears in the Annual Report to Stockholders, which is incorporated by reference in this Annual Report on Form 10-K.

Beard Miller Company LLP

Beard Miller Company LLP
Baltimore, Maryland
September 26, 2008

Certification

I, Michael J. Dee, certify that:

1. I have reviewed this Annual Report on Form 10-K of Patapsco 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;
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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
 - (c) Evaluated the effectiveness of the registrant'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 on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (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 registrant'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 registrant's internal control over financial reporting.

Date: September 26, 2008

/s/ Michael J. Dee

Michael J. Dee

President and Chief Executive Officer

Certification

I, William C. Wiedel, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of Patapsco 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;
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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
 - (c) Evaluated the effectiveness of the registrant'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 on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (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 registrant'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 registrant's internal control over financial reporting.

Date: September 26, 2008

/s/ William C. Wiedel, Jr.

William C. Wiedel, Jr.

Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18. U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Patapsco Bancorp, Inc. (the "Company") on Form 10-K for the fiscal year ended June 30, 2008 as filed with the Securities and Exchange Commission (the "Report"), the undersigned certify, pursuant to 18 U.S.C. § 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

By: /s/ Michael J. Dee

Name: Michael J. Dee

Title: President and Chief Executive Officer

By: /s/ William C. Wiedel, Jr.

Name: William C. Wiedel, Jr.

Title: Senior Vice President and Chief Financial Officer

Date: September 26, 2008