OLD LINE BANCSHARES INC
Form 10-Q
August 10, 2012

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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

Commission File Number: 000-50345

Old Line Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)		20-0154352 (I.R.S. Employer Identification No.)
	1525 Pointer Ridge Place Bowie, Maryland (Address of principal executive offices)	20716 (Zip Code)

Registrant's telephone number, including area code: (301) 430-2500

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 R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes R No £

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No R

As of July 30, 2012, the registrant had 6,829,932 shares of common stock outstanding.

Part 1. Financial Information

Old Line Bancshares, Inc. & Subsidiaries
Consolidated Balance Sheets

		June 30, 2012 (Unaudited)		December 31, 2011
Assets				
Cash and due from banks	$	37,533,354	$	43,434,375
Interest bearing accounts		122,824		119,235
Federal funds sold		508,150		83,114
Total cash and cash equivalents		38,164,328		43,636,724
Investment securities available for sale		168,502,783		161,784,835
Loans, less allowance for loan losses		573,146,131		539,297,666
Equity securities		3,865,079		3,946,042
Premises and equipment		23,763,775		23,215,429
Accrued interest receivable		2,592,123		2,448,542
Deferred income taxes		7,346,728		7,244,029
Bank owned life insurance		16,644,925		16,416,566
Prepaid pension		1,030,551		1,030,551
Other real estate owned		3,490,730		4,004,609
Goodwill		633,790		633,790
Core deposit intangible		4,046,636		4,418,892
Other assets		2,936,820		2,964,626
Total assets	$	846,164,399	$	811,042,301
Liabilities and Stockholders' Equity				
Deposits				
Non-interest bearing	$	186,639,878	$	170,138,329
Interest bearing		532,956,475		520,629,456
Total deposits		719,596,353		690,767,785
Short term borrowings		41,955,385		38,672,657
Long term borrowings		6,239,129		6,284,479
Accrued interest payable		359,367		397,211
Income taxes payable		328,633		475,687
Accrued pension		4,480,261		4,342,664
Other liabilities		1,525,133		1,605,180
Total liabilities	$	774,484,261	$	742,545,663
Stockholders' equity				
Common stock, par value $0.01 per share; authorized 15,000,000 shares; issued and outstanding 6,828,452 in 2012 and 6,817,694 in 2011		68,285		68,177
Additional paid-in capital		53,574,827		53,489,075
Retained earnings		15,332,768		12,093,742
Accumulated other comprehensive income		2,284,600		2,388,972
Total Old Line Bancshares, Inc. stockholders' equity		71,260,480		68,039,966
Non-controlling interest		419,658		456,672

Total stockholders' equity		71,680,138		68,496,638
Total liabilities and stockholders' equity	$	846,164,399	$	811,042,301

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

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Old Line Bancshares, Inc. & Subsidiaries
Consolidated Statements of Income
(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest revenue				
Loans, including fees	$8,632,296	$7,741,299	$16,585,131	$11,937,165
U.S. treasury securities	2,381	2,407	4,778	2,407
U.S. government agency securities	91,163	93,511	192,597	119,628
Mortgage backed securities	592,725	762,080	1,258,741	1,141,498
Municipal securities	397,103	223,107	729,827	242,811
Federal funds sold	1,891	2,334	2,962	4,165
Other	46,138	49,234	91,947	74,160
Total interest revenue	9,763,697	8,873,972	18,865,983	13,521,834
Interest expense				
Deposits	1,087,200	1,191,712	2,214,698	2,067,688
Borrowed funds	213,111	211,086	425,487	395,709
Total interest expense	1,300,311	1,402,798	2,640,185	2,463,397
Net interest income	8,463,386	7,471,174	16,225,798	11,058,437
Provision for loan losses	375,000	50,000	750,000	200,000
Net interest income after provision for loan losses	8,088,386	7,421,174	15,475,798	10,858,437
Non-interest revenue				
Service charges on deposit accounts	328,142	396,785	647,469	479,235
Gain on sales or calls of investment securities	282,858	2,489	560,028	40,559
Other than temporary impairment on equity securities	-	(122,500)	-	(122,500)
Earnings on bank owned life insurance	138,496	122,350	275,201	201,388
Gain on sales of other real estate owned	191,201	-	159,213	-
Other fees and commissions	215,089	118,207	392,688	243,529
Total non-interest revenue	1,155,786	517,331	2,034,599	842,211
Non-interest expense				
Salaries and benefits	3,024,815	2,973,734	5,833,809	4,474,445
Occupancy and equipment	914,576	857,381	1,822,447	1,317,295
Data processing	192,232	233,332	416,967	363,082
FDIC insurance and State of Maryland assessments	148,921	167,312	278,645	318,816
Merger and integration	29,166	377,214	58,333	467,274
Core deposit premium	177,582	194,675	372,257	194,675
Other operating	1,761,876	1,361,794	3,152,883	1,957,029
Total non-interest expense	6,249,168	6,165,442	11,935,341	9,092,616
Income before income taxes	2,995,004	1,773,063	5,575,056	2,608,032
Income taxes	982,759	656,357	1,826,764	991,600
Net income	2,012,245	1,116,706	3,748,292	1,616,432
Less: Net loss attributable to the non-controlling interest	(17,067)	(66,239)	(37,014)	(89,195)

Net income available to common stockholders	$2,029,312	$1,182,945	$3,785,306	$1,705,627
Basic earnings per common share	$0.30	$0.17	$0.55	$0.30
Diluted earnings per common share	$0.29	$0.17	$0.55	$0.30
Dividend per common share	$0.04	$0.03	$0.08	$0.06

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

Old Line Bancshares, Inc. & Subsidiaries
Consolidated Statements of Comprehensive Income
(Unaudited)

Six Months ended June 30,		2012		2011
Net income available to common stockholders	$	3,785,306	$	1,705,627
Gross unrealized gain (loss)		(172,360)		1,007,601
Income tax (benefit)		(67,988)		342,584
Net unrealized gain (loss) on securities available for sale		(104,372)		665,017
Comprehensive net income available to common stockholders	$	3,680,934	$	2,370,644
Comprehensive earnings per share	$	0.54	$	0.42
Diluted earnings per share	$	0.54	$	0.42

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

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Old Line Bancshares, Inc. & Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

	Common stock Shares	Par value	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Non-controlling Interest
Balance, December 31, 2011	6,817,694	$68,177	$53,489,075	$12,093,742	$ 2,388,972	$456,672
Net income attributable to Old Line Bancshares, Inc.	-	-	-	3,785,306	-	-
Unrealized gains (losses) on securities available for sale, net of income tax benefit of $67,988	-	-	-	-	(104,372)	-
Net income attributable to non-controlling interest	-	-	-	-	-	(37,014)
Stock based compensation awards	-	-	85,860	-	-	-
Restricted stock issued	10,758	108	(108)	-	-	-
Common stock cash dividend $0.08 per share	-	-	-	(546,280)	-	-
Balance, June 30, 2012	6,828,452	$68,285	$53,574,827	$15,332,768	$ 2,284,600	$419,658

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

Old Line Bancshares, Inc. & Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

Six Months Ended June 30,	2012	2011
Cash flows from operating activities		
Interest received	$19,180,324	$13,756,800
Fees and commissions received	1,086,999	594,677
Interest paid	(2,678,029)	(2,567,541)
Cash paid to suppliers and employees	(10,529,499)	(6,495,772)
Income taxes paid	(2,017,917)	(84,234)
	5,041,878	5,203,930
Cash flows from investing activities		
Cash and cash equivalents of acquired bank	-	41,967,182
Net change in time deposits in other banks	-	297,000
Purchase of investment securities available for sale	(52,521,980)	(34,856,352)
Proceeds from disposal of investment securities		
Held to maturity sold	-	488,457
Gain on sales of held to maturity	-	25,622
Available for sale at maturity or call	28,093,412	595,000
Available for sale sold	17,022,301	17,296,682
Gain on sales of available for sale	560,028	14,937
Loans made, net of principal collected	(34,708,551)	(10,923,129)
Proceeds from sale of other real estate owned	599,539	-
Improvements to other real estate owned	(15,525)	-
Redemption (Purchase) of equity securities	66,551	612,903
Purchase of premises, equipment and software	(1,129,715)	(1,330,463)
	(42,033,940)	14,187,839
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	(7,360,669)	(37,252,463)
Other deposits	36,189,237	47,514,823
Short term borrowings	3,282,728	(217,321)
Long term borrowings	(45,350)	(43,610)
Acquisition cash consideration	-	(1,000,839)
Private placement - common stock	-	6,332,844
Cash dividends paid-common stock	(546,280)	(344,610)
	31,519,666	14,988,824
Net increase (decrease) in cash and cash equivalents	(5,472,396)	34,380,593
Cash and cash equivalents at beginning of period	43,636,724	14,614,972
Cash and cash equivalents at end of period	$38,164,328	$48,995,565

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

Old Line Bancshares, Inc. & Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

Six Months Ended June 30,	2012	2011
Reconciliation of net income to net cash provided by operating activities		
Net income	$3,748,292	$1,616,432
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	590,734	477,210
Provision for loan losses	750,000	200,000
Change in deferred loan fees net of costs	(81,836)	(174,375)
Gain on sales or calls of securities	(560,028)	(40,559)
Amortization of premiums and discounts	539,758	305,879
Other than temporary impairment	-	122,500
Gain on sales of other real estate owned	(159,213)	-
Write down on other real estate owned	281,000	
Gain on sale of fixed assets	(9,365)	14,155
Amortization of intangible	372,257	194,675
Deferred income taxes	(44,099)	258,242
Stock based compensation awards	85,860	74,816
Increase (decrease) in		
Accrued interest payable	(37,844)	(104,144)
Income tax payable	(147,054)	-
Accrued pension	137,597	523,856
Other liabilities	(80,047)	(920,163)
Decrease (increase) in		
Accrued interest receivable	(143,581)	103,462
Bank owned life insurance	(228,359)	(169,587)
Prepaid income taxes	-	649,124
Other assets	27,806	2,072,407
	$5,041,878	$5,203,930

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

Old Line Bancshares, Inc. & Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

Six Months Ended June 30,		2012		2011
Supplemental Disclosure:				
Loans transferred to other real estate owned	$	191,921	$	140,000
Fair value of assets and liabilities from acquisition:				
Cash	$	-	$	41,967,182
Investments		-		71,434,005
Loans		-		190,826,040
Restricted stock		-		1,575,184
Premises and equipment		-		4,457,086
Accrued interest		-		1,128,988
Prepaid assets		-		1,231,029
Deferred tax		-		7,865,514
Bank owned life insurance		-		7,504,351
Prepaid pension costs		-		1,315,642
Other real estate owned		-		1,834,451
Core deposit intangible		-		5,002,917
Other assets		-		3,397,552
Deposits		-		(297,506,000)
Short term borrowings		-		(19,394,000)
Accrued interest payable		-		(60,782)
Accrued pension acquired		-		(3,330,390)
Other liabilities		-		(1,538,745)
Purchase price in excess of net assets acquired	$	-	$	116,723

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Business-Old Line Bancshares, Inc. (Old Line Bancshares) was incorporated under the laws of the State of Maryland on April 11, 2003 to serve as the holding company of Old Line Bank (Bank). The primary business of Old Line Bancshares is to own all of the capital stock of Old Line Bank. We provide a full range of banking services to customers located in Anne Arundel, Calvert, Charles, Prince George's, and St. Mary's counties in Maryland and surrounding areas.

Basis of Presentation and Consolidation-The accompanying consolidated financial statements include the activity of Old Line Bancshares and its wholly owned subsidiary, Old Line Bank, and its majority owned subsidiary Pointer Ridge Office Investments, LLC (Pointer Ridge), a real estate investment company. We have eliminated all significant intercompany transactions and balances.

We report the non-controlling interests in Pointer Ridge separately in the consolidated balance sheet. We report the income of Pointer Ridge attributable to Old Line Bancshares on the consolidated statement of income.

The foregoing consolidated financial statements for the periods ended June 30, 2011 and 2012 are unaudited; however, in the opinion of management we have included all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the results of the interim period. We derived the balances as of December 31, 2011 from audited financial statements. These statements should be read in conjunction with Old Line Bancshares' financial statements and accompanying notes included in Old Line Bancshares' Form 10-K for the year ended December 31, 2011. We have made no significant changes to Old Line Bancshares' accounting policies as disclosed in the Form 10-K.

The accounting and reporting policies of Old Line Bancshares conform to accounting principles generally accepted in the United States of America.

Acquisition of Maryland Bankcorp, Inc.

On April 1, 2011, Old Line Bancshares acquired Maryland Bankcorp, Inc. (Maryland Bankcorp) the parent company of Maryland Bank & Trust Company, N.A. (MB&T). We converted each share of common stock of Maryland Bankcorp into the right to receive, at the holder's election, $29.11 in cash or 3.4826 shares of Old Line Bancshares' common stock. We paid cash for any fractional shares of Old Line Bancshares' common stock and an aggregate cash consideration of $1.0 million. The total merger consideration was $18.8 million.

In connection with the acquisition, MB&T was merged with and into Old Line Bank, with Old Line Bank the surviving bank.

In accordance with accounting for business combinations, we included the credit losses evident in the loans in the determination of the fair value of loans at the date of acquisition and eliminated the allowance for loan losses maintained by MB&T at acquisition date.

Core Deposit Intangible

Of the total estimated purchase price, we have allocated an estimate of $12.2 million to net tangible assets acquired and we have allocated $5.0 million to the core deposit intangible which is a definite lived intangible asset. We will amortize the core deposit intangible on an accelerated basis over its estimated useful life of 18 years. During the three months ended June 30, 2012 and 2011, the core deposit intangible amortization was $177,582 and $194,675, respectively. During the six months ended June 30, 2012 and 2011, the core deposit intangible amortization was $372,257 and $194,675, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

During the second quarter of 2011, we recorded goodwill of $116,723 associated with the acquisition of Maryland Bankcorp. This amount represented the difference between the estimated fair value of tangible and intangible assets acquired and liabilities assumed at acquisition date. During the third quarter of 2011, the goodwill increased $25,000 as a result of additional liabilities that we identified during the period. During the fourth quarter of 2011, we received a valuation of the pension plan asset at acquisition date and at December 31, 2011. As a result of this valuation, in the fourth quarter of 2011, we recorded a $492,067 increase to goodwill to reflect the costs incurred by the pension plan as of the acquisition date.

Reclassifications-We have made certain reclassifications to the 2011 financial presentation to conform to the 2012 presentation.

Subsequent Events-We evaluated subsequent events after June 30, 2012, through July 30, 2012, the date this report was available to be issued. No significant subsequent events were identified which would affect the presentation of the financial statements.

2. INVESTMENT SECURITIES

As Old Line Bank purchases securities, management determines if we should classify the securities as held to maturity, available for sale or trading. We record the securities which management has the intent and ability to hold to maturity at amortized cost which is cost adjusted for amortization of premiums and accretion of discounts to maturity. We classify securities which we may sell before maturity as available for sale and carry these securities at fair value with unrealized gains and losses included in stockholders' equity on an after tax basis. Management has not identified any investment securities as trading. During the 2nd quarter of 2011, Old Line Bank sold $488,457 in investments that we previously classified as held to maturity. As required, all securities held at that time and previously classified as held to maturity were reclassified as available for sale.

We record gains and losses on the sale of securities on the trade date and determine these gains or losses using the specific identification method. We amortize premiums and accrete discounts using the interest method. Presented below is a summary of the amortized cost and estimated fair value of securities.

June 30, 2012		Amortized cost		Gross unrealized gains		Gross unrealized losses		Estimated fair value
Available for sale								
U. S. treasury	$	1,248,789	$	4,961	$	-	$	1,253,750
U.S. government agency		25,188,480		77,681		(6,202)		25,259,959
Municipal securities		51,203,507		1,737,763		(293,127)		52,648,143
Mortgage backed		87,028,548		2,397,596		(85,213)		89,340,931

	$ 164,669,324	$ 4,218,001	$ (384,542)	$ 168,502,783
December 31, 2011				
Available for sale				
U. S. treasury	$ 1,247,889	$ 8,361	$ -	$ 1,256,250
U.S. government agency	25,998,568	112,040	(19,537)	26,091,071
Municipal securities	33,753,049	1,396,859	(7,915)	35,141,993
Mortgage backed	96,803,309	2,557,430	(65,218)	99,295,521
	$ 157,802,815	$ 4,074,690	$ (92,670)	$ 161,784,835

2. INVESTMENT SECURITIES (Continued)

As of June 30, 2012, securities with unrealized losses segregated by length of impairment were as follows:

June 30, 2012	Fair value	Unrealized losses
Unrealized losses less than 12 months		
U.S. treasury	$-	$-
U.S. government agency	2,992,350	6,202
Municipal securities	11,511,334	293,126
Mortgage backed	18,003,817	80,094
Total unrealized losses less than 12 months	32,507,501	379,422
Unrealized losses greater than 12 months		
U.S. treasury	-	-
U.S. government agency	-	-
Municipal securities	-	-
Mortgage backed	1,330,430	5,120
Total unrealized losses greater than 12 months	1,330,430	5,120
Total unrealized losses		
U.S. treasury	-	-
U.S. government agency	2,992,350	6,202
Municipal securities	11,511,334	293,126
Mortgage backed	19,334,247	85,214
Total unrealized losses	$33,837,931	$384,542

We consider all unrealized losses on securities as of June 30, 2012 to be temporary losses because we will redeem each security at face value at or prior to maturity. We have the ability and intent to hold these securities until recovery or maturity. As of June 30, 2012, we do not have the intent to sell any of the securities classified as available for sale and believe that it is more likely than not that we will not have to sell any such securities before a recovery of cost. In most cases, market interest rate fluctuations cause a temporary impairment in value. We expect the fair value to recover as the investments approach their maturity date or repricing date or if market yields for these investments decline. We do not believe that credit quality caused the impairment in any of these securities. Because we believe these impairments are temporary, we have not realized any loss in our consolidated statement of income.

In the three month periods ended June 30, 2012 and 2011, we recorded gross realized gains of $282,858 and $2,489, respectively, from the sale or call of investment securities. During the six month periods ended June 30, 2012 and 2011, we received $45,675,741 and $18,420,698, respectively, in proceeds from sales or calls of investment securities resulting in realized gains of $560,028 and $40,559, respectively, from the sale or call of securities.

2. INVESTMENT SECURITIES (Continued)

Contractual maturities and pledged securities at June 30, 2012 are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. We classify mortgage backed securities based on maturity date. However, we receive payments on a monthly basis.

Available for Sale

June 30, 2012	Amortized cost	Fair value
Maturing		
Within one year	$2,411,463	$2,422,593
Over one to five years	15,028,622	15,140,922
Over five to ten years	29,287,068	30,070,174
Over ten years	117,942,173	120,869,095
	$164,669,324	$168,502,783
Pledged securities	$35,825,910	$36,612,217

3. POINTER RIDGE OFFICE INVESTMENT, LLC

On November 17, 2008, we purchased Chesapeake Custom Homes, L.L.C.'s 12.5% membership interest in Pointer Ridge. The effective date of the purchase was November 1, 2008. As a result of this purchase, we own 62.5% of Pointer Ridge and we have consolidated its results of operations from the date of acquisition.

The following table summarizes the condensed Balance Sheets and Statements of Income information for Pointer Ridge.

Pointer Ridge Office Investment, LLC

Balance Sheets	June 30, 2012	December 31, 2011
Current assets	$ 347,265	$ 429,611
Non-current assets	7,036,555	7,088,001
Liabilities	6,264,732	6,299,819
Equity	1,119,088	1,217,793

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011

Statements of Income				
Revenue	$ 205,518	$ 183,390	$ 411,254	$ 389,122
Expenses	251,030	360,027	509,959	626,975
Net loss	$ (45,512)	$ (176,637)	$ (98,705)	$ (237,853)

4. INCOME TAXES

4. INCOME TAXES

The provision for income taxes includes taxes payable for the current year and deferred income taxes. We determine deferred tax assets and liabilities based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which we expect the differences to reverse. We allocate tax expense and tax benefits to Old Line Bank and Old Line Bancshares based on their proportional share of taxable income.

5. LOANS

Major classifications of loans are as follows:

	June 30, 2012	December 31, 2011
Real estate		
Commercial	$317,773,437	$273,101,082
Construction	51,887,623	51,662,538
Residential	95,136,947	96,723,708
Commercial	98,871,677	107,125,895
Consumer	12,752,382	13,674,025
	576,422,066	542,287,248
Allowance for loan losses	(4,109,461)	(3,741,271)
Deferred loan costs, net	833,526	751,689
	$573,146,131	$539,297,666

Credit policies and Administration

We have adopted a comprehensive lending policy, which includes stringent underwriting standards for all types of loans. We have designed our underwriting standards to promote a complete banking relationship rather than a transactional relationship. In an effort to manage risk, prior to funding, the loan committee consisting of the Executive Officers and seven members of the Board of Directors must approve by a majority vote all credit decisions in excess of a lending officer's lending authority. Management believes that it employs experienced lending officers, secures appropriate collateral and carefully monitors the financial condition of its borrowers and loan concentrations.

In addition to the internal business processes employed in the credit administration area, the Bank retains an outside independent firm to review the loan portfolio. This firm performs a detailed annual review and an interim update. We use the results of the firm's report to validate our internal ratings and we review the commentary on specific loans and on our loan administration activities in order to improve our operations.

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5. LOANS (Continued)

Commercial real estate lending entails significant risks. Risks inherent in managing our commercial real estate portfolio relate to sudden or gradual drops in property values as well as changes in the economic climate that may detrimentally impact the borrower's ability to repay. We attempt to mitigate these risks by carefully underwriting these loans. We also generally require the personal or corporate guarantee(s) of the owners and/or occupant(s) of the property. For loans of this type in excess of $250,000, we monitor the financial condition and operating performance of the borrower through a review of annual tax returns and updated financial statements. In addition, we meet with the borrower and/or perform site visits as required. Many of the loans acquired do not comply with underwriting standards that we maintain. Accordingly, during our due diligence process, we evaluated these loans using our underwriting standards and discounted the book value of these loans. We subsequently incorporated this discounted book value into our initial purchase price.

Management tracks all loans secured by commercial real estate. With the exception of loans to the hospitality industry, the properties secured by commercial real estate are diverse in terms of type. This diversity helps to reduce our exposure to economic events that affect any single market or industry. As a general rule, we avoid financing single purpose properties unless other underwriting factors are present to help mitigate the risk. As previously mentioned, we do have a concentration in the hospitality industry. At June 30, 2012 and December 31, 2011, we had approximately $55.7 million and $54.0 million, respectively, of commercial real estate loans to the hospitality industry. An individual review of these loans indicates that they generally have a low loan to value, more than acceptable existing or projected cash flow, are to experienced operators and are generally dispersed throughout the region.

Real Estate Construction Loans

This segment of our portfolio consists of funds advanced for construction of single family residences, multi-family housing and commercial buildings. These loans generally have short durations, meaning maturities typically of nine months or less. Residential houses, multi-family dwellings and commercial buildings under construction and the underlying land for which the loan was obtained secure the construction loans. All of these loans are concentrated in our primary market area.

Construction lending also entails significant risk. These risks involve larger loan balances concentrated with single borrowers with funds advanced upon the security of the land or the project under construction. An appraisal of the property estimates the value of the project prior to completion of construction. Thus, it is more difficult to accurately evaluate the total loan funds required to complete a project and related loan to value ratios. To mitigate the risks, we generally limit loan amounts to 80% of appraised values and obtain first lien positions on the property. We generally only offer real estate construction financing to experienced builders, commercial entities or individuals who have demonstrated the ability to obtain a permanent loan "take-out." We also perform a complete analysis of the borrower and the project under construction. This analysis includes a review of the cost to construct, the borrower's ability to obtain a permanent "take-out", the cash flow available to support the debt payments and construction costs in excess of loan proceeds, and the value of the collateral. During construction, we advance funds on these loans on a percentage of completion basis. We inspect each project as needed prior to advancing funds during the term of the construction loan.

Residential Real Estate Loans

We offer a variety of consumer oriented residential real estate loans including home equity lines of credit, home improvement loans and first or second mortgages on investment properties. Our residential loan portfolio consists of a diverse client base. Although most of these loans are in our primary market area, the diversity of the individual loans in the portfolio reduces our potential risk. Usually, we secure our residential real estate loans with a security interest in the borrower's primary or secondary residence with a loan to value not exceeding 85%. Our initial underwriting includes an analysis of the borrower's debt/income ratio which generally may not exceed 40%, collateral value, length of employment and prior credit history. We do not originate any subprime residential real estate loans.

5. LOANS (Continued)

Commercial Business Lending

Our commercial business lending consists of lines of credit, revolving credit facilities, accounts receivable financing, term loans, equipment loans, SBA loans, standby letters of credit and unsecured loans. We originate commercial business loans for any business purpose including the financing of leasehold improvements and equipment, the carrying of accounts receivable, general working capital, and acquisition activities. We have a diverse client base and we do not have a concentration of these types of loans in any specific industry segment. We generally secure commercial business loans with accounts receivable, equipment, deeds of trust and other collateral such as marketable securities, cash value of life insurance and time deposits at Old Line Bank.

Commercial business loans generally depend on the success of the business for repayment. They may also involve high average balances, increased difficulty monitoring and a high risk of default. To help manage this risk, we typically limit these loans to proven businesses and we generally obtain appropriate collateral and personal guarantees from the borrower's principal owners and monitor the financial condition of the business. For loans in excess of $250,000, monitoring generally includes a review of the borrower's annual tax returns and updated financial statements.

Consumer Installment Lending

We offer various types of secured and unsecured consumer loans. We make consumer loans for personal, family or household purposes as a convenience to our customer base. However, these loans are not a focus of our lending activities. As a general guideline, a consumer's total debt service should not exceed 40% of his or her gross income. The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of his or her ability to meet existing obligations and payments on the proposed loan.

Consumer loans are risky because they are unsecured or rapidly depreciating assets secure these loans. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage, loss or depreciation. Consumer loan collections depend on the borrower's continuing financial stability. If a borrower suffers personal financial difficulties, the consumer may not repay the loan. Also, various federal and state laws, including bankruptcy and insolvency laws, may limit the amount we can recover on such loans.

Concentrations of Credit

Most of our lending activity occurs within the state of Maryland within the suburban Washington D.C. market area in Anne Arundel, Calvert, Charles, Prince George's and St. Mary's counties. The majority of our loan portfolio consists of commercial real estate loans and commercial and industrial loans. As of June 30, 2012 and December 31, 2011, the only industry in which we had a concentration of loans was the hospitality industry, as previously mentioned.

Non-Accrual and Past Due Loans

As a result of the acquisition of Maryland Bankcorp, we have segmented the portfolio into two components, loans originated by Old Line Bank (legacy) and loans acquired from MB&T (acquired). We consider all loans past due if the borrower has not paid the required principal and interest payments when due under the original or modified terms of the promissory note or payment of principal or interest has become 90 days past due. When we classify a loan as non-accrual, we no longer accrue interest on such loan and we reverse any interest previously accrued but not collected. We will generally restore a non-accrual loan to accrual status when the borrower brings delinquent principal and interest payments current and we expect to collect future monthly principal and interest payments. We recognize interest on non-accrual legacy loans only when received. We originally recorded acquired non-accrual loans at fair value upon acquisition. We expect to fully collect the carrying value of these loans. Therefore, as provided for under ASC 310-30, we recognize interest income on acquired non-accrual loans through the accretion of the difference between the carrying value of these loans and expected cash flows.

5. LOANS (Continued)

We consider a loan a troubled debt restructuring when we conclude that both of the following conditions exist: the restructuring constitutes a concession and the debtor is experiencing financial difficulties.

The table below presents a breakdown of the recorded book balance of non-performing loans and accruing past due loans at June 30, 2012.

Non-Accrual and Past Due Loans and Troubled Debt Restructurings
Recorded Book Balance
June 30, 2012

	Legacy			Acquired		
	# of Borrowers	Account Balance	Interest Not Accrued	# of Borrowers	Account Balance	Interest Not Accrued
Real Estate						
Commercial	2	$817,456	$46,627	7	$2,431,806	$870,081
Construction	1	969,337	267,641	3	850,000	705,281
Residential	-	-	-	6	1,300,661	388,346
Commercial	-	-	-	3	259,141	51,468
Consumer	-	-	-	-	-	-
Total non-performing loans	3	$1,786,793	$314,268	19	$4,841,608	$2,015,176
Accruing past due loans:						
30-59 days past due						
Real estate	5	1,470,732		1	425,107	
Commercial	1	439,768		3	237,115	
Consumer	-	-		12	42,124	
Total 30-59 days past due	6	1,910,500		16	704,346	
60-89 days past due						
Real estate	2	888,719		-	-	
Commercial	-	-		2	20,993	
Consumer	-	-		1	699	
Total 60-89 days past due	2	888,719		3	21,692	
90 or more days past due						
Consumer	-	-		2	940,072	
Total accruing past due loans	8	$2,799,219		21	$1,666,110	
Accruing Troubled Debt Restructurings						
Real Estate	1	$499,122		1	$152,848	
Consumer	-	-		1	442	
Total Accruing Troubled Debt Restructurings	1	$499,122		2	$153,290	

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5. LOANS (Continued)

The table below presents a breakdown of the recorded book balance of non-performing loans and accruing past due loans at December 31, 2011.

Non-Accrual and Past Due Loans and Troubled Debt Restructurings
Recorded Book Balance
December 31, 2011

	Legacy			Acquired		
	# of Borrowers	Account Balance	Interest Not Accrued	# of Borrowers	Account Balance	Interest Not Accrued
Real Estate						
Commercial	-	$-	$-	7	$2,288,900	$1,164,630
Construction	1	1,169,337	212,484	2	1,184,146	255,560
Residential	-	-	-	4	1,019,942	241,093
Commercial	1	77,975	1,735	4	90,039	33,041
Consumer	-	-	-	-	-	-
Total non-performing loans	2	$1,247,312	$214,219	17	$4,583,027	$1,694,324
Accruing past due loans:						
30-59 days past due						
Real estate	1	421,805		3	474,651	
Commercial	-	-		-	-	
Consumer	-	-		16	22,698	
Total 30-59 days past due	1	421,805		19	497,349	
60-89 days past due						
Real estate	2	311,762		2	338,431	
Commercial	1	11,043		-	-	
Consumer	-	-		1	3,494	
Total 60-89 days past due	3	322,805		3	341,925	
90 or more days past due						
Consumer	1	34,370		-	-	
Total accruing past due loans	5	$778,980		22	$839,274	
Accruing Troubled Debt Restructurings						
Real Estate	3	$5,037,879		-	$-	
Consumer	1	142,671		2	154,088	
Total Accruing Troubled Debt Restructurings	4	$5,180,550		2	$154,088	

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5. Loans (Continued)

The tables below present the contract amount due of the non-accrual loans at June 30, 2012 and December 31, 2011.

Non-Accrual
Contract Amount
June 30, 2012

	Legacy			Acquired		
	# of Borrowers	Contract Balance	Interest Not Accrued	# of Borrowers	Contract Balance	Interest Not Accrued
Real Estate						
Commercial	2	$ 817,456	$ 46,627	7	$ 5,640,834	$ 870,081
Construction	1	1,616,317	267,641	3	4,294,266	705,281
Residential	-	-	-	6	2,894,232	388,346
Commercial	-	-	-	3	394,990	51,468
Consumer	-	-	-	-	-	-
Total non-performing loans	3	$ 2,433,773	$ 314,268	19	$ 13,224,322	$ 2,015,176

Non-Accrual
Contract Amount
December 31, 2011

	Legacy			Acquired		
	# of Borrowers	Contract Balance	Interest Not Accrued	# of Borrowers	Contract Balance	Interest Not Accrued
Real Estate						
Commercial	-	$-	$-	7	$6,417,444	$1,164,630
Construction	1	1,616,317	212,484	2	2,815,452	255,560
Residential	-	-	-	4	2,606,151	241,093
Commercial	1	77,975	1,735	4	327,414	33,041
Consumer	-	-	-	-	-	-
Total non-performing loans	2	$1,694,292	$214,219	17	$12,166,461	$1,694,324

5. Loans (Continued)

Non-accrual legacy loans

At June 30, 2012, we had three non-accrual legacy loans with a total recorded book balance of $1,786,793. The first non-accrual loan has a contractual balance of $1,616,317. The borrower and guarantor on this loan have filed bankruptcy. During the first quarter of 2011, we charged $446,980 to the allowance for loan losses to reduce the balance on this loan from $1,616,317 to $969,377. We had identified a potential buyer for this note who had agreed to purchase it at a price slightly lower than the current carrying value. In October of 2011, the prospective purchaser of the promissory note rescinded his offer. In February 2012, we sold at foreclosure the property that secured the promissory note on this loan and expected to receive ratification of the foreclosure and proceeds from the sale of approximately $970,000 during the first quarter of 2012. Therefore, during the first quarter of 2012, we charged an additional $200,000 to the allowance for loan losses to properly reflect the net sales proceeds that we expected to receive. The courts rejected the initial foreclosure. We have subsequently re-foreclosed on the property. We expect ratification of the sale in the third quarter of 2012. The non-accrued interest on this loan is $267,640.

The second non-accrual legacy loan is a commercial real estate loan in the amount of $464,978. The original purpose of this loan was to purchase a building for use as a fast food franchise. The borrower on this loan executed a lease on land on which the building that secures this loan was built. The borrower has closed this facility and has no other available assets. We are currently in negotiations with the landlord of the land and the borrower. We have received an appraisal that indicates the value of our interest in the property is higher than our loan balance. At this point, we are unable to ascertain the potential loss on this loan. We have allocated $232,489 of the allowance for loan losses for this loan. The non-accrued interest on this loan is $14,438.

The third non-accrual legacy loan is a commercial real estate loan in the amount of $352,478. The borrower's business has insufficient cash flow to make payments on this loan. A current appraisal indicates that the value of the real estate that is the collateral for this loan is sufficient to provide payment in full. We have not allocated any of the allowance for loan losses for this loan. The non-accrued interest on this loan is $32,190.

At December 31, 2011, two non-accrual legacy loans totaling $1,247,312 were past due and classified as non-accrual. The first loan in the amount of $1,169,337 is a residential land acquisition and development loan secured by real estate and described above.

The second loan is a commercial loan secured by a blanket lien on the borrower's assets and a second deed of trust on the guarantors' personal residence. The borrower has ceased operations and the collateral has no value. In the first quarter of 2012, we charged the entire balance due to the allowance for loan losses and have filed a judgment against the guarantors. At December 31, 2011, we had allocated the entire loan balance to the allowance for loan losses.

Acquired impaired loans

Loans acquired in an acquisition are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. In determining the estimated fair value of these loans, we considered a number of factors including the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, net present value of cash flows we expect to receive, among others. As required, we accounted for these acquired loans in accordance with guidance for certain loans acquired in a transfer, when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. The difference between contractually required payments and cash flows we expect to collect is the non-accretable difference. Subsequent negative differences to the expected cash flows will generally result in an increase in the non-accretable difference which would increase our provision for loan losses and decrease net interest income after provision for loan losses. Subsequent collection of payments on these loans will cause an increase in cash flows that will result in a reduction to the non-accretable difference, which would increase interest revenue. At June 30, 2012, the contract value of the acquired impaired loans (including non-accrual loans) was $28,260,431.

5. Loans (Continued)

The fair value adjustments applied to these loans was $13,930,476.

The fair value of these loans (recorded book value) was $14,329,955. At December 31, 2011, the contract value of the acquired impaired loans (including non-accrual loans) was $31,927,256. The fair value adjustments applied to these loans was $15,589,151. The fair value of these loans (recorded book value) was $16,338,105.

Non-accrual acquired loans

At June 30, 2012, we had 22 non-accrual acquired loans to 19 borrowers with a recorded total fair value of $4,841,608 and a total contract amount due of $13,224,322. The non-accrued interest on these loans at June 30, 2012 was $2,015,176. At December 31, 2011, we had 22 non-accrual acquired loans to 17 borrowers with a recorded total fair value of $4,583,027 and a total contract amount due of $12,166,461. The non-accrued interest on these loans at December 31, 2011 was $1,694,324. As outlined above, at acquisition, we marked these loans to fair value and carry no related allowance for loan losses.

Credit Quality Indicators

We review the adequacy of the allowance for loan losses at least quarterly. Our review includes evaluation of impaired loans as required by ASC Topic 310 Receivables, and ASC Topic 450 Contingencies. Also, incorporated in determining the adequacy of the allowance is guidance contained in the SEC's SAB No. 102, Loan Loss Allowance Methodology and Documentation; the Federal Financial Institutions Examination Council's Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions, and the Interagency Policy Statement on the Allowance for Loan and Lease Losses provided by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration and Office of Thrift Supervision.

We base the evaluation of the adequacy of the allowance for loan losses upon loan categories. We categorize loans as installment and other consumer loans (other than boat loans), boat loans, real estate loans and commercial loans. We further divide commercial and real estate loans by risk rating and apply loss ratios by risk rating, to determine estimated loss amounts. We evaluate delinquent loans and loans for which management has knowledge about possible credit problems of the borrower or knowledge of problems with collateral separately and assign loss amounts based upon the evaluation.

We determine loss ratios for installment and other consumer loans based upon a review of prior 18 months delinquency trends for the category, the three year loss ratio for the category, peer group loss ratios and industry standards.

With respect to commercial loans, management assigns a risk rating of one through eight as follows:

- Risk rating 1 (Highest Quality) is normally assigned to investment grade risks, meaning that level of risk is associated with entities having access (or capable of access) to the public capital markets and the loan underwriting in question conforms to the standards of institutional credit providers. We also include in this category loans with a perfected security interest in U.S. government securities, investment grade government sponsored entities' bonds, investment grade municipal bonds, insured savings accounts, and insured certificates of deposits drawn on high quality financial institutions.

- Risk rating 2 (Good Quality) is normally assigned to a loan with a sound primary and secondary source of repayment. The borrower may have access to alternative sources of financing. This loan carries a normal level of risk, with minimal loss exposure. The borrower has the ability to perform according to the terms of the credit facility. Cash flow coverage is greater than 1.25:1 but may be vulnerable to more rapid deterioration than the higher quality loans. We may also include loans secured by high quality traded stocks, lower grade municipal bonds and uninsured certificates of deposit.

5. Loans (Continued)

Characteristics of such credits should include: (a) sound primary and secondary repayment sources; (b) strong debt capacity and coverage; (c) good management in all key positions. A credit secured by a properly margined portfolio of marketable securities, but with some portfolio concentration, also would qualify for this risk rating. Additionally, individuals with significant liquidity, low leverage and a defined source of repayment would fall within this risk rating.

- Risk rating 3 (Acceptable Quality) is normally assigned when the borrower is a reasonable credit risk and demonstrates the ability to repay the debt from normal business operations. Risk factors may include reliability of margins and cash flows, liquidity, dependence on a single product or industry, cyclical trends, depth of management, or limited access to alternative financing sources. Historic financial information may indicate erratic performance, but current trends are positive. Quality of financial information is adequate, but is not as detailed and sophisticated as information found on higher graded loans. If adverse circumstances arise, the impact on the borrower may be significant. We classify many small business loans in this category unless deterioration occurs or we believe the loan requires additional monitoring, such as construction loans, asset based (accounts receivable/inventory) loans, and Small Business Administration (SBA) loans.

- Risk rating 4 (Pass/Watch) loans exhibit all the characteristics of a loan graded as a “3” with the exception that there is a greater than normal concern that an external factor may impact the viability of the borrower at some later date; or that the Bank is uncertain because of the lack of financial information available. We will generally grant this risk rating to credits that require additional monitoring such as construction loans, SBA loans and other loans deemed in need of additional monitoring.

Risk rating 5 (Special Mention) is assigned to risks in need of close monitoring. These are defined as classified assets. Loans generally in this category may have either inadequate information, lack sufficient cash flow or some other problem that requires close scrutiny. The current worth and debt service capacity of the borrower or of any pledged collateral are insufficient to ensure repayment of the loan. These risk ratings may also apply to an improving credit previously criticized but some risk factors remain. All loans in this classification or below should have an action plan.

- Risk rating 6 (Substandard) is assigned to loans where there is insufficient debt service capacity. These obligations, even if appropriately protected by collateral value, have well defined weaknesses related to adverse financial, managerial, economic, market, or political conditions that have clearly jeopardized repayment of principal and interest as originally intended. There is also the possibility that we will sustain some future loss if the weaknesses are not corrected. Clear loss potential, however, does not have to exist in any individual loan we may classify as substandard.

- Risk rating 7 (Doubtful) corresponds to the doubtful asset categories defined by regulatory authorities. A loan classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to strengthening of the asset we have deferred its classification as loss until we may determine a more exact status and estimation of the potential loss.

- Risk rating 8 (Loss) is assigned to charged off loans. We consider assets classified as loss as uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has no recovery value, but that it is not practical to defer writing off the worthless assets, even though partial recoveries may occur in the future. We charge off assets in this category. We consider suggestions from our external loan review firm and bank examiners when determining which loans to charge off. We automatically charge off consumer loan accounts based on regulatory requirements.

5. Loans (Continued)

The following table outlines the allocation of allowance for loan losses by risk rating.

	June 30, 2012		December 31, 2011	
	Account Balance	Allocation of Allowance for Loan Losses	Account Balance	Allocation of Allowance for Loan Losses
Risk Rating				
Pass (1-4)	$548,327,441	$3,107,688	$517,010,521	$3,219,376
Special Mention (5)	14,251,115	276,163	11,090,344	320,241
Substandard (6)	13,843,510	725,610	14,186,383	201,654
Doubtful (7)	-	-	-	-
Loss (8)	-	-	-	-
Total	$576,422,066	$4,109,461	$542,287,248	$3,741,271

5. Loans (Continued)

The following table details activity in the allowance for loan losses by portfolio segment for the periods ended June 30, 2012 and December 31, 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

June 30, 2012		Real Estate		Commercial		Boats		Other Consumer		Total
Beginning balance	$	2,123,068	$	922,310	$	565,240	$	130,653	$	3,741,271
Provision for loan losses		1,081,590		(87,981)		(271,065)		27,456		750,000
Recoveries		12,975		31,933		-		48,667		93,575
		3,217,633		866,262		294,175		206,776		4,584,846
Loans charged off		(324,486)		(87,691)		-		(63,208)		(475,386)
Ending Balance	$	2,893,147	$	778,571	$	294,175	$	143,568	$	4,109,461
Amount allocated to:										
Loans individually evaluated for impairment with specific allocation	$	615,489	$	110,121	$	-	$	-	$	725,610
Loans collectively evaluated for impairment		2,277,658		668,450		294,175		143,568		3,383,851
Ending balance	$	2,893,147	$	778,571	$	294,175	$	143,568	$	4,109,461

December 31, 2011		Real Estate		Commercial		Boats		Other Consumer		Total
Beginning balance	$	1,748,122	$	417,198	$	294,723	$	8,433	$	2,468,476
Provision for loan losses		967,036		384,642		317,778		130,544		1,800,000
Recoveries		13,701		154,523		-		66,834		235,058
		2,728,859		956,363		612,501		205,811		4,503,534
Loans charged off		(605,791)		(34,053)		(47,261)		(75,158)		(762,263)
Ending Balance	$	2,123,068	$	922,310	$	565,240	$	130,653	$	3,741,271
Amount allocated to:										
Loans individually evaluated for impairment with specific allocation	$	175,117	$	136,654	$	70,000	$	-	$	381,771
Loans collectively evaluated for impairment		1,947,951		785,656		495,240		130,653		3,359,500
Ending balance	$	2,123,068	$	922,310	$	565,240	$	130,653	$	3,741,271

5. Loans (Continued)

Our recorded investment in loans as of June 30, 2012 and December 31, 2011 related to each balance in the allowance for possible loan losses by portfolio segment and disaggregated on the basis of our impairment methodology was as follows:

June 30, 2012	Real Estate	Commercial	Boats	Other Consumer	Total
Loans individually evaluated for impairment with specific reserve	$1,680,100	$220,243	$-	$-	$1,900,343
Loans individually evaluated for impairment without specific reserve	2,959,973	1,630,136	-	-	4,590,109
Loans collectively evaluated for impairment	460,157,934	97,021,298	8,243,260	4,509,122	569,931,614
Ending balance	$464,798,007	$98,871,677	$8,243,260	$4,509,122	$576,422,066

December 31, 2011	Real Estate	Commercial	Boats	Other Consumer	Total
Loans individually evaluated for impairment with specific reserve	$5,924,354	$136,654	$142,671	$-	$6,203,679
Loans individually evaluated for impairment without specific reserve	1,720,458	1,887,986	-	-	3,608,444
Loans collectively evaluated for impairment	413,842,516	105,101,255	8,717,775	4,813,579	532,475,125
Ending balance	$421,487,328	$107,125,895	$8,860,446	$4,813,579	$542,287,248

6. EARNINGS PER COMMON SHARE

We calculate basic earnings per common share by dividing net income by the weighted average number of shares of common stock outstanding giving retroactive effect to stock dividends.

We calculate diluted earnings per common share by including the average dilutive common stock equivalents outstanding during the period. Dilutive common equivalent shares consist of stock options, calculated using the treasury stock method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Weighted average number of shares	6,828,452	6,809,594	6,824,673	5,625,689

Dilutive average number of shares	6,905,041	6,841,535	6,871,727	5,657,775

7. STOCK BASED COMPENSATION

We account for stock options and restricted stock awards under the fair value method of accounting using a Black-Scholes valuation model to measure stock based compensation expense at the date of grant. We recognize compensation expense related to stock based compensation awards in our income statements over the period during which we require an individual to provide service in exchange for such award. For the six months ended June 30, 2012 and 2011, we recorded stock-based compensation expense of $85,860 and $74,816, respectively. For the three months ended June 30, 2012 and 2011, we recorded stock-based compensation expense of $55,631 and $31,302, respectively.

We only recognize tax benefits for options that ordinarily will result in a tax deduction when the grant is exercised (non-qualified options). For the six months ended June 30, 2011, we recognized a $15,097 tax benefit associated with the portion of the expense that was related to the issuance of non-qualified options. There were no non-qualified options included in the expense calculation for the three months ended June 30, 2011 and the three and six months ended June 30, 2012.

We have two equity incentive plans under which we may issue stock options and restricted stock, the 2010 Equity Incentive Plan, approved at the 2010 Annual Meeting of stockholders and the 2004 Equity Incentive Plan. Our Compensation Committee administers the equity incentive plans. As the plans outline, the Compensation Committee approves stock option and restricted stock grants to directors and employees, determines the number of shares, the type of award, the option or share price, the term (not to exceed 10 years from the date of issuance), the restrictions, and the vesting period of options and restricted stock issued. The Compensation Committee has approved and we have granted options vesting immediately as well as over periods of two, three and five years and restricted stock awards that vest over periods of twelve months to three years. We recognize the compensation expense associated with these grants over their respective vesting periods. At June 30, 2012, there was $238,518 of total unrecognized compensation cost related to non-vested stock options and restricted stock awards that we expect to realize over the next 2.50 years. As of June 30, 2012, there were 161,177 shares remaining available for future issuance under the equity incentive plans. Directors and officers did not exercise any options during the six month period ended June 30, 2012 or 2011.

A summary of the stock option activity during the six month periods follows:

	June 30,			
	2012		2011	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding, beginning of period	325,331	$ 8.65	310,151	$ 8.60
Options granted	79,627	8.00	23,280	7.82
Options forfeited	(2,000)	8.00	-	-
Outstanding, end of period	402,958	$ 8.52	333,431	$ 8.54

7. STOCK BASED COMPENSATION (Continued)

Information related to options as of June 30, 2012 follows:

	Outstanding options			Exercisable options	
Exercise price	Number of shares at June 30, 2012	Weighted average remaining term	Weighted average exercise price	Number of shares at June 30, 2012	Weighted average exercise price
$ 4.94-$7.64	95,131	6.18	$ 6.36	95,131	$ 6.36
$ 7.65-$8.65	138,207	8.30	7.90	54,986	7.77
$ 8.66-$10.00	46,620	2.14	9.74	46,620	9.74
$ 10.01-$11.31	123,000	3.81	10.43	123,000	10.43
	402,958	5.71	$ 8.52	319,737	$ 8.66

Intrinsic value of outstanding options where the market value exceeds the exercise price.	$ 725,753
Intrinsic value of exercisable options where the market value exceeds the exercise price	$ 535,834

During the six months ended June 30, 2012 and 2011, we granted 10,947 and 8,786 restricted common stock awards, respectively. During the period ended June 30, 2012, there were 189 restricted shares that had previously vested and 520 non-vested restricted shares that were forfeited. The following table provides a summary of the restricted stock awards during the six month periods and their vesting schedule.

	June 30, 2012		June 30, 2011	
	Number of shares	Weighted average grant date fair value	Number of shares	Weighted average grant date fair value
Nonvested, beginning of period	15,691	$ 7.41	17,641	$ 7.13
Restricted stock granted	10,947	8.00	8,786	7.82
Restricted stock vested	(6,788)	7.34	(8,279)	7.13
Restricted stock forfeited	(520)	8.00	-	-
Nonvested, end of period	19,330	$ 7.75	18,148	$ 7.46

Total fair value of shares vested	$ 49,853	$ 59,029
Intrinsic value of outstanding restricted stock awards where the market value exceeds the exercise price	$ 112,426	$ 152,080
Intrinsic value of vested restricted stock awards where the market value exceeds the exercise price	$ 69,713	$ 69,378

7. STOCK-BASED COMPENSATION (Continued)

The following table outlines the vesting schedule of the unvested restricted stock awards.

Vesting Schedule
of
Unvested Restricted Stock Awards
June 30, 2012

Grant Date	Vesting Date	# of Restricted Shares
1/28/2010	1/28/2013	4,682
1/27/2011	1/27/2013	2,110
1/27/2011	1/27/2014	2,111
3/5/2012	12/31/2012	3,120
3/5/2012	1/26/2013	2,435
3/5/2012	1/26/2014	2,436
3/5/2012	1/26/2015	2,436
Total Issued		19,330

8. RETIREMENT AND EMPLOYEE STOCK OWNERSHIP PLANS

Eligible employees, including those who joined us as part of the MB&T acquisition, participate in a profit sharing plan that qualifies under Section 401(k) of the Internal Revenue Code. The plan allows for elective employee deferrals and the Bank makes matching contributions of up to 4% of eligible employee compensation. Our contributions to the plan included in salaries and benefits expense, for the three months ended June 30, 2012 and 2011 were $76,543 and $93,342, respectively. The Bank's contributions to the plan for the six months ended June 30, 2012 and 2011 were $147,417 and $134,931, respectively.

The Bank also offers Supplemental Executive Retirement Plans (SERPs) to its executive officers providing for retirement income benefits. MB&T also offered SERPs to selected officers and we have assumed that liability at acquisition and all subsequent expenses. We accrue the present value of the SERPs over the remaining number of years to the executives' retirement dates. Old Line Bank's expenses for the SERPs for the six month periods ended June 30, 2012 and 2011 were $233,091 and $92,740, respectively. The SERP expense for the three month periods ended June 30, 2012 and 2011 were $116,545 and $54,135, respectively. The SERPs are non-qualified defined benefit pension plans that we have not funded.

MB&T had an employee benefit plan entitled the Maryland Bankcorp, N.A. KSOP (KSOP). The KSOP included a profit sharing plan that qualified under section 401(k) of the Internal Revenue Code and an employee stock ownership plan. We have discontinued any future contributions to the employee stock ownership plan. At June 30, 2012, the employee stock ownership plan owned 181,508 shares of Bancshares' stock, had $10,000 invested in Old Line Bank Certificates of Deposit, and $11,416 in Old Line Bank accounts. We have transferred the MB&T 401(k) assets into the Old Line 401(k) plan discussed above.

MB&T had an employee pension plan that was frozen on June 9, 2003 and no additional benefits accrued subsequent to that date. We have notified all plan participants that we have terminated this plan effective August 1, 2011. We have liquidated the securities the plan held, deposited the proceeds into interest bearing certificates of deposit and a money market account and expect to distribute the remaining balance prior to December 31, 2012. As of June 30, 2012 and December 31, 2011, expected future benefit payments to be paid in 2012 are $2.1 million. We are unable to predict any income or loss that may occur as a result of the termination. At this time, we do not expect to incur any significant expenses with the termination of this plan. We did not recognize any net periodic pension expense during the three or six months ended June 30, 2012. We also did not make any contributions to the pension plan during the periods.

9. FAIR VALUE MEASUREMENTS

On January 1, 2008, we adopted FASB ASC Topic 820 Fair Value Measurements and Disclosures which defines fair value as the price that participants would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

We value investment securities classified as available for sale at fair value.

The fair value hierarchy established in FASB ASC Topic 820 defines three input levels for fair value measurement. Level 1 is based on quoted market prices in active markets for identical assets. Level 2 is based on significant observable inputs other than those in Level 1. Level 3 is based on significant unobservable inputs.

We value investment securities classified as available for sale and Sallie Mae (SLMA) equity securities (included in equity securities) at fair value on a recurring basis. We value treasury securities and SLMA equity securities under Level 1, and collateralized mortgage obligations, agency securities, government sponsored entity securities, and some agency securities under Level 2. At June 30, 2012 and December 31, 2011, we established values for available for sale investment securities as follows (000's);

		June 30, 2012		December 31, 2011
Investment securities available for sale:				
Level 1 inputs	$	1,254	$	24,450
Level 2 inputs		167,249		137,335
Level 3 inputs		-		-
Investment securities available for sale	$	168,503	$	161,785
SLMA stock:				
Level 1 inputs	$	247	$	262
SLMA stock	$	247	$	262

Our valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes our methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value. Furthermore, we have not comprehensively revalued the fair value amounts since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the above presented amounts.

We also measure certain non-financial assets such as other real estate owned and repossessed or foreclosed property at fair value on a non-recurring basis. Generally, we estimate the fair value of these items using Level 2 inputs based on observable market data or Level 3 inputs based on discounting criteria. As of June 30, 2012 and December 31, 2011, we estimated the fair value of foreclosed assets using Level 2 inputs to be $3,490,730 and $4,004,609, respectively. We determined these Level 2 inputs based on appraisal evaluations, offers to purchase and/or appraisals that we obtained from an outside third party during the

9. FAIR VALUE MEASUREMENTS (Continued)

preceding twelve months. As a result of the acquisition of Maryland Bankcorp, we have segmented the other real estate owned into two components, real estate obtained as a result of loans originated by Old Line Bank (legacy) and other real estate acquired from MB&T or obtained as a result of loans originated by MB&T (acquired).

The following outlines the transactions in other real estate owned:

Other Real Estate Owned

Six months ended June 30, 2012	Legacy	Acquired	Total
Beginning balance	$ 1,871,832	$ 2,132,777	$ 4,004,609
Transferred in	-	191,921	191,921
Investment in improvements	-	15,525	15,525
Write down in value	(220,000)	(61,000)	(281,000)
Sales/deposits on sales	(604)	(439,721)	(440,325)
Total end of period	$ 1,651,228	$ 1,839,502	$ 3,490,730

We use the following methodologies for estimating fair values of financial instruments that we do not measure on a recurring basis. The estimated fair values of financial instruments equal the carrying value of the instruments except as noted.

Investment Securities-We base the fair values of investment securities upon quoted market prices or dealer quotes.

Loans-We estimate the fair value of loans by discounting future cash flows using current rates for which we would make similar loans to borrowers with similar credit histories. We then adjust this calculated amount for any credit impairment.

Interest bearing deposits-The fair value of demand deposits and savings accounts is the amount payable on demand. We estimate the fair value of fixed maturity certificates of deposit using the rates currently offered for deposits of similar remaining maturities.

Long and short term borrowings-The fair value of long and short term fixed rate borrowings is estimated by discounting the value of contractual cash flows using rates currently offered for advances with similar terms and remaining maturities.

Loan Commitments, Standby and Commercial Letters of Credit-Lending commitments have variable interest rates and “escape” clauses if the customer’s credit quality deteriorates. Therefore, the fair value of these items is insignificant and we have not included these in the following table.

9. FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Level 1 inputs:				
Investment securities	$ 1,253,750	$ 1,253,750	$ 24,450,070	$ 24,450,070
Level 2 inputs:				
Investment securities	167,249,033	167,249,033	137,334,765	137,334,765
Level 3 inputs:				
Loans, net	573,146,131	580,096,070	539,297,666	547,218,763
Financial liabilities				
Level 3 inputs:				
Interest bearing deposits	$ 532,956,475	$ 533,868,583	$ 520,629,456	$ 522,248,781
Short term borrowings	41,955,385	42,092,854	38,672,657	38,967,244
Long term borrowings	6,239,129	6,460,903	6,284,479	6,452,391

Under ASC Topic 825, entities may choose to measure eligible financial instruments at fair value at specified election dates. The fair value measurement option (i) may be applied instrument by instrument, with certain exceptions (ii) is generally irrevocable and (iii) is applied only to entire instruments and not to portions of instruments. We must report in earnings unrealized gains and losses on items for which we have elected the fair value measurement option at each subsequent reporting date. We measure certain financial assets and financial liabilities at fair value on a non-recurring basis. These assets and liabilities are subject to fair value adjustments in certain circumstances such as when there is evidence of impairment. We did not have any financial assets or liabilities measured at fair value on a non-recurring basis during the six months ended June 30, 2012 or year ended December 31, 2011.

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10. ACCOUNTING STANDARDS UPDATES

ASU No. 2011-02 “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring” amends FASB ASC 310-40 “Troubled Debt Restructurings by Creditors”. The amendments specify that in evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following conditions exist: the restructuring constitutes a concession and the debtor is experiencing financial difficulties. The amendments clarify the guidance on these points and give examples of both conditions. This update became effective for interim or annual reporting periods beginning on or after June 15, 2011. We have included the required disclosures in Note 5.

ASU No. 2011-03 “Reconsideration of Effective Control for Repurchase Agreements amends FASB ASC 860-10, “Transfers and Servicing-Overall”. The amendments remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial asset on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. This update became effective for interim and annual reporting periods beginning on or after December 15, 2011 and it did not have a material impact on our consolidated financial statements or results of operations.

ASU No. 2011-04 “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS” amends FASB ASC 820 “Fair Value Measurement”. The amendments will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (“IFRS”). Among the many areas affected by this update are the concept of highest and best use, the fair value of an instrument included in stockholder’s equity and disclosures about fair value measurement, particularly disclosures about fair value measurements categorized within Level 3 of the fair value hierarchy. This update became effective for the interim and annual reporting periods beginning after December 15, 2011 and it did not have a material impact on our consolidated financial statements or results of operations.

ASU No. 2011-05 “Presentation of Comprehensive Income” amends FASB ASC 220 “Comprehensive Income”. The amendments in this update eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity. An entity will have the option to present the total comprehensive income as part of the statement of changes in stockholders’ equity. An entity will have the option to present the total comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity will be required to present the face of financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income. This update becomes effective for interim and annual reporting periods beginning after December 15, 2011. Included in our consolidated financial statements is a separate statement that outlines the components of comprehensive income.

ASU No. 2011-08 “Intangibles-Goodwill and Other Testing Goodwill for Impairment” amends Topic 350 “Intangibles-Goodwill and Other” to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two step impairment test by calculating the fair value of the reporting unit comparing the fair value with the carrying amount of the reporting unit. This amendment is effective for annual and interim impairment tests beginning after December 15, 2011 and did not have a material impact on our consolidated financial statements or results of operations.

ASU 2011-11 “Balance Sheet-Disclosures about Offering Assets and Liabilities” amends Topic 210 “Balance Sheet” to require an entity to disclose both gross and net information about financial instruments such as sales and repurchase agreements and reverse sale and repurchase agreement and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is

10. ACCOUNTING STANDARDS UPDATES (Continued)

effective for annual and interim periods beginning on January 1, 2013, and we do not expect that it will have a material impact on our consolidated financial statements or results of operations.

ASU 2011-12 "Comprehensive Income-Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05" defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to re-deliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of the reclassification out of accumulated other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 is effective for annual and interim periods beginning after December 15, 2011 and it did not have a material impact on our consolidated financial statements or results of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Some of the matters discussed below include forward-looking statements. Forward-looking statements often use words such as "believe," "expect," "plan," "may," "will," "should," "project," "contemplate," "anticipate," "forecast," "intend" of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. Our actual results and the actual outcome of our expectations and strategies could be different from those anticipated or estimated for the reasons discussed below and under the heading "Information Regarding Forward Looking Statements."

Overview

Old Line Bancshares was incorporated under the laws of the State of Maryland on April 11, 2003 to serve as the holding company of Old Line Bank.

Our primary business is to own all of the capital stock of Old Line Bank. We also have an approximately $699,500 investment in a real estate investment limited liability company named Pointer Ridge Office Investment, LLC (Pointer Ridge). We own 62.5% of Pointer Ridge. Frank Lucente, one of our directors and a director of Old Line Bank, controls 12.5% of Pointer Ridge and controls the manager of Pointer Ridge. The purpose of Pointer Ridge is to acquire, own, hold for profit, sell, assign, transfer, operate, lease, develop, mortgage, refinance, pledge and otherwise deal with real property located at the intersection of Pointer Ridge Road and Route 301 in Bowie, Maryland. Pointer Ridge owns a commercial office building containing approximately 40,000 square feet and leases this space to tenants. We lease approximately 65% of this building for our main office and operate a branch of Old Line Bank from this address.

On April 1, 2011, we acquired Maryland Bankcorp, Inc. (Maryland Bankcorp), the parent company of Maryland Bank & Trust Company, N.A (MB&T). This acquisition created the sixth largest independent commercial bank based in Maryland, with assets of more than $750 million and with 19 full service branches serving five counties.

Summary of Recent Performance and Other Activities

In a continually challenging economic environment, we are pleased to report continued profitability for the second quarter of 2012. Net income available to common stockholders was $2.0 million or $0.30 per basic and $0.29 per diluted common share for the three month period ended June 30, 2012. This was $846,367 or 71.55% higher than net income available to common stockholders of $1.2 million or $0.17 per basic and diluted common share for the same period in 2011. Net income available to common stockholders was $3.8 million or $0.55 per basic and diluted common share for the six month period ending June 30, 2012. This was $2.1 million or 121.93% higher than net income available to common stockholders of $1.7 million or $0.30 per basic and diluted common share for the six months ended June 30, 2011.

The following highlights certain financial data and events that have occurred during the first six months and second quarter of 2012:

- As a result of our business development efforts, expanded market area and increased name recognition:
  - Average total loans grew approximately $60.3 million or 12.10% for the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

- Average non-interest bearing deposits grew $7.7 million or 4.44% for the three months ended June 30, 2012 relative to the same period in 2011.
- Average total loans grew approximately $153.6 million or 38.34% for the six months ended June 30, 2012 compared to the six months ended June 30, 2011. Our acquisition of Maryland Bankcorp also contributed to our growth in the six month period.
    - Average non-interest bearing deposits grew $55.1 million or 46.66% for the six months ended June 30, 2012 relative to the same period in 2011.

- Our asset quality remained strong:
- At June 30, 2012, we had three legacy loans (loans originated by Old Line Bank) on non-accrual status in the amount of $1.8 million.
- At June 30, 2012, we had 22 acquired loans (loans acquired from MB&T pursuant to the merger) on non-accrual status totaling $4.8 million compared to 22 acquired non-accrual loans totaling $4.6 million at December 31, 2011.
- At second quarter end 2012, we had eight accruing legacy loans past due between 30 and 89 days in the amount of $2.8 million.
- At June 30, 2012, we had 19 accruing acquired loans totaling $726,038 past due between 30 and 89 days compared to 22 accruing acquired loans totaling $839,274 at December 31, 2011.
- We ended the second quarter with a book value of $10.44 per common share and a tangible book value of $9.75 per common share.
- We maintained liquidity and by all regulatory measures remained "well capitalized".
- We increased the provision for loan losses by $325,000 and $550,000 during the three and six month periods ended June 30, 2012 compared to June 30, 2011, respectively.
- As a result of the provision discussed above, and net charge offs for the six month period of $381,811, the allowance for loan losses increased to $4.1 million at June 30, 2012 compared to $3.7 million at December 31, 2011.
- We recognized a loss, net of taxes, on our investment in Pointer Ridge of approximately $28,000 and $61,000 for the three and six months ended June 30, 2012.

In June 2012, we established Old Line Financial Services as a division of Old Line Bank and hired an individual with over 25 years of experience to manage this division. Old Line Financial Services allows us to expand the services we provide our customers to include retirement planning and products. Additionally, this division offers investment services to include investment management, estate and succession planning and allows our customers to directly purchase individual stocks, bonds and mutual funds. Through this division customers may also purchase life insurance, long term care insurance and key man/woman insurance.

On April 1, 2011, all MB&T branches were rebranded as Old Line Bank branches and all data processing and accounting systems were consolidated. As discussed below, during the second quarter of 2011, we also substantially completed the assessment and recordation on our financial statements of MB&T's assets and liabilities at fair value as required by current accounting guidance. With the exception of the closing of one MB&T branch, which MB&T had previously designated for closure, we have also retained, and expect to continue to retain, all of MB&T's branches, and the branch personnel with severance of employees occurring only at MB&T's operations, accounting and executive offices. We are pleased to have the remaining MB&T personnel as part of the Old Line Bank team. These individuals, the new branches and the customers we obtained from this acquisition, have been significant contributors to our success since the acquisition date.

Pursuant to the merger agreement, the stockholders of Maryland Bankcorp received approximately 2.1 million shares of Old Line Bancshares common stock and the aggregate cash consideration paid to holders of Maryland Bankcorp stockholders was $1.0 million. The total merger consideration was $18.8 million.

In accordance with accounting for business combinations, we recorded the acquired assets and liabilities at their estimated fair value on April 1, 2011, the acquisition date. The determination of the fair value of the loans caused a significant write down in the value of certain loans, which we assigned to an accretable or non-accretable balance. We will recognize the accretable balance as interest income over the remaining term of the loan. We will recognize the non-accretable balance as the borrower repays the loan. The accretion of the loan marks, along with other fair value adjustments, favorably impacted our net interest income by $1.1 million and $1.6 million for the three and six months ended June 30, 2012, respectively. We based the determination of fair value on cash flow expectations and/or collateral values. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change. Change in our cash flow expectations could impact net interest income after provision for loan losses. We will recognize any decline in expected cash flows as impairment and record a provision for loan losses during the period. We will recognize any improvement in expected cash flows as an adjustment to interest income.

In conjunction with the merger, we also recorded the deposits acquired at their fair value and recorded a core deposit intangible of $5.0 million. The amortization of this intangible asset was $177,582 for the three month period and $372,257 for the six month period ended June 30, 2012.

The following summarizes the highlights of our financial performance for the three month period ended June 30, 2012 compared to the three month period ended June 30, 2011 (figures in the table may not match those discussed in the balance of this section due to rounding).

Three Months ended June 30,
(Dollars in thousands)

	2012	2011	$ Change	% Change
Net income available to common stockholders	$ 2,029	$ 1,183	$ 846	71.51 %
Interest revenue	9,764	8,874	890	10.03
Interest expense	1,300	1,403	(103)	(7.34)
Net interest income after provision for loan losses	8,088	7,421	667	8.99
Non-interest revenue	1,156	517	639	123.60
Non-interest expense	6,249	6,165	84	1.36
Average total loans	558,859	498,550	60,309	12.10
Average interest earning assets	729,382	656,173	73,209	11.16
Average total interest bearing deposits	524,539	475,658	48,881	10.28
Average non-interest bearing deposits	181,789	174,055	7,734	4.44
Net interest margin (1)	4.84 %	4.66 %		
Return on average equity	12.27 %	7.47 %		
Basic earnings per common share	$ 0.30	$ 0.17	$ 0.13	76.47
Diluted earnings per common share	0.29	0.17	0.12	70.59

(1) See “Reconciliation of Non-GAAP Measures”

The following summarizes the highlights of our financial performance for the six month period ended June 30, 2012 compared to the six month period ended June 30, 2011 (figures in the table may not match those discussed in the balance of this section due to rounding).

Six Months ended June 30,
(Dollars in thousands)

	2012		2011		$ Change	% Change	
Net income available to common stockholders	$3,785		$1,706		$2,079	121.86	%
Interest revenue	18,866		13,522		5,344	39.52	
Interest expense	2,640		2,463		177	7.19	
Net interest income after provision for loan losses	15,476		10,858		4,618	42.53	
Non-interest revenue	2,035		842		1,193	141.69	
Non-interest expense	11,935		9,093		2,842	31.25	
Average total loans	554,227		400,620		153,607	38.34	
Average interest earning assets	721,796		512,446		209,350	40.85	
Average total interest bearing deposits	523,081		376,931		146,150	38.77	
Average non-interest bearing deposits	173,196		118,095		55,101	46.66	
Net interest margin (1)	4.67	%	4.43	%			
Return on average equity	11.59	%	6.57	%			
Basic earnings per common share	$0.55		$0.30		$0.25	83.33	
Diluted earnings per common share	0.55		0.30		0.25	83.33	

(1) See “Reconciliation of Non-GAAP Measures”

Growth Strategy

We have based our strategic plan on the premise of enhancing stockholder value and growth through branching and operating profits. Our short term goals include collecting payments on non-accrual and past due loans, profitably disposing of other real estate owned, enhancing and maintaining credit quality, maintaining an attractive branch network, expanding fee income, generating extensions of core banking services, and using technology to maximize stockholder value. During the past two years, we have expanded in Prince George’s County and Anne Arundel County, Maryland and the acquisition of Maryland Bankcorp has expanded our operations in Charles County and into St. Mary’s and Calvert Counties, Maryland.

Other Opportunities

We use the Internet and technology to augment our growth plans. Currently, we offer our customers image technology, Internet banking with on line account access and bill payer service. We provide selected commercial customers the ability to remotely capture their deposits and electronically transmit them to us. We will continue to evaluate cost effective ways that technology can enhance our management capabilities, products and services.

We may take advantage of strategic opportunities presented to us via mergers occurring in our marketplace. For example, we may purchase branches that other banks close or lease branch space from other banks or hire additional loan officers. We also continually evaluate and consider opportunities with financial services companies or institutions with which we may become a strategic partner, merge or acquire.

Although the current economic climate continues to present significant challenges for our industry, we have worked diligently towards our goal of becoming the premier community bank in the Washington D.C. market. While we remain uncertain whether the economy will remain at its current anemic growth or if the high unemployment rate, soaring national debt and high gas prices will continue to dampen the economic climate, we continue to remain cautiously optimistic that we have identified any problem assets and our remaining borrowers will continue to stay current on their loans and that we can continue to grow our balance sheet and earnings. Now that we have substantially completed our branch expansion, enhanced our data processing capabilities and expanded our commercial lending team, we believe that we are well positioned to capitalize on the opportunities that may become available in a healthy economy as we did with the Maryland Bankcorp acquisition.

We anticipate that as a result of the Maryland Bankcorp acquisition, salaries and benefits expenses and other operating expenses will be higher in 2012 than they were in 2011. As previously reported, we have identified several areas within the former MB&T non-interest expense structure that we expected would provide expense reductions from those incurred since the acquisition date of April 1, 2011. We realized these expense reductions during the fourth quarter of 2011 and the first quarter of 2012. We believe with our 19 branches, our lending staff, our corporate infrastructure and our solid balance sheet and strong capital position, we can continue to focus our efforts on improving earnings per share and enhancing stockholder value.

Results of Operations

Net Interest Income

Net interest income is the difference between income on interest earning assets and the cost of funds supporting those assets. Earning assets are comprised primarily of loans, investments, interest bearing deposits and federal funds sold. Cost of funds consists of interest bearing deposits and other borrowings. Non-interest bearing deposits and capital are also funding sources. Changes in the volume and mix of earning assets and funding sources along with changes in associated interest rates determine changes in net interest income.

Three months ended June 30, 2012 compared to three months ended June 30, 2011

Net interest income after provision for loan losses for the three months ended June 30, 2012 increased $667,212 or 8.99% to $8.1 million from $7.4 million for the same period in 2011. As discussed below and outlined in detail in the Rate/Volume Analysis, these changes were the result of growth in average interest earning assets and the change in the composition of average interest earning assets that occurred with the movement of funds from lower yielding interest bearing deposits into higher yielding loans and investment securities. A decline in interest paid on interest bearing liabilities also contributed to the improvement in net interest income. The accretion of the fair value adjustments positively impacted net interest income after provision for loan losses while the $325,000 increase in the provision for loan losses negatively impacted it. The faster than expected repayment of impaired loans that we acquired from MB&T was the most significant factor that caused these changes and the improvement in net interest margin as discussed below.

Although a competitive rate environment and a low prime rate cause low market yields that continue to negatively impact net interest income, the relatively stable rate environment has allowed us to adjust the mix and volume of interest earning assets and liabilities on the balance sheet. This also continued to contribute to the improvement in the net interest margin.

We offset the effect on net income caused by the low rate environment primarily by growing total average interest earning assets $73.2 million or 11.16% to $729.4 million for the three months ended June 30, 2012 from $656.2 million for the three months ended June 30, 2011. The growth in net interest income that derived from the increase in total average interest earning assets was partially offset by growth in average interest bearing liabilities. Average interest bearing deposits which increased to $524.5 million for the three months ended June 30, 2012 from $475.7 million for the three months ended June 30, 2011 was the primary cause of the growth in interest bearing liabilities. The growth in average interest earning assets and interest bearing deposits was primarily a result of increased name recognition in our market place and our business development efforts, particularly our increased business development efforts in our new market area resulting from our acquisition of Maryland Bankcorp.

Non-interest bearing deposits allow us to fund growth in interest earning assets at minimal cost. As a result of growth generated from our branch network, our average non-interest bearing deposits increased $7.7 million to $181.8 million. This was also a significant contributor to the improvement in the net interest margin.

Our net interest margin was 4.84% for the three months ended June 30, 2012 as compared to 4.66% for the three months ended June 30, 2011. The yield on average interest earning assets increased four basis points during the period from 5.52% for the quarter ended June 30, 2011 to 5.56% for the quarter ended June 30, 2012. This increase was primarily because of the faster than expected repayment of the impaired loans we acquired from MB&T which allowed us to accrete fair value adjustments to interest income.

During three months ended June 30, 2012 and 2011, we successfully collected payments on acquired loans that we had recorded at fair value according to ASC 310-20 and ASC 310-30. These payments were a direct result of our efforts to negotiate payments, sell notes or foreclose on and sell collateral after the acquisition date. The accretion of the fair value adjustments positively impacted the yield on loans and increased the net interest margin as follows:

	Three Months Ended June 30,			
	2012		2011	
	Fair Value Accretion Dollars	% Impact on Net Interest Margin	Fair Value Accretion Dollars	% Impact on Net Interest Margin
Commercial loans	$ 42,718	0.02 %	$ 36,699	0.02 %
Mortgage loans	1,007,812	0.56	352,099	0.22
Consumer loans	1,899	0.00	875	0.00
Interest bearing deposits	57,081	0.03	127,522	0.08
Total Fair Value Accretion	$ 1,109,510	0.61 %	$ 517,195	0.32 %

The following table illustrates average balances of total interest earning assets and total interest bearing liabilities for the three months ended June 30, 2012 and 2011, showing the average distribution of assets, liabilities, stockholders' equity and related income, expense and corresponding weighted average yields and rates. The average balances used in this table and other statistical data were calculated using average daily balances.

Average Balances, Interest and Yields

Three Months Ended June 30,	2012			2011		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets:						
Federal funds sold(1)	$ 4,568,009	1,892	0.17 %	$ 6,137,889	$ 2,334	0.15 %
Interest bearing deposits	4,150,881	2,593	0.25	16,462,614	12,630	0.31
Investment securities(1)(2)						
U.S. treasury	1,248,504	2,518	0.81	1,294,926	2,550	0.79
U.S. government agency	24,448,432	96,418	1.59	17,674,241	98,901	2.24
Mortgage backed securities	90,311,537	592,725	2.64	92,164,958	762,080	3.32
Municipal securities	45,842,852	615,460	5.40	22,702,829	337,728	5.97
Other	3,918,725	44,590	4.58	3,362,251	37,772	4.51
Total investment securities	165,770,050	1,351,711	3.28	137,199,205	1,239,031	3.62
Loans: (1) (3)						
Commercial	98,576,116	1,248,050	5.09	103,848,651	1,449,325	5.60
Mortgage	447,080,254	7,295,222	6.56	378,129,053	6,075,435	6.44
Consumer	13,203,045	175,867	5.36	16,572,381	246,873	5.98
Total loans	558,859,415	8,719,139	6.27	498,550,085	7,771,633	6.25
Allowance for loan losses	3,966,131	-		2,177,287	-	
Total loans, net of allowance	554,893,284	8,719,139	6.32	496,372,798	7,771,633	6.28
Total interest earning assets(1)	729,382,224	10,075,335	5.56	656,172,506	9,025,628	5.52
Non-interest bearing cash	34,172,441			30,891,654		
Premises and equipment	23,764,947			21,286,980		
Other assets	38,545,122			37,491,609		
Total assets	$ 825,864,734			$ 745,842,749		
Liabilities and Stockholders'						

Equity:						
Interest bearing deposits						
Savings	$ 63,030,500	52,191	0.33	$ 61,259,947	49,879	0.33
Money market and NOW	130,191,323	132,772	0.41	109,431,051	155,937	0.57
Other time deposits	331,317,176	902,237	1.10	304,966,798	985,896	1.30
Total interest bearing deposits	524,538,999	1,087,200	0.83	475,657,796	1,191,712	1.01
Borrowed funds	46,432,730	213,111	1.85	25,080,250	211,086	3.38
Total interest bearing liabilities	570,971,729	1,300,311	0.92	500,738,046	1,402,798	1.12
Non-interest bearing deposits	181,789,188			174,054,937		
	752,760,917			674,792,983		
Other liabilities	6,172,023			6,991,978		
Non-controlling interest	423,568			538,021		
Stockholders' equity	66,508,226			63,519,767		
Total liabilities and stockholders' equity	$ 825,864,734			$ 745,842,749		
Net interest spread(1)			4.64			4.40
Net interest income and Net interest margin(1)		$ 8,775,024	4.84 %		$ 7,622,830	4.66 %

(1) Interest revenue is presented on a fully taxable equivalent (FTE) basis. The FTE basis adjusts for the tax favored status of these types of assets. Management believes providing this information on a FTE basis provides investors with a more accurate picture of our net interest spread and net interest income and we believe it to be the preferred industry measurement of these calculations. See “Reconciliation of Non-GAAP Measures.”

(2) Available for sale investment securities are presented at amortized cost.

(3) Average non-accruing loans for the three month periods ended June 30, 2012 and 2011 were $6,637,043 and $6,523,337, respectively

Six months ended June 30, 2012 compared to six months ended June 30, 2011

Net interest income after provision for loan losses for the six months ended June 30, 2012 increased $4.6 million or 42.52% to $15.5 million from $10.9 million for the same period in 2011. As discussed below and outlined in detail in the Rate/Volume Analysis, these changes were the result of growth in average interest earning assets and the change in the composition of average interest earning assets that occurred with the movement of funds from lower yielding interest bearing deposits into higher yielding loans and investment securities. A decline in interest paid on interest bearing liabilities also contributed to the improvement in net interest income. The accretion of the fair value adjustments positively impacted net interest income after provision for loan losses while the $550,000 increase in the provision for loan losses negatively impacted it. The acquisition of MB&T was the most significant factor that caused these changes and the improvement in net interest margin as discussed below.

Although a competitive rate environment and a low prime rate cause low market yields that continue to negatively impact net interest income, the relatively stable rate environment has allowed us to continue to adjust the mix and volume of interest earning assets and liabilities on the balance sheet. This also contributed to the improvement in the net interest margin.

We offset the effect on net interest income caused by the low rate environment primarily by growing total average interest earning assets $209.4 million or 40.85% to $721.8 million for the six months ended June 30, 2012 from $512.4 million for the six months ended June 30, 2011. The growth in net interest income that derived from the increase in total average interest earning assets was partially offset by growth in average interest bearing liabilities. Average interest bearing deposits which increased to $523.1 million for the six months ended June 30, 2012 from $376.9 million for the six months ended June 30, 2011 was the primary cause of the growth in interest bearing liabilities. The growth in average interest earning assets and interest bearing deposits was primarily a result of the acquisition of MB&T.

Non-interest bearing deposits allow us to fund growth in interest earning assets at minimal cost. As a result of the MB&T acquisition and growth generated from our branch network and lenders, our average non-interest bearing deposits increased $55.1 million to $173.2 million. This was also a significant contributor to the improvement in the net interest margin.

Our net interest margin was 4.67% for the six months ended June 30, 2012 as compared to 4.43% for the six months ended June 30, 2011. The yield on average interest earning assets remained relatively stable during the period while the yield on interest bearing liabilities declined. The stability of the yield on interest earning assets was primarily attributable to our success in collecting payments on impaired loans acquired from MB&T at a faster rate than initially anticipated. The decline in the yield on interest bearing liabilities was the result of a decline in rates paid on money market, NOW and other time deposits. The accretion of fair value adjustments on certificates of deposits acquired from MB&T also reduced the yield paid on other time deposits.

With the branches acquired in the MB&T acquisition and increased recognition in Anne Arundel, Calvert, Charles, St. Mary's and Prince George's counties, the high level of non-interest bearing deposits and continued growth in these and interest bearing deposits, we anticipate that we will continue to grow earning assets during the remainder of 2012. If the Federal Reserve maintains the federal funds rate at current levels and the economy remains stable, we believe that we can continue to grow total loans and deposits during the remainder of 2012 and beyond. We also believe that we will maintain the net interest margin in the range of 4.50% for the remainder of 2012, although we will not be able to maintain this net interest margin if we fail to collect on a significant portion of impaired acquired loans. As a result of this growth and maintenance of the net interest margin, we expect that net interest income will continue to increase during the remainder of 2012, although there can be no guarantee that this will be the case.

One of our primary sources of funding loans, investments and interest bearing deposits is non-interest bearing demand deposits. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") depository institutions have been permitted to pay interest on business transaction and other accounts since July 21, 2011. Although, we have not yet experienced any impact from this provision of the legislation on our operations, it is possible that interest costs associated with deposits will increase.

During the six months ended in June 30, 2012, we successfully collected payments on acquired loans that we had recorded at fair value according to ASC 310-20 and ASC 310-30. These payments were a direct result of our efforts to negotiate payments, sell notes, or foreclose on and sell collateral after the acquisition date. The accretion of the fair value adjustments positively impacted the yield on loans and increased the net interest margin as follows:

	Six Months Ended June 30,					
	2012			2011		
	Fair Value Accretion Dollars	% Impact on Net Interest Margin		Fair Value Accretion Dollars	% Impact on Net Interest Margin	
Commercial loans	$84,470	0.02	%	$36,699	0.01	%
Mortgage loans	1,431,087	0.40		352,099	0.14	
Consumer loans	3,592	0.00		875	0.00	
Interest bearing deposits	121,894	0.03		127,522	0.05	
Total Fair Value Accretion	$1,641,043	0.45	%	$517,195	0.20	%

The following table illustrates average balances of total interest earning assets and total interest bearing liabilities for the six months ended June 30, 2012 and 2011, showing the average distribution of assets, liabilities, stockholders' equity and related income, expense and corresponding weighted average yields and rates. The average balances used in this table and other statistical data were calculated using average daily balances.

Average, Balances, Interest and Yields

Six Months Ended June 30,	2012			2011		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets:						
Federal funds sold(1)	$ 4,105,265	$ 2,962	0.15 %	$ 4,754,900	$ 4,165	0.18 %
Interest bearing deposits	2,874,236	996	0.07	12,077,781	19,639	0.33
Investment securities(1)(2)						
U.S. treasury	1,248,277	5,053	0.81	651,040	2,550	0.79
U.S. government agency	25,462,298	203,699	1.61	10,720,455	126,524	2.38
Mortgage backed securities	92,417,068	1,258,741	2.74	70,430,585	1,141,498	3.27
Municipal securities	41,425,062	1,115,895	5.42	12,550,809	367,102	5.90
Other	3,932,129	92,770	4.74	2,965,458	55,995	3.81
Total investment securities	164,484,834	2,676,158	3.27	97,318,347	1,693,669	3.51
Loans: (1) (3)						
Commercial	101,476,124	2,565,390	5.08	93,579,122	2,469,046	5.32
Mortgage	439,378,230	13,805,772	6.32	292,268,896	9,119,269	6.29
Consumer	13,372,549	367,001	5.52	14,772,119	406,453	5.55
Total loans	554,226,903	16,738,163	6.07	400,620,137	11,994,768	6.04
Allowance for loan losses	3,895,660	-		2,324,803	-	
Total loans, net of allowance	550,331,243	16,738,163	6.12	398,295,334	11,994,768	6.07
Total interest earning assets(1)	721,795,578	19,418,279	5.41	512,446,362	13,712,241	5.40
Non-interest bearing cash	30,964,429			19,724,565		
Premises and equipment	23,686,158			19,055,881		
Other assets	38,470,209			25,592,328		
Total assets	$ 814,916,374			$ 576,819,136		
Liabilities and Stockholders' Equity:						
Interest bearing deposits						
Savings	$ 62,123,163	102,914	0.33	$ 35,403,222	55,016	0.31
	130,772,681	269,943	0.42	92,236,649	305,432	0.67

Money market and NOW						
Other time deposits	330,185,594	1,841,841	1.12	249,290,770	1,707,240	1.38
Total interest bearing deposits	523,081,438	2,214,698	0.85	376,930,641	2,067,688	1.11
Borrowed funds	46,128,149	425,487	1.85	24,497,365	395,709	3.26
Total interest bearing liabilities	569,209,587	2,640,185	0.93	401,428,006	2,463,397	1.24
Non-interest bearing deposits	173,195,601			118,094,756		
	742,405,188			519,522,762		
Other liabilities	6,401,578			4,343,325		
Non-controlling interest	433,722			567,704		
Stockholders' equity	65,675,885			52,385,345		
Total liabilities and stockholders' equity	$ 814,916,374			$ 576,819,136		
Net interest spread(1)			4.48			4.16
Net interest income and Net interest margin(1)		$ 16,778,094	4.67 %		$ 11,248,844	4.43 %

(1) Interest revenue is presented on a fully taxable equivalent (FTE) basis. The FTE basis adjusts for the tax favored status of these types of assets. Management believes providing this information on a FTE basis provides investors with a more accurate picture of our net interest spread and net interest income and we believe it to be the preferred industry measurement of these calculations. See “Reconciliation of Non-GAAP Measures.”

(2) Available for sale investment securities are presented at amortized cost.

(3) Average non-accruing loans for the six month periods ended June 30, 2012 and 2011 were $6,679,684 and $1,965,300, respectively.

The following tables describe the impact on our interest revenue and expense resulting from changes in average balances and average rates for the periods indicated. We have allocated the change in interest revenue, interest expense and net interest income due to both volume and rate proportionately to the rate and volume variances.

Rate/Volume Variance Analysis

	Three months Ended June 30, 2012 compared to 2011 Variance due to:		
	Total	Rate	Volume
Interest earning assets:			
Federal funds sold(1)	$(442)	$438	$(880)
Time deposits in other banks	(10,037)	(5,009)	(5,028)
Investment Securities(1)			
U.S. treasury	(32)	110	(142)
U.S. government agency	(2,483)	(59,056)	56,573
Mortgage backed securities	(169,355)	(165,294)	(4,061)
Municipal securities	277,732	(111,801)	389,533
Other	6,818	1,874	4,944
Loans:(1)			
Commercial	(201,275)	(176,537)	(24,738)
Mortgage	1,219,787	350,984	868,803
Consumer	(71,006)	(47,645)	(23,361)
Total interest revenue (1)	1,049,707	(211,936)	1,261,643
Interest bearing liabilities			
Savings	2,312	1,694	618
Money market and NOW	(23,165)	(70,519)	47,354
Other time deposits	(83,659)	(223,091)	139,432
Borrowed funds	2,025	(243,397)	245,422
Total interest expense	(102,487)	(535,313)	432,826
Net interest income(1)	$1,152,194	$323,377	$828,817

(1) Interest revenue is presented on a fully taxable equivalent (FTE) basis. Management believes providing this information on a FTE basis provides investors with a more accurate picture of our net interest spread and net interest income and we believe it to be the preferred industry measurement of these calculations. See "Reconciliation of Non-GAAP Measures."

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Rate/Volume Variance Analysis

(2)

	Six months Ended June 30, 2012 compared to 2011 Variance due to:		
	Total	Rate	Volume
Interest earning assets:			
Federal funds sold(1)	$(1,203)	$(871)	$(332)
Time deposits in other banks	(18,643)	(12,575)	(6,068)
Investment Securities(1)			
U.S. treasury	2,503	157	2,346
U.S. government agency	77,175	(87,519)	164,694
Mortgage backed securities	117,243	(305,635)	422,878
Municipal securities	748,793	(63,052)	811,845
Other	36,775	22,144	14,631
Loans:(1)			
Commercial	96,344	(165,834)	262,178
Mortgage	4,686,503	77,968	4,608,535
Consumer	(39,452)	(3,997)	(35,455)
Total interest revenue (1)	5,706,038	(539,214)	6,245,252
Interest bearing liabilities			
Savings	47,898	6,877	41,021
Money market and NOW	(35,489)	(188,388)	152,899
Other time deposits	134,601	(526,083)	660,684
Borrowed funds	29,778	(332,684)	362,462
Total interest expense	176,788	(1,040,278)	1,217,066
Net interest income(1)	$5,529,250	$501,064	$5,028,186

(1) Interest revenue is presented on a fully taxable equivalent (FTE) basis. Management believes providing this information on a FTE basis provides investors with a more accurate picture of our net interest spread and net interest income and we believe it to be the preferred industry measurement of these calculations. See "Reconciliation of Non-GAAP Measures."

Provision for Loan Losses

Originating loans involves a degree of risk that credit losses will occur in varying amounts according to, among other factors, the type of loans being made, the credit worthiness of the borrowers over the term of the loans, the quality of the collateral for the loan, if any, as well as general economic conditions. We charge the provision for loan losses to earnings to maintain the total allowance for loan losses at a level considered by management to represent its best estimate of the losses known and inherent in the portfolio that are both probable and reasonable to estimate, based on, among other factors, prior loss experience, volume and type of lending conducted, estimated value of any underlying collateral, economic conditions (particularly as such conditions relate to Old Line Bank's market area), regulatory guidance, peer statistics, management's judgment, past due loans in the loan portfolio, loan charge off experience and concentrations of risk (if any). We charge losses on loans against the allowance when we believe that collection of loan principal is unlikely. We add back recoveries on loans previously charged to the allowance.

The provision for loan losses was $375,000 for the three months ended June 30, 2012, as compared to $50,000 for the three months ended June 30, 2011, an increase of $325,000 or 650.00%. After completing the analysis outlined below, we increased the provision for loan losses. Although our asset quality remained relatively stable, we experienced approximately $20.3 million in growth in the portfolio during the three months ended June 30, 2012 and the economy remained weak. We have allocated a specific reserve for those loans where we consider it probable that we will incur a loss. Although we have seen no significant deterioration in our legacy asset quality, past due amounts that have increased modestly, the addition of several new lenders from the acquisition, the increased size and complexity of the acquired portfolio and the anemic growth in the economy all contribute to increased uncertainty regarding the future performance of our borrowers. As a result, our historical asset quality may not be an accurate indicator of our future performance. Therefore, we determined that it remained prudent to continue to increase the allowance for loan losses. Our legacy non-performing assets remain statistically low at 0.21% of total assets and we had eight loans totaling $2.8 million of legacy loans past due between 30-89 days at quarter end.

The provision for the six month period was $750,000. This represented a $550,000 or 275.00% increase as compared to the six months ended June 30, 2011. For the six months ended June 30, 2012, we increased the provision for loan losses because we believe that the addition of several new lenders from the acquisition, the anemic economy and growth in our loan portfolio warranted an increased provision.

We review the adequacy of the allowance for loan losses at least quarterly. Our review includes evaluation of impaired loans as required by ASC Topic 310-Receivables, and ASC Topic 450-Contingencies. Also incorporated in determining the adequacy of the allowance is guidance contained in the Securities and Exchange Commission's SAB No. 102, Loan Loss Allowance Methodology and Documentation, the Federal Financial Institutions Examination Council's Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions and the Interagency Policy Statement on the Allowance for Loan and Lease Losses provided by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration and Office of Thrift Supervision.

We base the evaluation of the adequacy of the allowance for loan losses upon loan categories. We categorize loans as installment and other consumer loans (other than boat loans), boat loans, mortgage loans (commercial real estate, residential real estate and real estate construction) and commercial loans. We apply loss ratios to each category of loan other than commercial loans. We further divide commercial loans by risk rating and apply loss ratios by risk rating, to determine estimated loss amounts. We evaluate delinquent loans and loans for which management has knowledge about possible credit problems of the borrower or knowledge of problems with loan collateral separately and assign loss amounts based upon the evaluation.

We determine loss ratios for installment and other consumer loans, boat loans and mortgage loans (commercial real estate, residential real estate and real estate construction) based upon a review of prior 18 months delinquency trends for the category, the three year loss ratio for the category, peer group loss ratios, probability of loss factors and industry standards.

With respect to commercial loans, management assigns a risk rating of one through eight to each loan at inception, with a risk rating of one having the least amount of risk and a risk rating of eight having the greatest amount of risk. For commercial loans of less than $250,000, we may review the risk rating annually based on, among other things, the borrower's financial condition, cash flow and ongoing financial viability; the collateral securing the loan; the borrower's industry; and payment history. We review the risk rating for all commercial loans in excess of $250,000 at least annually. We evaluate loans with a risk rating of five or greater separately and allocate a portion of the allowance for loan losses based upon the evaluation. For loans with risk ratings between one and four, we determine loss ratios based upon a review of prior 18 months delinquency trends, the three year loss ratio, peer group loss ratios, probability of loss factors and industry standards.

We also identify and make any necessary allocation adjustments for any specific concentrations of credit in a loan category that in management's estimation increase the risk inherent in the category. If necessary, we will also make an adjustment within one or more loan categories for economic considerations in our market area that may impact the quality of the loans in the category. For all periods presented, there were no specific adjustments made for concentrations of credit. We consider qualitative or environmental factors that are likely to cause estimated credit losses associated with our existing portfolio to differ from historical loss experience. These factors include, but are not limited to, changes in lending policies and procedures, changes in the nature and volume of the loan portfolio, changes in the experience, ability and depth of lending management and the effect of other external factors such as economic factors, competition and legal and regulatory requirements on the level of estimated credit losses in our existing portfolio.

In the event that our review of the adequacy of the allowance results in any unallocated amounts, we reallocate such amounts to our loan categories based on the percentage that each category represents to total gross loans. We have risk management practices designed to ensure timely identification of changes in loan risk profiles. However, undetected losses inherently exist within the portfolio. We believe that the allocation of the unallocated portion of the reserve in the manner described above is appropriate. Although we may allocate specific portions of the allowance for specific credits or other factors, the entire allowance is available for any credit that we should charge off. We will not create a separate valuation allowance unless we consider a loan impaired.

As we reported in our Form 10-K for the year ended December 31, 2011 and as further outlined in Note 5. Loans and the "Non-Accrual Legacy Loans and Legacy Other Real Estate Owned" section of this report, at December 31, 2011, we had one legacy loan in the amount of $1,169,337 that is a residential land acquisition and development loan secured by real estate. In February 2012, we sold at foreclosure the property that secured the promissory note on this loan and expected to receive ratification of the foreclosure and proceeds from the sale of approximately $970,000 during the first quarter of 2012. Therefore, during the first quarter of 2012, we charged $200,000 to the allowance for loan losses to properly reflect the net sales proceeds that we expected to receive. The courts have rejected the foreclosure. We have subsequently re-foreclosed on the property. We expect ratification of the sale in the third quarter.

During the six months ended June 30, 2012, we also charged $89,018 to the allowance for loan losses for two legacy loans to one borrower that were secured by a blanket lien on the borrower's assets and a second deed of trust on the guarantor's personal residence. The borrower ceased operations, filed bankruptcy and the collateral has no value. We have filed judgment against the guarantors. During the three months ended June 30, 2012, we charged off an additional legacy loan in the amount of $46,511. The borrower on this loan has filed bankruptcy.

The other significant charge offs during the period related to acquired non-accrual loans. During the second quarter of 2012 we charged off an acquired loan in the amount of $29,012. We are in the process of liquidating the assets of this borrower. We are unable to determine at this time, what, if any, recovery we may receive from this liquidation. During the first quarter of 2012, we charged off a loan in the amount of $47,635. At December 31, 2011, we had considered this loan impaired and had allocated the entire balance of this loan in the allowance for loan losses. The remaining charge offs during the period related primarily to several acquired or legacy consumer loans. The recoveries recorded to the allowance for loan losses were all substantially recovered from acquired loans that were charged to the allowance for loan losses at MB&T prior to the acquisition date of April 1, 2011.

Our policies require a review of assets on a regular basis and we believe that we appropriately classify loans as well as other assets if warranted. We believe that we use the best information available to make a determination with respect to the allowance for loan losses, recognizing that the determination is inherently subjective and that future adjustments may be necessary depending upon, among other factors, a change in economic conditions of specific borrowers or generally in the economy and new information that becomes available to us. However, there are no assurances that the allowance for loan losses will be sufficient to absorb losses on non-performing assets, or that the allowance will be sufficient to cover losses on non-performing assets in the future.

The allowance for loan losses represented 0.71% of gross loans at June 30, 2012 and 0.69% as of December 31, 2011. We have no exposure to foreign countries or foreign borrowers. Based on our analysis and the satisfactory historical performance of the loan portfolio, we believe this allowance appropriately reflects the inherent risk of loss in our portfolio.

The following tables provide an analysis of the allowance for loan losses for the periods indicated:

Allowance for Loan Losses
June 30, 2012

	Acquired	Legacy	Total
Balance, beginning of period	$-	$3,741,271	$3,741,271
Provision for loan losses	-	750,000	750,000
Charge-offs:			
Commercial	(76,648)	(11,043)	(87,691)
Mortgage	-	(324,486)	(324,486)
Consumer	(63,208)	-	(63,208)
Total charge-offs	(139,856)	(335,529)	(475,385)
Recoveries:			
Commercial	31,933	-	31,933
Mortgage	12,975	-	12,975
Consumer	48,667	-	48,667
Total recoveries	93,575	-	93,575
Net (charge-offs) recoveries	(46,281)	(335,529)	(381,810)
Balance, end of period			$4,109,461
Ratio of allowance for loan losses to:			
Total gross loans			0.71 %
Non-accrual loans			62.00 %
Ratio of net-charge-offs during period to average total loans during period			0.07 %

Allowance for Loan Losses

June 30, 2011

	Acquired	Legacy	Total
Balance, beginning of period	$-	$2,468,476	$2,468,476
Provision for loan losses	-	200,000	200,000
Chargeoffs:			
Commercial	-	-	-
Mortgage	-	(446,980)	(446,980)
Consumer	(54,446)	-	(54,446)
Total chargeoffs	(54,446)	(446,980)	(501,426)
Recoveries:			
Commercial	47,243	-	47,243
Mortgage	1,121	-	1,121
Consumer	24,043	-	24,043
Total recoveries	72,407	-	72,407
Net (chargeoffs) recoveries	17,961	(446,980)	(429,019)
Balance, end of period			$2,239,457
Ratio of allowance for loan losses to:			
Total gross loans			0.45%
Non-accrual legacy loans			191.52%
Ratio of net-chargeoffs during period to average total loans during period			0.108%

Allowance for Loan Losses

December 31, 2011	Acquired	Legacy	Total
Balance, beginning of period	$ -	$ 2,468,476	$ 2,468,476
Provision for loan losses	-	1,800,000	1,800,000
Chargeoffs:			
Commercial	(34,053)	-	(34,053)
Mortgage	(158,811)	(446,980)	(605,791)
Consumer	(75,158)	(47,261)	(122,419)
Total chargeoffs	(268,022)	(494,241)	(762,263)
Recoveries:			
Commercial	154,523	-	154,523
Mortgage	13,701	-	13,701
Consumer	66,630	204	66,834
Total recoveries	234,854	204	235,058
Net (chargeoffs) recoveries	(33,168)	(494,037)	(527,205)
Balance, end of period			$ 3,741,271
Ratio of allowance for loan losses to:			
Total gross loans			0.69 %
Non-accrual loans			64.17 %
Ratio of net-chargeoffs during period to average total loans during period			0.115 %

The following table provides a breakdown of the allowance for loan losses:

Allocation of Allowance for Loan Losses

	June 30, 2012		June 30, 2011		December 31, 2011	
	Amount	% of Loans in Each Category	Amount	% of Loans in Each Category	Amount	% of Loans in Each Category
Other consumer	$ 143,568	0.67 %	$ 13,453	0.98 %	$ 130,653	0.89 %
Boat	294,175	1.54	298,243	2.07	565,240	1.63
Mortgage	2,893,147	80.64	1,547,983	76.77	2,123,068	77.73
Commercial	778,571	17.15	379,778	20.18	922,310	19.75

Total	$ 4,109,461	100.00 %	$ 2,239,457	100.00 %	$ 3,741,271	100.00 %

Non-interest Revenue

Three months ended June 30, 2012 compared to three months ended June 30, 2011

Non-interest revenue totaled $1.2 million for the three months ended June 30, 2012, an increase of $638,455 or 123.41% from the 2011 amount of $517,331. Non-interest revenue for the three months ended June 30, 2012 and June 30, 2011 included fee income from service charges on deposit accounts, gain on sales or calls of investment securities, earnings on bank owned life insurance, gains or losses on sales of other real estate owned and other fees and commissions including revenues with respect to Pointer Ridge. The primary cause of the increase in non-interest revenue were increases in the gain on sales of investments and gain on sales of other real estate owned as well as a decrease in the other than temporary impairment on equity securities charge. Gain on sales or calls of investment securities increased during the period, because in order to reallocate our holdings in the investment portfolio and minimize future prepayment risk, we elected to sell a higher dollar amount of securities and as a result recognized a higher gain. Gain on sales of other real estate owned increased because we sold an acquired property at a gain during the three months ended June 30, 2012 and we did not sell any real estate owned during the three months ended June 30, 2011. Pointer Ridge rent and other revenues increased as a result of new tenants occupying vacant space in the building owned by Pointer Ridge.

We recorded a permanent impairment on equity securities during the three months ended June 30, 2011 but, had no such impairments during 2012. In addition, other fees and commissions increased during the 2012 period primarily as a result of letters of credit and loan fees. These increases were partially offset by a decrease in service charges on deposit accounts, which decreased because we lowered our fees for these services in June of 2011 and customers used fewer services.

The following table outlines the changes in non-interest revenue for the three month periods.

	June 30, 2012	June 30, 2011	$ Change	% Change
Service charges on deposit accounts	$ 328,142	$ 396,785	$ (68,643)	(17.30) %
Gain on sales or calls of investment securities	282,858	2,489	280,369	11,264.32
Permanent impairment on equity securities	-	(122,500)	122,500	-
Earnings on bank owned life insurance	138,496	122,350	16,146	13.20
Gain on sales of other real estate owned	191,201	-	191,201	-
Pointer Ridge rent and other revenue	108,585	45,785	62,800	137.16
Other fees and commissions	106,504	72,422	34,082	47.06
Total non-interest revenue	$ 1,155,786	$ 517,331	$ 638,455	123.41 %

Six months ended June 30, 2012 compared to six months ended June 30, 2011

Non-interest revenue totaled $2.0 million for the six months ended June 30, 2012, an increase of $1.2 million or 141.58% from the 2011 amount of $842,211. Non-interest revenue for the six months ended June 30, 2012 and June 30, 2011 included fee income from service charges on deposit accounts, gains on sales or calls of investment securities, earnings on bank owned life insurance, gain or losses on sales of other real estate owned and other fees and commissions including revenues with respect to Pointer Ridge. The primary causes of the increase in non-interest revenue was an increase in the gain on sales of investments and the acquisition of MB&T, which was supplemented by growth in legacy bank customers and services provided to both new and existing customers. The acquisition was the major contributor to the increases in service charges, earnings on bank owned life insurance and other fees and commissions during the six months ended June 30, 2012 compared to the six months ended June 30, 2011. Gain on sales or calls of investment securities increased during the period, because in order to reallocate our holdings in the investment portfolio and minimize future prepayment risk, we elected to sell a higher dollar amount of securities and as a result recognized a higher gain. Also contributing to the increase in non-interest revenues was an increase in gain on sales of other real estate owned, which increased because we sold an acquired property at a gain during the six months ended June 30, 2012 and we did not sell any real estate owned during the 2011 period, and a decrease in the other than temporary impairment on equity securities charge, which decreased for the reasons discussed above for the three-month period. Finally, Pointer Ridge rent and other revenues increased as a result of a decline in the vacancy in the building owned by Pointer Ridge.

The following table outlines the changes in non-interest revenue for the six month periods.

	June 30, 2012	June 30, 2011	$ Change	% Change
Service charges on deposit accounts	$ 647,469	$ 479,235	$ 168,234	35.10 %
Gain on sales or calls of investment securities	560,028	40,559	519,469	1,280.77
Permanent impairment on equity securities	-	(122,500)	122,500	-
Earnings on bank owned life insurance	275,201	201,388	73,813	36.65
Gain on sales of other real estate owned	159,213	-	159,213	-
Pointer Ridge rent and other revenue	155,695	113,940	41,755	36.65
Other fees and commissions	236,993	129,589	107,404	82.88
Total non-interest revenue	$ 2,034,599	$ 842,211	$ 1,192,388	141.58 %

As a result of our expanded market presence, business development effort and increased name recognition, we anticipate that we will continue to grow new and existing customer relationships. We expect that these expanded relationships will cause service charges on deposit accounts and other fees and commissions to continue to increase during the remainder of 2012. We also plan to continue to work to sell our other real estate owned and may realize additional gains from these sales.

Non-interest Expense

Three months ended June 30, 2012 compared to three months ended June 30, 2011

Non-interest expense increased $83,726 for the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The following chart outlines the changes in non-interest expenses for the period.

	June 30, 2012	June 30, 2011	$ Change	% Change
Salaries and benefits	$3,024,815	$2,973,734	$51,081	1.72 %
Occupancy and equipment	914,576	857,381	57,195	6.67
Data processing	192,232	233,332	(41,100)	(17.61)
FDIC insurance and State of Maryland assessments	148,921	167,312	(18,391)	(10.99)
Merger and integration	29,166	377,214	(348,048)	(92.27)
Core deposit premium	177,582	194,675	(17,093)	(8.78)
Pointer Ridge other operating	101,877	209,460	(107,583)	(51.36)
Other operating	1,659,999	1,152,334	507,665	44.06
Total non-interest expenses	$6,249,168	$6,165,442	$83,726	1.36 %

Salaries, employee benefits, occupancy and equipment, and other operating expenses increased primarily because of enhancements to our personnel and infrastructure that we believe will allow us to efficiently operate a larger organization and continue to expand our service and market area. Merger and integration expenses decreased during the 2012 period because we completed substantially all of the activities associated with the merger during 2011 with the exception of the expenses associated with the two year non-compete agreements with former MB&T directors. The core deposit premium decreased during the quarter because we amortize this premium on an accelerated basis which causes a reduction in the expense over the amortization period. The decrease in FDIC insurance and State of Maryland assessments was a result of lower FDIC assessments as a result of the change in the base and rate calculation as required by the Dodd-Frank Act. Pointer Ridge other operating expense decreased because the vacancy rate in the building declined and the new tenants are paying a pro-rata share of the building's operating expenses.

Six months ended June 30, 2012 compared to six months ended June 30, 2011

Non-interest expense increased $2.8 million for the six months ended June 30, 2012. The following chart outlines the changes in non-interest expenses for the period.

	June 30, 2012	June 30, 2011	$ Change	% Change
Salaries and benefits	$ 5,833,809	$ 4,474,445	$ 1,359,364	30.38 %
Occupancy and equipment	1,822,447	1,317,295	505,152	38.35
Data processing	416,967	363,082	53,885	14.84
FDIC insurance and State of Maryland assessments	278,645	318,816	(40,171)	(12.60)
Merger and integration	58,333	467,274	(408,941)	(87.52)
Core deposit premium	372,257	194,675	177,582	91.22
Pointer Ridge other operating	212,333	327,682	(115,349)	(35.20)
Other operating	2,940,550	1,629,347	1,311,203	80.47
Total non-interest expenses	$ 11,935,341	$ 9,092,616	$ 2,842,725	31.26 %

Salaries and benefits, occupancy and equipment, data processing and other operating expenses increased primarily because of increased operating expenses resulting from the acquisition of MB&T and enhancements to our infrastructure. As a result of the acquisition, we increased our number of employees by 86 and our branch network by nine. During the first three months of 2011, we did not incur these expenses. The increase in the core deposit premium was the result of the acquisition of MB&T and subsequent amortization of the core deposit intangible. These increases were partially offset by a decline in merger and integration costs, FDIC insurance and State of Maryland assessments and Pointer Ridge other operating expenses. Merger and integration costs declined during the 2012 period because we have completed the merger and previously expensed all costs associated with it, except for non-compete fees paid to former directors which we will continue to incur. The decrease in FDIC insurance and State of Maryland assessments was a result of lower FDIC assessments as a result of the change in the base and rate calculation as required by the Dodd-Frank Act. Pointer Ridge other operating expense decreased because the vacancy rate in the building declined and the new tenants are paying a pro-rata share of the building's operating expenses.

For the remainder of 2012, we anticipate that non-interest expenses will remain relatively comparable to those incurred during the second quarter of 2012.

Income Taxes

Three months ended June 30, 2012 compared to three months ended June 30, 2011

Income tax expense was $982,759 (32.81% of pre-tax income) for the three months ended June 30, 2012 as compared to $656,357 (37.02% of pre-tax income) for the same period in 2011. The dollar amount of the taxes was higher because net income was significantly higher than in the three months ended June 30, 2011. The tax rate was lower for the three month period ended June 30, 2012 because during the three months ended June 30, 2011, tax exempt income was lower and expenses that were non-deductible for tax purposes were higher.

Six months ended June 30, 2012 compared to six months ended June 30, 2011

Income tax expense was $1.8 million (32.77% of pre-tax income) for the six months ended June 30, 2012 as compared to $991,600 (38.02% of pre-tax income) for the same period in 2011. The dollar amount of the taxes was higher because net income was significantly higher than in the six months ended June 30, 2011. The tax rate was lower for the six month period ended June 30, 2012 because during the six months ended June 30, 2011, tax exempt income was lower and expenses that were non-deductible for tax purposes were higher.

Net Income Available to Common Stockholders

Three months ended June 30, 2012 compared to three months ended June 30, 2011

Net income available to common stockholders was $2.0 million or $0.30 per basic and $0.29 per diluted common share for the three month period ending June 30, 2012 compared to net income available to common stockholders of $1.2 million or $0.17 per basic and diluted common share for the same period in 2011. The increase in net income attributable to Old Line Bancshares for the 2012 period was primarily the result of a $992,212 increase in net interest income and a $638,455 increase in non-interest revenue. These increases were partially offset by a $325,000 increase in the provision for loan losses, an $83,726 increase in non-interest expense and a $326,402 increase in taxes.

Six months ended June 30, 2012 compared to six months ended June 30, 2011

Net income available to common stockholders was $3.8 million or $0.55 per basic and diluted common share for the six month period ending June 30, 2012 compared to net income available to common stockholders of $1.7 million or $0.30 per basic and diluted common share for the same period in 2011. The increase in net income attributable to Old Line Bancshares for the 2012 period was primarily the result of a $5.2 million increase in net interest income and $1.2 million increase in non-interest revenue. These increases were partially offset by a $550,000 increase in the provision for loan losses, a $2.8 million increase in non-interest expense and an $835,164 increase in taxes.

Analysis of Financial Condition

Investment Securities

Our portfolio consists primarily of time deposits in other banks, investment grade securities including U.S. treasury securities, U.S. government agency securities, U.S. government sponsored entity securities, securities issued by states, counties and municipalities, mortgage backed securities, and certain equity securities, including Federal Reserve Bank stock, Federal Home Loan Bank stock, Maryland Financial Bank stock and Atlantic Central Bankers Bank stock. With the acquisition of MB&T, we acquired approximately $262,000 of Student Loan Marketing Association (SLMA) stock. We have prudently managed our investment portfolio to maintain liquidity and safety. The portfolio provides a source of liquidity, collateral for borrowings as well as a means of diversifying our earning asset portfolio. While we usually intend to hold the investment securities until maturity, currently we classify all of our investment securities as available for sale because during the second quarter of 2011, we sold a held to maturity security and, as required by accounting guidance, we reclassified all securities classified as held to maturity to available for sale. We account for investment securities so classified at fair value and report the unrealized appreciation and depreciation as a separate component of stockholders' equity, net of income tax effects. We account for investment securities when classified in the held to maturity category at amortized cost. Although we will occasionally sell a security, generally, we invest in securities for the yield they produce and not to profit from trading the securities. As a result of the acquisition of Maryland Bankcorp, we evaluated the investment portfolio to ensure that the securities acquired in the acquisition meet our investment criteria and provide adequate liquidity, and that there is adequate diversity in the investment portfolio. This analysis precipitated the sale of the security mentioned above. There are no trading securities in the portfolio.

The investment securities at June 30, 2012 amounted to $168.5 million, an increase of $6.7 million, or 4.15%, from the December 31, 2011 amount of $161.8 million. As outlined above, at June 30, 2012, all securities are classified as available for sale.

The fair value of available for sale securities included net unrealized gains of $3.8 million at June 30, 2012 (reflected as unrealized gains of $2.3 million in stockholders' equity after deferred taxes) as compared to net unrealized gains of $3.9 million ($2.4 million net of taxes) as of December 31, 2011. In general, the increase in fair value was a result of changes in the duration or maturity of the portfolio and decreasing market rates. We have evaluated securities with unrealized losses for an extended period of time and determined that these losses are temporary because, at this point in time, we expect to hold them until maturity. We have no intent or plan to sell these securities, it is not likely that we will have to sell these securities and we have not identified any portion of the loss that is a result of credit deterioration in the issuer of the security. As the maturity date moves closer and/or interest rates decline, any unrealized losses in the portfolio will decline or dissipate.

Loan Portfolio

Commercial loans and loans secured by real estate comprise the majority of the loan portfolio. Old Line Bank's loan customers are generally located in the greater Washington, D.C. metropolitan area.

The loan portfolio, net of allowance, unearned fees and origination costs, increased $33.8 million or 6.28% to $573.1 million at June 30, 2012 from $539.3 million at December 31, 2011. Commercial business loans decreased by $8.3 million (7.70%), commercial real estate loans increased by $44.7 million (16.36%), residential real estate loans decreased by $1.6 million (1.64%), real estate construction loans (primarily commercial real estate construction) increased by $226,000 (0.44%) and consumer loans decreased by $922,000 (6.74%) from their respective balances at December 31, 2011. The loan growth during the period was a direct result of our business development efforts as well as our enhanced presence in our market area. We saw loan and deposit growth generated from our entire team of lenders, branch personnel and board of directors. We anticipate the entire team will continue to focus their efforts on business development during the remainder of 2012 and continue to grow the loan portfolio. However, the current economic climate may cause slower loan growth.

The following table summarizes the composition of the loan portfolio by dollar amount and percentages:

(Dollars in thousands)	June 30, 2012			December 31, 2011		
Real Estate						
Commercial	$317,773	55.13	%	$273,101	50.36	%
Construction	51,888	9.00		51,662	9.53	
Residential	95,137	16.50		96,724	17.84	
Commercial	98,872	17.15		107,126	19.75	
Consumer	12,752	2.21		13,674	2.52	
	576,422	100.00	%	542,287	100.00	%
Allowance for loan losses	(4,109)			(3,741)		
Deferred loan costs, net	834			752		
	$573,146			$539,298		

Asset Quality

Management performs reviews of all delinquent loans and directs relationship officers to work with customers to resolve potential credit issues in a timely manner.

As outlined below, we have only one construction loan that has an interest reserve included in the commitment amount and where advances on the loan currently pay the interest due.

	June 30, 2012		December 31, 2011	
	# of Borrowers	(000's)	# of Borrowers	(000's)
Hotels	1	$ 4,337	1	$ 2,093
Single family acquisition & development		-	1	1,418
	1	$ 4,337	2	$ 3,511

Management has identified additional potential problem loans totaling $6.5 million that are complying with their repayment terms. Management has concerns either about the ability of the borrower to continue to comply with repayment terms because of the borrower's potential operating or financial difficulties or the underlying collateral has experienced a decline in value. These weaknesses have caused management to heighten the attention given to these credits.

Management generally classifies loans as non-accrual when it does not expect collection of full principal and interest under the original terms of the loan or payment of principal or interest has become 90 days past due. Classifying a loan as non-accrual results in our no longer accruing interest on such loan and reversing any interest previously accrued but not collected. We will generally restore a non-accrual loan to accrual status when the borrower brings delinquent principal and interest payments current and we expect to collect future monthly principal and interest payments. We recognize interest on non-accrual loans only when received.

At June 30, 2012, we had two borrowers past due 90 or more days, with loans totaling $940,072 that we have not classified as non-accrual. The first loan matured and the borrower is deceased. The estate continues to pay the loan as agreed, but is unable to execute documents until the court appoints a trustee. The borrower on the second loan also continues to pay the loan payments on a monthly basis. We are currently in process of restructuring this loan. We do not anticipate that we will incur losses on these loans.

At June 30, 2012, we had three non-accrual legacy loans totaling $1.8 million compared to two legacy loans totaling $1.2 million at December 31, 2011. At June 30, 2012, we also had five legacy loans on accrual status totaling $778,980 past due 30-89 days.

At June 30, 2012, we had 22 non-accrual acquired loans totaling $4.8 million compared to 22 non-accrual acquired loans totaling $4.6 million at December 31, 2011. At June 30, 2012, we also had 21 acquired loans on accrual status carried at a total fair value of $1.7 million.

The table below outlines the transfer of loans from and to non-accrual status for the six month period:

	Legacy Loans		Acquired Loans		Total
	# of Borrowers	Loan Balance	# of Borrowers	Loan Balance	Loan Balance
Beginning Balance, December 31, 2011	2	$1,247	17	$4,583	$5,830
Transferred in	2	818	3	1,202	2,020
Payments received		-	(1)	(896)	(896)
Repossessed		-		-	-
Charged off	(1)	(278)		(48)	(326)
Transferred to other real estate owned		-		-	-
Ending balance, June 30, 2012	3	$1,787	19	$4,841	$6,628

Non-Accrual Legacy Loans and Legacy Other Real Estate Owned

At June 30, 2012, we had three non-accrual legacy loans with a total recorded book balance of $1,786,793. The first non-accrual legacy loan is a residential land acquisition and development loan secured by real estate. The borrower and guarantor on this loan have filed bankruptcy. During the first quarter of 2011, we charged $446,980 to the allowance for loan losses and reduced the balance on this loan from $1,616,317 to $1,169,337. We subsequently identified a potential buyer for this note who had agreed to purchase it at a price slightly lower than the carrying value. In October of 2011, the prospective purchaser of the promissory note rescinded his offer. In February 2012, we sold at foreclosure the property that secured the promissory note on this loan and expected to receive ratification of the foreclosure and proceeds from the sale of approximately $970,000 during the first quarter of 2012. Therefore, during the first quarter of 2012, we charged an additional $200,000 to the allowance for loan losses to properly reflect the net sales proceeds that we expected to receive. At June 30, 2012, the balance on this loan was $969,337 and the non-accrued interest was $267,641, none of which was included in interest income. The courts rejected the initial foreclosure. We have subsequently re-foreclosed on the property and expect ratification of the sale in the third quarter.

The second non-accrual legacy loan is a commercial real estate loan in the amount of $464,978. The original purpose of this loan was to purchase a building for use as a fast food franchise. The borrower on this loan executed a lease on land on which the building that secures this loan was built. The borrower has closed this facility and has no other available assets. We transferred this loan to non-accrual status during the first quarter of 2012. We are currently in negotiations with the landlord of the land and the borrower. We have received an appraisal that indicates the value of our interest in the property is higher than our loan balance. At this point, we are unable to ascertain the potential loss on this loan. We have allocated $232,489 of the allowance for loan losses for this loan. The non-accrued interest on this loan is $14,438.

The third non-accrual legacy loan is a commercial real estate loan in the amount of $352,478. The borrower’s business has insufficient cash flow to make payments on this loan. We also transferred this loan to non-accrual status during the first quarter of 2012. A current appraisal indicates that the value of the real estate that is the collateral for this loan is sufficient to provide payment in full. We have not allocated any of the allowance for loan losses for this loan. The non-accrued interest on this loan is $32,190.

At December 31, 2011, we had two non-accrual legacy loans totaling $1,247,312 past due and classified as non-accrual. The first loan in the amount of $1,169,337 is a residential land acquisition and development loan secured by real estate and described above. At December 31, 2011, the non-accrued interest on this loan was $212,484, none of which was included in interest income.

The second loan was a commercial loan secured by a blanket lien on the borrower's assets and a second deed of trust on the guarantors' personal residence. The borrower has ceased operations and the collateral has no value. In the first quarter of 2012, we charged the entire balance due to the allowance for loan losses and have filed a judgment against the guarantors. At December 31, 2011, we had allocated the entire loan balance to the allowance for loan losses.

Non-Accrual Acquired Loans and Other Real Estate Owned

At June 30, 2012, we had 19 non-accrual acquired loans totaling $4.8 million compared to 24 non-accrual acquired loans totaling $4.6 million at December 31, 2011. Of these, the borrowers on 15 loans totaling $2.8 million are current according to their contractual terms and are generally making monthly payments, albeit in a slow manner. The loans were placed on non-accrual by MB&T because of their slow payment history and/or the industry was significantly impacted by the weaknesses in the economy.

At December 31, 2011, we had two borrowers owned by the same individual who had four loans totaling $775,000. The borrower paid the fair value of these four loans during the first quarter of 2012 and there is no balance remaining in non-accrual. However, there is still a contractual amount remaining on these loans. We continue to work with the borrower for full repayment of the contractual amount.

At December 31, 2011 and June 30, 2012, we had one borrower with one note secured by commercial real estate and the fair value of the loan is $300,000. We plan to foreclose on this property during the third quarter of 2012. The fair value is equivalent to our assessment of the current value of the real estate less any carrying costs or expenses to sell.

At December 31, 2011 and June 30, 2012, we had one borrower with a loan secured by commercial real estate and the fair value of the loan is $250,000. The borrower has filed a new bankruptcy plan and we are receiving payments from the bankruptcy court. The fair value is equivalent to our assessment of the current value of the real estate less any carrying costs or expenses to sell.

At December 31, 2011 and June 30, 2012, we had a loan in the amount of $347,474 that was transferred to non-accrual during the fourth quarter of 2011. Commercial real estate secures this loan and the fair value of the loan, as of June 30, 2012, is $317,873. We were awarded a confess judgment against the borrower and are working towards foreclosure of the property. The fair value is equivalent to our assessment of the current value of the real estate less any carrying cost or expenses to sell.

We transferred another loan to non-accrual status during the fourth quarter of 2011. This loan was unsecured and the fair value of the loan was $47,635. We charged this loan to the allowance for loan losses during the first quarter of 2012.

During the first quarter of 2012, we transferred three acquired loans totaling $1.2 million for two borrowers to non-accrual status. The first acquired loan is to one borrower who had two loans totaling $936,243. This borrower is the same borrower discussed above in the legacy non-accrual loans. The original purpose of the loans was to purchase and equip a building for use as a fast food franchise. The borrower on these loans executed a lease on land on which the building that secures this loan was built. The borrower has closed this facility and has no other available assets. We have completed negotiations with the landlord and are attempting to locate a tenant to occupy this facility. We have received an appraisal that indicates the value of our interest is greater than the book value of the loan. At this point, we are unable to ascertain the potential loss on this loan. We have allocated $468,123 of the allowance for loan losses for these loans.

The borrower on the third loan transferred during the first quarter of 2012 to non-accrual status is a loan secured by commercial real estate and four residential lots with a fair value of $241,624. This loan has matured. We are in litigation with the borrower. Assuming we prevail in litigation, we anticipate we will receive payment in full either by foreclosing on the collateral and selling the properties or through receipt of payment from the borrower. During the second quarter of 2012, we transferred an acquired loan in the amount of $23,669 to non-accrual status. The borrower has filed for bankruptcy.

We classify any property acquired as a result of foreclosure on a mortgage loan as "other real estate owned" and record it at the lower of the unpaid principal balance or fair value at the date of acquisition and subsequently carry the property at the lower of cost or net realizable value. We charge any required write down of the loan to its net realizable value against the allowance for loan losses at the time of foreclosure. We charge to expense any subsequent adjustments to net realizable value. Upon foreclosure, Old Line Bank generally requires an appraisal of the property and, thereafter, appraisals of the property on at least an annual basis and external inspections on at least a quarterly basis.

As required by ASC Topic 310-Receivables and ASC Topic 450-Contingencies, we measure all impaired loans, which consist of all modified loans and other loans for which collection of all contractual principal and interest is not probable, based on the present value of 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. If the measure of the impaired loan is less than the recorded investment in the loan, we recognize impairment through a valuation allowance and corresponding provision for loan losses. Old Line Bank considers consumer loans as homogenous loans and thus does not apply the impairment test to these loans. We write off impaired loans when collection of the loan is doubtful.

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The table below presents a breakdown of the recorded book balance of non-performing loans and accruing past due loans at June 30, 2012.

Non-Accrual and Past Due Loans and Troubled Debt Restructurings
Recorded Book Balance
June 30, 2012

	Legacy			Acquired		
	# of Borrowers	Account Balance	Interest Not Accrued	# of Borrowers	Account Balance	Interest Not Accrued
Real Estate						
Commercial	2	$817,456	$46,627	7	$2,431,806	$870,081
Construction	1	969,337	267,641	3	850,000	705,281
Residential		-	-	6	1,300,661	388,346
Commercial		-	-	3	259,141	51,468
Consumer		-	-		-	-
Total non-performing loans	3	$1,786,793	$314,268	19	$4,841,608	$2,015,176
Accruing past due loans:						
30-59 days past due						
Real estate	5	1,470,732		1	425,107	
Commercial	1	439,768		3	237,115	
Consumer		-		12	42,124	
Total 30-59 days past due	6	1,910,500		16	704,346	
60-89 days past due						
Real estate	2	888,719			-	
Commercial		-		2	20,993	
Consumer		-		1	699	
Total 60-89 days past due	2	888,719		3	21,692	
90 or more days past due						
Consumer		-		2	940,072	
Total accruing past due loans	8	$2,799,219		21	$1,666,110	
Accruing Troubled Debt Restructurings						
Real Estate	1	$499,122		1	$152,848	
Consumer		-		1	442	
Total Accruing Troubled Debt Restructurings	1	$499,122		2	$153,290	

The table below presents a breakdown of the recorded book balance of non-performing loans and accruing past due loans at December 31, 2011.

Non-Accrual and Past Due Loans and Troubled Debt Restructurings
Recorded Book Balance
December 31, 2011

	Legacy			Acquired		
	# of Borrowers	Account Balance	Interest Not Accrued	# of Borrowers	Account Balance	Interest Not Accrued
Real Estate						
Commercial		$-	$-	7	$2,288,900	$1,164,630
Construction	1	1,169,337	212,484	2	1,184,146	255,560
Residential		-	-	4	1,019,942	241,093
Commercial	1	77,975	1,735	4	90,039	33,041
Consumer		-	-		-	-
Total non-performing loans	2	$1,247,312	$214,219	17	$4,583,027	$1,694,324
Accruing past due loans:						
30-59 days past due						
Real estate	1	421,805		3	474,651	
Commercial		-			-	
Consumer		-		16	22,698	
Total 30-59 days past due	1	421,805		19	497,349	
60-89 days past due						
Real estate	2	311,762		2	338,431	
Commercial	1	11,043			-	
Consumer		-		1	3,494	
Total 60-89 days past due	3	322,805		3	341,925	
90 or more days past due						
Consumer	1	34,370			-	
Total accruing past due loans	5	$778,980		22	$839,274	
Accruing Troubled Debt Restructurings						
Real Estate	3	$5,037,879			$-	
Consumer	1	142,671		2	154,088	
Total Accruing Troubled Debt Restructurings	4	$5,180,550		2	$154,088	

Bank owned life insurance

We have invested $16.6 million in life insurance policies on our executive officers, other officers of the Bank, and retired officers of MB&T. We anticipate the earnings on these policies will contribute to our employee benefit expenses as well as our obligations under our Salary Continuation Agreements and Supplemental Life Insurance Agreements that we entered into with our executive officers in January 2006 as well as that MB&T had entered into with its executive officers. During the first six months of 2012, the cash surrender value of the insurance policies increased by $228,359 as a result of earnings on these policies. There are no post retirement death benefits associated with the BOLI policies owned by Old Line Bank prior to the acquisition of MB&T. We have accrued a $213,470 liability associated with the post retirement death benefits of the BOLI policies acquired from MB&T.

Goodwill

During the second quarter of 2011, we recorded goodwill of $116,723 associated with the acquisition of Maryland Bankcorp. This amount represented the difference between the estimated fair value of tangible and intangible assets acquired and liabilities assumed at acquisition date. During the third quarter of 2011, the goodwill increased $25,000 as a result of additional liabilities that we identified during the period. During the fourth quarter of 2011, we received a valuation of the pension plan asset at acquisition date and at December 31, 2011. As a result of this valuation, in the fourth quarter of 2011, we recorded a $492,067 increase to goodwill to reflect the costs incurred by the pension plan as of the acquisition date.

Core deposit intangible

As a result of the acquisition of Maryland Bankcorp, during the second quarter of 2011, we recorded a core deposit intangible of $5.0 million. This amount represented the premium that we paid to acquire MB&T's core deposits over the fair value of such deposits. We will amortize the core deposit intangible on an accelerated basis over its estimated useful life of 18 years. At June 30, 2012, the core deposit intangible was $4.0 million.

Deposits

We seek deposits within our market area by paying competitive interest rates, offering high quality customer service and using technology to deliver deposit services effectively.

At June 30, 2012, the deposit portfolio had increased to $719.6 million, a $28.8 million or 4.17% increase over the December 31, 2011 level of $690.8 million. Non-interest bearing deposits increased $16.5 million during the period to $186.6 million from $170.1 million primarily because we established new relationships during the period and expanded upon existing ones. Interest-bearing deposits rose $12.3 million to $533.0 million from $520.6 million. The increase in interest bearing deposits was primarily the result of increased depository relationships with local municipalities and state organizations, with the vast majority placed in reciprocal deposits obtained through the Promontory Interfinancial Network. The following table outlines the increase in interest bearing deposits:

	June 30, 2012	December 31, 2011	$ Change	% Change
		(Dollars in thousands)		
Certificates of deposit	$ 328,586	$ 336,068	$ (7,482)	(2.23) %
Interest bearing checking	141,768	123,907	17,861	14.41
Savings	62,602	60,654	1,948	3.21

Total	$ 532,956	$ 520,629	$ 12,327	2.37 %

We acquire brokered certificate of deposits through the Promontory Interfinancial Network (Promontory). Through this deposit matching network and its certificate of deposit account registry service (CDARS) and money market account service, we have the ability to offer our customers access to FDIC insured deposit products in aggregate amounts exceeding current insurance limits. When we place funds through Promontory on behalf of a customer, we receive matching deposits through the network's reciprocal deposit program. We can also place deposits through this network without receiving matching deposits. At June 30, 2012, we had $35.2 million in CDARS and $29.7 million in money market accounts through Promontory's reciprocal deposit program compared to $24.8 million and $14.1 million, respectively, at December 31, 2011. At June 30, 2012, we had received $30.2 million in deposits through the Promontory network that were not reciprocal deposits compared to $52.0 million at December 31, 2011. We had no other brokered certificates of deposit as of June 30, 2012 and December 31, 2011. We expect that we will continue to use brokered deposits as an element of our funding strategy when required to maintain an acceptable loan to deposit ratio.

Borrowings

Old Line Bancshares has available a $3 million unsecured line of credit. Old Line Bank has available lines of credit, including overnight federal funds and repurchase agreements from its correspondent banks totaling $24.5 million as of June 30, 2012 and December 31, 2011. Old Line Bank has an additional secured line of credit from the Federal Home Loan Bank of Atlanta (FHLB) of $230.8 million at June 30, 2012. As a condition of obtaining the line of credit from the FHLB, the FHLB requires that Old Line Bank purchase shares of capital stock in the FHLB. Prior to allowing Old Line Bank to borrow under the line of credit, the FHLB also requires that Old Line Bank provide collateral to support borrowings. Therefore, we have provided collateral to support up to $73.0 million of borrowings. Of this, we had borrowed $10.0 million at June 30, 2012. We may increase availability by providing additional collateral.

Short-term borrowings consisted of short-term promissory notes issued to Old Line Bank's customers. Old Line Bank offers its commercial customers an enhancement to the basic non-interest bearing demand deposit account. This service electronically sweeps excess funds from the customer's account into a short term promissory note with Old Line Bank. These obligations are payable on demand, are secured by investments or are unsecured, re-price daily and have maturities of one to 270 days. At December 31, 2011, Old Line Bank had $7.7 million outstanding in these short term unsecured promissory notes with an average interest rate of 0.20% and $20.9 million outstanding in secured promissory notes with an average interest rate of 0.50%. We recorded these secured promissory notes with the acquisition of MB&T. At June 30, 2012, Old Line Bank had $7.9 million outstanding in short term unsecured promissory notes with an average interest rate of 0.20% and $24.1 million in secured promissory notes with an average interest rate of 0.40%.

At June 30, 2012 and December 31, 2011, Old Line Bank had two advances in the amount of $5.0 million each, from the FHLB totaling $10.0 million.

On December 12, 2007, Old Line Bank borrowed $5.0 million from the FHLB. The interest rate on this advance is 3.3575% and interest is payable on the 12th day of each March, June, September and December, commencing on March 12, 2008. On December 12, 2008, or any interest payment date thereafter, the FHLB has the option to convert the interest rate on this advance to a fixed rate three (3) month LIBOR. The maturity date on this advance is December 12, 2012.

On December 19, 2007, Old Line Bank borrowed an additional $5.0 million from the FHLB. The interest rate on this borrowing is 3.119% and is payable on the 19th day of each month. On January 22, 2008 or any interest payment date thereafter, the FHLB has the option to convert the interest rate on this advance from a fixed rate to a one (1) month LIBOR based variable rate. This borrowing matures on December 19, 2012.

The following table outlines our borrowings as of June 30, 2012 and December 31, 2011.

	Borrowings					
	June 30, 2012			December 31, 2011		
	Amount	Rate	Maximum Amount Borrowed During Any Month End Period	Amount	Rate	Maximum Amount Borrowed During Any Month End Period
Short term promissory notes	$ 7,887,232	0.20 %	$ 8,844,707	$ 7,784,561	0.30 %	$ 12,271,568
Repurchase agreements	24,068,153	0.40 %	24,068,153	20,888,096	0.50 %	22,979,870
FHLB advance due Dec. 2012	5,000,000	3.36 %	5,000,000	5,000,000	3.36 %	5,000,000
FHLB advance due Dec. 2012	5,000,000	3.12 %	5,000,000	5,000,000	3.12 %	5,000,000
Total short term borrowings	$ 41,955,385		$ 42,912,860	$ 38,672,657		$ 45,251,438
Senior note, fixed at 6.28%	6,239,129	6.28 %		6,284,479	6.28 %	
Total long term borrowings	$ 6,239,129			$ 6,284,479		

On August 25, 2006, Pointer Ridge entered into an Amended and Restated Promissory Note in the principal amount of $6.6 million. This loan accrues interest at a rate of 6.28% through September 5, 2016. After September 5, 2016, the rate adjusts to the greater of (i) 6.28% plus 200 basis points or (ii) the Treasury Rate (as defined in the Amended Promissory Note) plus 200 basis points. At June 30, 2012 and December 31, 2011, Pointer Ridge had borrowed $6.2 million under the Amended Promissory Note. We have guaranteed to the lender payment of up to 62.50% of the loan payment plus any costs the lender incurs resulting from any omissions or alleged acts or omissions by Pointer Ridge arising out of or relating to misapplication or misappropriation of money, rents received after an event of default, waste or damage to the property, failure to maintain insurance, fraud or material misrepresentation, filing of bankruptcy or Pointer Ridge's failure to maintain its status as a single purpose entity.

Interest Rate Sensitivity Analysis and Interest Rate Risk Management

A principal objective of Old Line Bank's asset/liability management policy is to minimize exposure to changes in interest rates by an ongoing review of the maturity and re-pricing of interest earning assets and interest bearing liabilities. The Asset and Liability Committee of the Board of Directors oversees this review.

The Asset and Liability Committee establishes policies to control interest rate sensitivity. Interest rate sensitivity is the volatility of a bank's earnings resulting from movements in market interest rates. Management monitors rate sensitivity in order to reduce vulnerability to interest rate fluctuations while maintaining adequate capital levels and acceptable levels of liquidity. Monthly financial reports supply management with information to evaluate and manage rate sensitivity and adherence to policy. Old Line Bank's asset/liability policy's goal is to manage assets and liabilities in a manner that stabilizes net interest income and net economic value within a broad range of interest rate environments. Management makes adjustments to the mix of assets and liabilities periodically in an effort to achieve dependable, steady growth in net interest income regardless of the behavior of interest rates in general.

As part of the interest rate risk sensitivity analysis, the Asset and Liability Committee examines the extent to which Old Line Bank's assets and liabilities are interest rate sensitive and monitors the interest rate sensitivity gap. An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with general market rates. The interest rate sensitivity gap is the difference between interest earning assets and interest bearing liabilities scheduled to mature or re-price within such time period. A positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap tends to adversely affect net interest income, while a positive gap tends to result in an increase in net interest income. During a period of declining interest rates, a negative gap tends to result in an increase in net interest income, while a positive gap tends to adversely affect net interest income. If re-pricing of assets and liabilities were equally flexible and moved concurrently, the impact of any increase or decrease in interest rates on net interest income would be minimal.

Old Line Bank currently has a positive gap over the short term, which suggests that the net yield on interest earning assets may increase during periods of rising interest rates. However, a simple interest rate "gap" analysis by itself may not be an accurate indicator of how changes in interest rates will affect net interest income. Changes in interest rates may not uniformly affect income associated with interest earning assets and costs associated with interest bearing liabilities. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. Although certain assets and liabilities may have similar maturities or periods of re-pricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market interest rates, while interest rates on other types may lag behind changes in general market rates. In the event of a change in interest rates, prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the interest rate gap. The ability of many borrowers to service their debts also may decrease in the event of an interest rate increase.

Liquidity

Our overall asset/liability strategy takes into account our need to maintain adequate liquidity to fund asset growth and deposit runoff. Our management monitors the liquidity position daily in conjunction with Federal Reserve guidelines. As outlined in the Borrowings section of this report, we have credit lines, unsecured and secured, available from several correspondent banks totaling $27.5 million. Additionally, we may borrow funds from the FHLB and the Federal Reserve Bank of Richmond. We can use these credit facilities in conjunction with the normal deposit strategies, which include pricing changes to increase deposits as necessary. We can also sell available for sale investment securities or pledge investment securities as collateral to create additional liquidity. From time to time we may sell or participate out loans to create additional liquidity as required. Additional sources of liquidity include funds held in time deposits and cash from the investment and loan portfolios.

Our immediate sources of liquidity are cash and due from banks, federal funds sold and time deposits in other banks. On June 30, 2012, we had $37.5 million in cash and due from banks, $122,824 in interest bearing accounts, and $508,150 in federal funds sold. As of December 31, 2011, we had $43.3 million in cash and due from banks, $119,235 in interest bearing accounts and $83,114 in federal funds sold.

Old Line Bank has sufficient liquidity to meet its loan commitments as well as fluctuations in deposits. We usually retain maturing certificates of deposit as we offer competitive rates on certificates of deposit. Management is not aware of any demands, trends, commitments, or events that would result in Old Line Bank's inability to meet anticipated or unexpected liquidity needs.

During the recent period of turmoil in the financial markets, some institutions experienced large deposit withdrawals that caused liquidity problems. We did not have any significant withdrawals of deposits or any liquidity issues. Although we plan for various liquidity scenarios, if there is turmoil in the financial markets or our depositors lose confidence in us, we could experience liquidity issues.

Capital

Our stockholders' equity amounted to $71.7 million at June 30, 2012 and $68.5 million at December 31, 2011. We are considered "well capitalized" under the risk-based capital guidelines adopted by the Federal Reserve. Stockholders' equity increased during the six month period primarily because of net income available to common stockholders of $3.8 million and the $85,860 adjustment for stock based compensation awards. These items were partially offset by the $546,280 common stock cash dividend and the $104,372 after tax unrealized loss on available for sale securities.

Contractual Obligations, Commitments, Contingent Liabilities, and Off-balance Sheet Arrangements

Old Line Bancshares is a party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments primarily include commitments to extend credit, lines of credit and standby letters of credit. Old Line Bancshares uses these financial instruments to meet the financing needs of its customers. These financial instruments involve, to varying degrees, elements of credit, interest rate, and liquidity risk. These commitments do not represent unusual risks and management does not anticipate any losses which would have a material effect on Old Line Bancshares. Old Line Bancshares also has operating lease obligations.

Outstanding loan commitments and lines and letters of credit at June 30, 2012 and December 31, 2011, are as follows:

	June 30, 2012	December 31, 2011
	(Dollars in thousands)	
Commitments to extend credit and available credit lines:		
Commercial	$45,759	$46,966
Real estate-undisbursed development and construction	24,475	21,398
Consumer	13,819	13,195
	$84,053	$81,559
Standby letters of credit	$11,780	$8,226

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Old Line Bancshares generally requires collateral to support financial instruments with credit risk on the same basis as it does for on balance sheet instruments. The collateral is based on management's credit evaluation of the counter party. Commitments generally have interest rates fixed at current market rates, expiration dates or other termination clauses and may require payment of a fee. Available credit lines represent the unused portion of lines of credit previously extended and available to the customer so long as there is no violation of any contractual condition. These lines generally have variable interest rates. Since many of the commitments are expected to expire without being drawn upon, and since it is unlikely that all customers will draw upon their lines of credit in full at any time, the total commitment amount or line of credit amount does not necessarily represent future cash requirements. We evaluate each customer's credit worthiness on a case by case basis. We regularly reevaluate many of our commitments to extend credit. Because we conservatively underwrite these facilities at inception, we generally do not have to withdraw any commitments. We are not aware of any loss that we would incur by funding our commitments or lines of credit.

Commitments for real estate development and construction, which totaled $24.5 million, or 29.12% of the $84.1 million of outstanding commitments at June 30, 2012, are generally short term and turn over rapidly with principal repayment from permanent financing arrangements upon completion of construction or from sales of the properties financed.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Our exposure to credit loss in the event of nonperformance by the customer is the contract amount of the commitment. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. In general, loan commitments, credit lines and letters of credit are made on the same terms, including with respect to collateral, as outstanding loans. We evaluate each customer's credit worthiness and the collateral required on a case by case basis.

Reconciliation of Non-GAAP Measures

Below is a reconciliation of the fully tax equivalent adjustments and the GAAP basis information presented in this report:

Three months ended June 30, 2012

	Net Interest Income	Yield		Net Interest Spread	
GAAP net interest income	$8,463,386	4.67	%	4.47	%
Tax equivalent adjustment					
Federal funds sold	1	-		-	
Investment securities	224,794	0.12		0.12	
Loans	86,843	0.05		0.05	
Total tax equivalent adjustment	311,638	0.17		0.17	
Tax equivalent interest yield	$8,775,024	4.84	%	4.64	%

Three months ended June 30, 2011

	Net Interest Income	Yield		Net Interest Spread	
GAAP net interest income	$7,471,174	4.57	%	4.30	%
Tax equivalent adjustment					
Federal funds sold	-	-		-	
Investment securities	121,322	0.07		0.08	
Loans	30,334	0.02		0.02	
Total tax equivalent adjustment	151,656	0.09		0.10	
Tax equivalent interest yield	$7,622,830	4.66	%	4.40	%

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Six months ended June 30, 2012

	Net Interest Income	Yield		Net Interest Spread	
GAAP net interest income	$16,225,798	4.52	%	4.32	%
Tax equivalent adjustment					
Federal funds sold	-	-		-	
Investment securities	388,015	0.11		0.11	
Loans	164,281	0.05		0.05	
Total tax equivalent adjustment	552,296	0.15		0.16	
Tax equivalent interest yield	$16,778,094	4.67	%	4.48	%

Six months ended June 30, 2011

	Net Interest Income	Yield		Net Interest Spread	
GAAP net interest income	$11,058,437	4.35	%	4.08	%
Tax equivalent adjustment					
Federal funds sold	-	-		-	
Investment securities	132,804	0.06		0.06	
Loans	57,603	0.02		0.02	
Total tax equivalent adjustment	190,407	0.08		0.08	
Tax equivalent interest yield	$11,248,844	4.43	%	4.16	%

Impact of Inflation and Changing Prices

Management has prepared the financial statements and related data presented herein in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, and may frequently reflect government policy initiatives or economic factors not measured by a price index. As discussed above, we strive to manage our interest sensitive assets and liabilities in order to offset the effects of rate changes and inflation.

Application of Critical Accounting Policies

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America and follow general practices within the industry in which we operate. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. We base these estimates, assumptions, and judgments on information available as of the date of the 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. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. We base the fair values and the information used to record valuation adjustments for certain assets and liabilities on quoted market prices or from information other third party sources provide, when available.

Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the provision for loan losses as the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

Management has significant discretion in making the judgments inherent in the determination of the provision and allowance for loan losses, including in connection with the valuation of collateral and the financial condition of the borrower, and in establishing loss ratios and risk ratings. The establishment of allowance factors is a continuing exercise and allowance factors may change over time, resulting in an increase or decrease in the amount of the provision or allowance based upon the same volume and classification of loans.

Changes in allowance factors or in management's interpretation of those factors will have a direct impact on the amount of the provision, and a corresponding effect on income and assets. Also, errors in management's perception and assessment of the allowance factors could result in the allowance not being adequate to cover losses in the portfolio, and may result in additional provisions or charge-offs, which would adversely affect income and capital. For additional information regarding the allowance for loan losses, see "Provision for Loan Losses".

Information Regarding Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We may also include forward-looking statements in other statements that we make. All statements that are not descriptions of historical facts are forward-looking statements. Forward-looking statements often use words such as “believe,” “expect,” “plan,” “may,” “will,” “should,” “project,” “contemplate,” “anticipate,” “forecast,” “intend” or other words of similar meaning also identify them by the fact that they do not relate strictly to historical or current facts.

The statements presented herein with respect to, among other things, Old Line Bancshares' plans, objectives, expectations and intentions, including anticipated expenses in connection with termination of the MB&T employee pension plan, branch retention and expansion intentions, continued expansion of our service and market area, retention of former MB&T personnel, anticipated non-interest expenses in future periods (including changes as a result of the merger with Maryland Bankcorp), impact of new accounting guidance, continued increases in net interest income, hiring and acquisition possibilities, maintenance of our net interest margin, our belief that we have identified any problem assets and that our borrowers will continue to remain current on their loans, being well positioned to capitalize on potential opportunities in a healthy economy, impact of outstanding off-balance sheet commitments, sources of liquidity and that we have sufficient liquidity, the sufficiency of the allowance for loan losses, expected loan, deposit, and asset growth, growth in new and existing customer relationships, sale of existing other real estate owned and anticipated gains from such sales, expected losses on and our intentions with respect to our investment securities, expected ratification of our re-foreclosure with respect to one non-accrual loan and anticipated payment on other non-accrual loans, earnings on BOLI, continued use of brokered deposits for funding, expectations with respect to the impact of pending legal proceedings, improving earnings per share and stockholder value, and financial and other goals and plans are forward looking. Old Line Bancshares bases these statements on our beliefs, assumptions and on information available to us as of the date of this filing, which involves risks and uncertainties. These risks and uncertainties include, among others: those discussed in this report; the ability of Old Line Bancshares to retain key personnel; the ability of Old Line Bancshares to successfully implement its growth and expansion strategy; risk of loan losses; that the allowance for loan losses may not be sufficient; that changes in interest rates and monetary policy could adversely affect Old Line Bancshares; that changes in regulatory requirements and/or restrictive banking legislation may adversely affect Old Line Bancshares, including regulations adopted pursuant to the Dodd-Frank Act; that the market value of investments could negatively impact stockholders' equity; risks associated with Old Line Bancshares' lending limit; increased expenses due to stock benefit plans; expenses associated with operating as a public company; potential conflicts of interest associated with the interest in Pointer Ridge; further deterioration in general economic conditions, continued slow growth during the recovery or another recession; and changes in competitive, governmental, regulatory, technological and other factors which may affect Old Line Bancshares specifically or the banking industry generally. For a more complete discussion of some of these risks and uncertainties see "Risk Factors" in Old Line Bancshares' Annual Report on Form 10-K for the year ended December 31, 2011.

Old Line Bancshares' actual results and the actual outcome of our expectations and strategies could differ materially from those anticipated or estimated because of these risks and uncertainties and you should not put undue reliance on any forward-looking statements. All forward-looking statements speak only as of the date of this filing, and Old Line Bancshares undertakes no obligation to update the forward-looking statements to reflect factual assumptions, circumstances or events that have changed after we have made the forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to economic loss that arises from changes in the values of certain financial instruments. Due to the nature of our operations, only interest rate risk is significant to our consolidated results of operations or financial position. For information regarding our Quantitative and Qualitative Disclosure about Market Risk, see "Interest Rate Sensitivity Analysis and Interest Rate Risk Management" in Part I, Item 2 of this Form 10-Q.

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, Old Line Bancshares' Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of Old Line Bancshares' disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based upon that evaluation, Old Line Bancshares' Chief Executive Officer and Chief Financial Officer concluded that Old Line Bancshares' disclosure controls and procedures are effective as of June 30, 2012. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by Old Line Bancshares in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

In addition, there were no changes in Old Line Bancshares' internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended June 30, 2012, that have materially affected, or are reasonably likely to materially affect, Old Line Bancshares' internal control over financial reporting.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

At June 30, 2012, we were not involved in any legal proceedings the outcome of which, in management's opinion, would be material to our financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes in the risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

3.2.2 Second Amendment to the Amended and Restated Bylaws of Old Line Bancshares, Inc. (incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on June 29, 2012)

31.1 Rule 13a-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a) Certification of Chief Financial Officer

32 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

101 Interactive Data Files pursuant to Rule 405 of Regulation S-T.*

* Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

	Old Line Bancshares, Inc.	
Date: August 10, 2012	By:	/s/ James W. Cornelsen James W. Cornelsen, President and Chief Executive Officer (Principal Executive Officer)
Date: August 10 , 2012	By:	/s/ Christine M. Rush Christine M. Rush, Executive Vice President and Chief Financial Officer (Principal Accounting and Financial Officer)