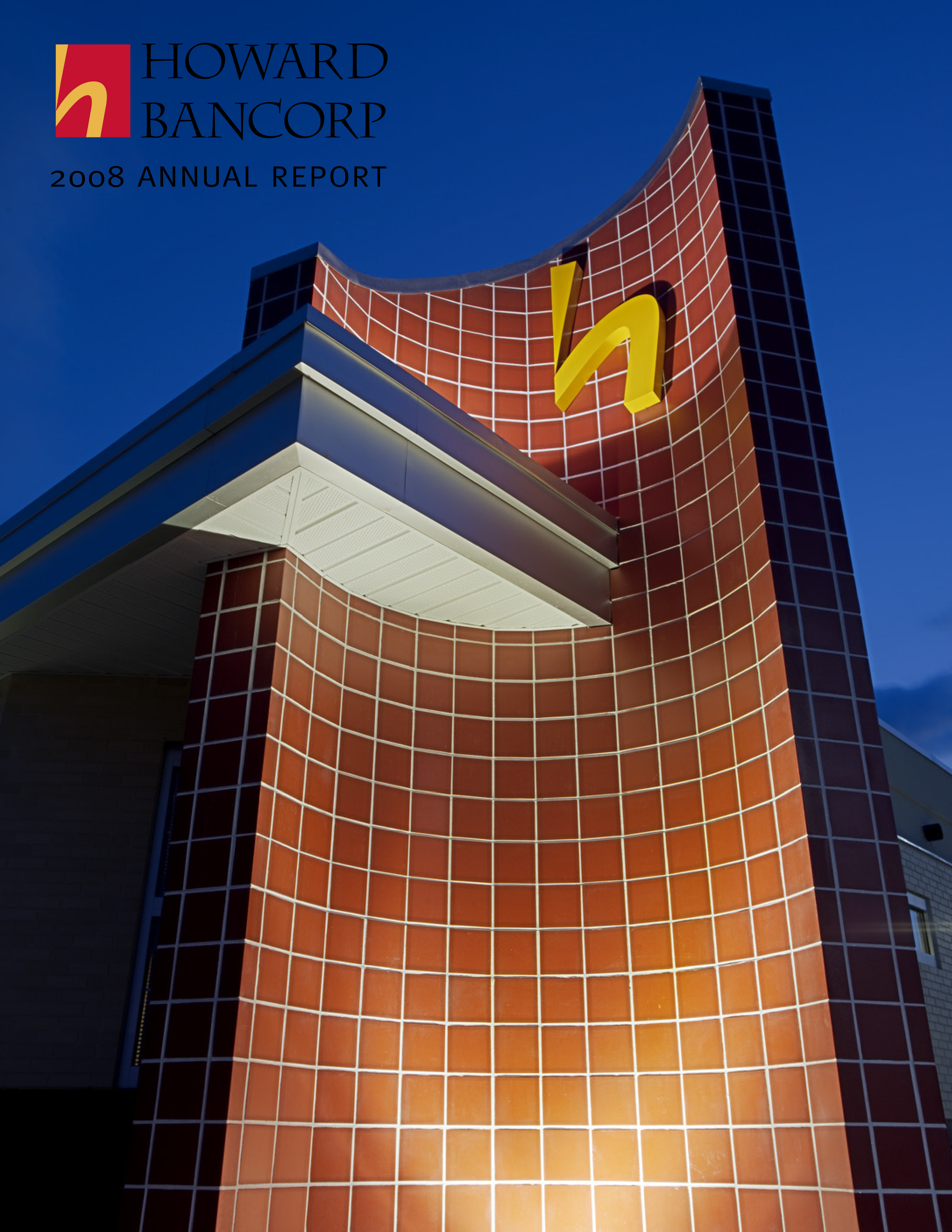
HOWARD BANCORP

2008 ANNUAL REPORT



To Our Shareholders

This is the fifth Annual Report letter which I have written as your CEO since the bank's opening in August 2004. In the past five years, your bank has become well known, much respected, considerably larger, and impactful in the local communities and in the small and medium sized business and professional marketplaces that we serve. We have largely successes to report but also want to discuss some challenges as well as the intended solutions to those challenges. Like you, there are times when we feel as if the world has turned upside down since that summer when we, as stakeholders of an exciting new bank in a high growth marketplace, felt full of the optimism that new ventures inspire; and we were surrounded by others in our communities who felt similarly optimistic about their investments in stock markets, real estate ventures, start up companies and expansions in their personal horizons. Much in that world has changed…but much remains the same. Most importantly, our inherent optimism about the underlying health and resilience of our communities and our strong belief that our business model is more than ever the right one to ensure that we not only survive, but that we thrive over the long term, remain as steadfast as ever.

Starting with our annual report of 2007, we were reminded that all good things change - if not come to an end - as we saw predictions of a normal cyclical downturn in the economy. By the time we published our letter in 2008, we saw more clearly the shape that this particular downturn would take and that it would be both led by and exacerbated by an economy and financial sector that had turned away from certain fundamentals – fundamentals that we've always practiced at Howard Bancorp. The fundamentals that were ignored revolved first and foremost around basic risk management tenets - underwriting risk with a long term view both back and forward about a borrower's capacity to repay not just refinance; recognizing that securitization disperses risk and reallocates capital but cannot make risk disappear; acknowledging that chasing yield for yield's sake can lead to loss of principal; and admitting that greed and impatience make for very dangerous companions.

Your bank has done well to date in this new reality - in large part because we were founded explicitly to reverse some of the " new ways " of doing banking and to return to the fundamentals of a traditional community banking model - focusing on healthy, higher-growth, recession-resistant communities; knowing and analyzing each local customer/ loan applicant on their own unique merits; funding those loans with deposits provided by local customers committed to a bank operating in and supporting their local neighborhood; making investments in future growth at opportune times even if it impacts current results; and maintaining strong capital reserves because that is the ultimate cushion in any risk management business.

So how did we do since our last letter? As of December 31, 2008 total assets had increased to $230 million, a far cry from the $16.75 million when we first opened our doors. Loans grew by nearly 18% in 2008, one of the highest loan growth rates in the region. The loans were funded primarily from increases in deposits, with total deposits of $182 million at year end 2008 versus $152 million at December 31, 2007, an increase in deposits of $30 million or 20% during 2008. Total non-interest bearing deposits were nearly $38 million at December 31, 2008, compared to $27 million at December 31, 2007 - an almost 40% increase. The growth in demand deposits is most significant - economically because it represents the lowest cost funding source - and strategically because it represents for both businesses and individuals the hallmark of a full relationship. For the year ended December 31, 2008, your company reported pre-tax net income of $570 thousand compared to a $956 thousand loss in 2007, a 160% improvement. We encourage all our analysts - including you our stakeholder- to focus on pretax income given our relative youth as a company and the positive impact on net income of the one time recognition of deferred taxes in 2007. The growth in pre-tax income was led by a 26% increase in net interest income for the full year of 2008 compared to 2007. Supplementing the higher net interest income was non interest income growth of 89% over 2007 levels. These significant increases in revenues were accomplished while experiencing only a modest 8% increase in expenses

While some banks have changed perspective and are forced to focus their attention on internal issues, we continue to invest in growth opportunities and to look outward towards the healthy high-growth, recession-resistant marketplaces targeted since our inception. To that end, we recently invested in new relationship management staff in Howard County, expanded into the Anne Arundel County market with the hiring of a senior team leader with over twenty years of success in that community, and opened our newest branch at Centennial Place on Route 40 near western Howard County. These investments were made at the very end of 2008 and have, in the very short term, increased our operating expenses for the first quarter 2009. However these investments demonstrate our ongoing ability to execute on our growth model. Fortunately, we always told our investors, from the beginning of our first capital raise in late 2003, that the bank's financial model was a growth model - one that would ultimately deliver long term capital gains and focused on optimization of earnings results - not one focused exclusively on short term maximization of profitability. We are committed to the long term, and the recent growth in our non interest expenses reflects the investments necessary to realize that long term commitment. We are optimistic about the future of our region and believe that now is an excellent time to seize additional opportunities to move ahead.

Another trend evident in our financial results relates to the additions to loan loss provisions that we made in 2008 both as a result of the continuing strong growth in our loan portfolio as well as to recognize the short term deterioration in our local economies and the particular stresses that this posed for certain clients. Our knowledge of each borrower and our ability to customize a solution for them has served us well in these times but the stresses on our clients need to be acknowledged with higher loan loss provisioning. Again, we are big believers in the need for traditional risk management and that includes maintaining strong capital. We have focused from the beginning on building and maintaining a very strong capital base. This helps to ensure that we are financially prepared if, and when, we experience modest losses engendered by the strained economy in which we operate.

As part of our commitment, especially in these trying times, to a strong capital position, we undertook in early 2009 a new capital initiative. On March 3rd, we announced that we had received $5.98 million in additional capital from the issuance of non-voting preferred shares to the United States Treasury as part of the Capital Purchase Program (CPP). CPP should not be confused with troubled asset repurchase oriented programs or debt guarantee programs. The intent of CPP is to directly infuse capital into healthy, viable banks with the goal of increasing the flow of financing available to small businesses and consumers. When our regulators wrote to all bank CEO's in late 2008 to suggest that healthy banks consider applying for the Program, we complied and applied. We were approved - which was a watershed moment in and of itself as not all applicants have been deemed worthy. After much deliberation, we accepted those funds, thus raising our capitalization levels, which were already in excess of the levels required to be deemed well capitalized. We determined that while the costs of the preferred shares provide an attractive return to the US government and its taxpayers, they are not especially onerous for the holding company or the bank considering our ability to include these proceeds in our Tier One capital accounts, thus allowing us to continue to safely and prudently grow both our loan assets and their associated reserves. This capital also provides additional assurance that we can continue to work towards supporting our present and prospective borrowers in their own business activities without diluting our shareholders. We believe it prudent to have more capital in a downturn; we think it opportunistic to have more capital when the community bank model is being more valued than ever; and we see it as especially congruent with the growth model emphasized throughout our history.

In conjunction with this decision, we announced enhancements to two key community lending programs to facilitate our immediate use of the capital to help our communities in this difficult environment. We allocated another $15 million to the Renaissance Loan Program as well as its extension to Anne Arundel County. The program provides lower interest rates and longer amortization terms for commercial construction or rehabilitation projects in the targeted areas of both counties. In Howard County, the program is now targeted to areas along the Route 1 and Route 40 corridors as well as to a number of the more mature villages of Columbia. The areas targeted in Anne Arundel County will parallel the Economic Development Authority's Business Corridor Investment Loan Program which includes areas in Brooklyn Park, Sun Valley-Pasadena, Glen Burnie and the West Street district of Annapolis. The bank also broadened eligibility for its "going green" Sustainability Loan Fund, which is available for renovation or new construction of commercial buildings and residential homes in Howard and Anne Arundel counties. Special consideration will now be given to smaller projects for which LEED certification may be impractical.

To date, our acceptance of this capital which, again, does not dilute our shareholders' voting interest in the company, has been well received by community leaders who see it as enhancing our ability to help the local economy recover. Other community recognition continues: 2008 was our third year as a Smart CEO Future 50 winner which recognizes the companies with the fastest revenue growth in the region. We received recognition as Maryland Corporate Philanthropist of the year from the Maryland Chamber of Commerce (following on the previous year's recognition by the Chamber as small business of the year). We continue to be recognized as a leader in promoting financial literacy - a skill set in short supply as evidenced by some of the country's economic difficulties. And our colleagues continue to serve on local boards and are increasingly being selected to lead those boards - with numerous boards now electing Howard bankers as officers or Executive Committee members.

In closing, we are proud to represent you, our stakeholders, in this community and to work to position you for an enhanced return on the investments that you have made in us. We applaud you for making a conscious decision in these turbulent times to stay with us, a young, growing community bank that this year, unlike in any other to date, has also made some hard strategic decisions - about commitment to serve local businesses in local communities - about commitment to a growth model and investing in the future - and about commitment to strong capital levels.

Sincerely,

Mary Ann Scully

Mary Ann Scully
Chairman, President and CEO of Howard Bancorp and Howard Bank

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Howard Bancorp, Inc.
Ellicott City, Maryland

We have audited the accompanying consolidated balance sheets of Howard Bancorp, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2008. These financial statements are the responsibility of Howard Bancorp, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Howard Bancorp, Inc. as of December 31, 2008 and 2007, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Stegman & Company

Baltimore, Maryland
March 17, 2009

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Howard Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
ASSETS		
Cash and due from banks	**$ 7,608,349**	$ 4,888,016
Federal funds sold	**1,360,941**	267,700
Total cash and cash equivalents	**8,969,290**	5,155,716
Securities available-for-sale	**10,189,660**	9,389,396
Nonmarketable equity securities	**1,197,900**	716,000
Loans, net of unearned income	**204,090,415**	172,491,023
Allowance for credit losses	**(2,659,078)**	(2,670,800)
Net loans	**201,431,337**	169,820,223
Bank premises and equipment, net	**2,464,548**	2,497,885
Interest receivable and other assets	**5,558,273**	3,453,354
Total assets	**$ 229,811,008**	$ 191,032,574
LIABILITIES		
Noninterest-bearing deposits	**$ 37,741,653**	$ 27,214,931
Interest-bearing deposits	**144,744,378**	124,903,967
Total deposits	**182,486,031**	152,118,898
Short-term borrowings	**19,928,466**	13,988,551
Long-term borrowings	**2,000,000**	-
Accrued expenses and other liabilities	**640,593**	773,691
Total liabilities	**205,055,090**	166,881,140
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock - par value of $0.01 authorized 5,000,000 shares; issued and outstanding 2,633,064 shares in 2008 and 2,629,099 in 2007	**26,331**	26,291
Capital surplus	**28,181,268**	27,942,109
Accumulated deficit	**(3,511,418)**	(3,848,720)
Accumulated other comprehensive income, net	**59,737**	31,754
Total shareholders' equity	**24,755,918**	24,151,434
Total liabilities and shareholders' equity	**$ 229,811,008**	$ 191,032,574

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

Consolidated Statements of Operations

	Years Ended December 31,		
	2008	2007	2006
INTEREST INCOME			
Interest and fees on loans	**$ 11,797,710**	$ 10,445,966	$ 6,755,358
Interest and dividends on securities	**393,297**	460,732	620,359
Other interest income	**97,704**	328,696	355,137
Total interest income	**12,288,711**	11,235,394	7,730,854
INTEREST EXPENSE			
Deposits	**4,560,065**	5,145,237	3,187,611
Short-term borrowings	**317,659**	257,596	117,083
Long-term borrowings	**60,535**	20,403	8,197
Total interest expense	**4,938,259**	5,423,236	3,312,891
NET INTEREST INCOME	**7,350,452**	5,812,158	4,417,963
Provision for credit losses	**1,150,365**	1,324,800	570,500
Net interest income after provision for credit losses	**6,200,087**	4,487,358	3,847,463
NONINTEREST INCOME			
Service charges on deposit accounts	**309,721**	98,565	52,194
Other operating income	**205,692**	173,646	142,215
Total noninterest income	**515,413**	272,211	194,409
NONINTEREST EXPENSE			
Compensation and benefits	**3,333,957**	3,027,066	2,634,905
Occupancy and equipment	**1,170,667**	1,131,800	899,407
Marketing and business development	**344,780**	456,978	401,420
Professional fees	**257,709**	196,622	240,651
Data processing fees	**442,933**	342,134	269,937
Communication and data lines	**74,100**	74,152	63,342
Other operating expense	**521,191**	486,820	278,277
Total noninterest expense	**6,145,337**	5,715,572	4,787,939
INCOME (LOSS) BEFORE INCOME TAXES	**570,163**	(956,003)	(746,067)
Income tax expense (benefit)	**232,861**	(2,427,428)	-
NET INCOME (LOSS)	**$ 337,302**	$ 1,471,425	$ (746,067)
NET INCOME (LOSS) PER COMMON SHARE			
Basic	**$ 0.13**	$ 0.57	$ (0.33)
Diluted	**$ 0.13**	$ 0.55	$ (0.33)
DIVIDENDS PAID PER COMMON SHARE	**$ -**	$ -	$ -

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

Consolidated Statements of Changes in Shareholders' Equity

	Number of shares	Common stock	Capital surplus	Accumulated deficit	Accumulated other comprehensive income/(loss)	Total
Balances at January 1, 2006	2,238,296	$ 22,383	$ 22,540,070	$ (4,574,078)	$ (30,358)	$ 17,958,017
Comprehensive loss:						
Net loss	-	-	-	(746,067)	-	(746,067)
Other comprehensive income (loss):						
Net unrealized gain on securities	-	-	-	-	40,551	40,551
Total comprehensive loss						(705,516)
Issuance of Common Stock:						
Exercise of options	18,242	182	199,266	-	-	199,448
Stock-based compensation	-	-	63,546	-	-	63,546
Balances at December 31, 2006	2,256,538	22,565	22,802,882	(5,320,145)	10,193	17,515,495
Comprehensive income:						
Net income	-	-	-	1,471,425	-	1,471,425
Other comprehensive income net of tax:						
Net unrealized gain on securities	-	-	-	-	21,561	21,561
Total comprehensive income						1,492,986
Issuance of Common Stock:						
Exercise of options	7,561	76	95,664	-	-	95,740
Private placement offering, net of cost	365,000	3,650	4,987,957	-	-	4,991,607
Stock-based compensation	-	-	55,606	-	-	55,606
Balances at December 31, 2007	2,629,099	26,291	27,942,109	(3,848,720)	31,754	24,151,434
Comprehensive income:						
Net income	**-**	**-**	**-**	**337,302**	**-**	**337,302**
Other comprehensive income net of tax:						
Net unrealized gain on securities	**-**	**-**	**-**	**-**	**27,983**	**27,983**
Total comprehensive income						**365,285**
Issuance of Common Stock:						
Exercise of options	**3,965**	**40**	**43,067**	**-**	**-**	**43,107**
Stock-based compensation	**-**	**-**	**196,092**	**-**	**-**	**196,092**
Balances at December 31, 2008	**2,633,064**	**$ 26,331**	**$ 28,181,268**	**$ (3,511,418)**	**$ 59,737**	**$ 24,755,918**

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

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 337,302**	1,471,425	(746,067)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Provision for credit losses	**1,150,365**	1,324,800	570,500
Deferred income taxes (benefit)	**251,801**	(2,427,428)	-
Depreciation	**349,545**	351,415	258,409
Stock-based compensation	**196,092**	55,606	63,546
Net accretion of investments securities	**(126,399)**	(60,548)	(11,978)
Increase in interest receivable	**(91,748)**	(45,787)	(362,496)
Increase (decrease) in interest payable	**48,274**	(13,331)	106,818
Increase in other assets	**(649,814)**	(393,057)	(282,788)
(Decrease) increase in other liabilities	**(181,372)**	75,884	175,159
Net cash provided (used) by operating activities	**1,284,046**	338,979	(228,897)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investment securities available-for-sale	**(27,865,455)**	(22,411,386)	(13,566,467)
Proceeds from sale/maturities of investment securities available-for-sale	**27,238,514**	22,414,830	17,626,034
Net increase in loans outstanding	**(34,877,479)**	(52,482,337)	(50,780,967)
Purchase of premises and equipment	**(316,207)**	(138,080)	(1,582,885)
Net cash used in investing activities	**(35,820,627)**	(52,616,973)	(48,304,285)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in noninterest-bearing deposits	**10,526,722**	6,592,031	10,525,807
Net increase in interest-bearing deposits	**19,840,411**	22,480,242	36,773,322
Net increase in short-term borrowings	**5,939,915**	10,921,800	3,066,751
Proceeds from issuance of long-term debt	**2,000,000**	-	3,400,000
Repayment of long-term debt	**-**	(3,400,000)	-
Proceeds from issuance of common stock, net of cost	**43,107**	5,087,347	199,449
Net cash provided by financing activities	**38,350,155**	41,681,420	53,965,329
Net increase (decrease) in cash and cash equivalents	**3,813,574**	(10,596,574)	5,432,147
Cash and cash equivalents at beginning of period	**5,155,716**	15,752,290	10,320,143
Cash and cash equivalents at end of period	**$ 8,969,290**	$ 5,155,716	$ 15,752,290
SUPPLEMENTAL INFORMATION			
Cash payments for interest	**$ 4,889,985**	$ 5,158,568	$ 3,080,793
Cash payments for income taxes	**$ -**	$ -	$ -
Transferred from loans to other real estate owned	**$ 2,116,000**	$ -	$ -

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

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

On December 15, 2005, Howard Bancorp, Inc. ("Bancorp") acquired all of the stock and became the holding company of Howard Bank (the "Bank") pursuant to the Plan of Reorganization approved by the shareholders of the Bank and by federal and state regulatory agencies. Each share of the Bank common stock was converted into two shares of Bancorp common stock effected by the filing of Articles of Exchange on that date, and the shareholders of the Bank became the shareholders of Bancorp. The accompanying consolidated financial statements of Bancorp and its wholly-owned subsidiary bank (collectively the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and are presented as if the exchange of shares occurred on June 30, 2004 (date of inception).

Howard Bancorp, Inc. was incorporated in April of 2005 under the laws of the State of Maryland and is a bank holding company registered under the Bank Holding Company Act of 1956. The Company is a single bank holding company with one subsidiary, Howard Bank, which operates as a state trust company with commercial banking powers regulated by the Maryland Division of Financial Regulation. On June 30, 2004, the Bank completed its initial capital raising efforts and issued shares of common stock for gross proceeds of $16.775 million.

The Company is a diversified financial services company providing commercial banking, insurance, investments, mortgage banking and consumer finance through banking branches, the internet and other distribution channels to businesses, business owners, professionals and other consumers located primarily in Howard County, Maryland and its contiguous counties.

The following is a description of the Company's significant accounting policies.

Principles of Consolidation

The consolidated financial statements include the accounts of Bancorp and its subsidiary bank. All significant intercompany accounts and transactions have been eliminated. The parent company only financial statements report investments in the subsidiary bank under the equity method. Certain reclassifications have been made to the prior year's consolidated financial statements to conform to current period presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for credit losses, other-than-temporary impairment of investment securities and deferred income taxes.

Segment Information

The Company has one reportable segment, "Community Banking." All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Bank to fund itself with deposits and other borrowings and manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, cash items in the process of clearing, federal funds sold, and interest-bearing deposits with banks with original maturities of less than 90 days. Generally, federal funds are sold as overnight investments.

Investment Securities

Marketable equity securities and debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are acquired as part of the Bank's asset/liability management strategy and may be sold in response to changes in interest rates, loan demand, changes in prepayment risk and other factors. Securities available-for-sale are carried at estimated fair value, with unrealized gains or losses based on the difference between amortized cost and fair value reported as accumulated other comprehensive income (loss), net of deferred taxes, a separate component of shareholders' equity, when appropriate. Realized gains and losses, using the specific identification method, are included as a separate component of noninterest income. Related interest and dividends are included in interest income. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Nonmarketable Equity Securities

Nonmarketable equity securities include equity securities that are not publicly traded or are held to meet regulatory requirements such as Federal Home Loan Bank stock. These securities are accounted for at cost.

Loans

Loans are stated at their principal balance outstanding, plus deferred origination costs, less unearned discounts and deferred origination fees. Interest on loans is credited to income based on the principal amounts outstanding. Origination fees and costs are amortized to income over the contractual life of the related loans. Accrual of interest on a loan is discontinued when the loan is delinquent more than ninety days unless the collateral securing the loan is sufficient to liquidate the loan. All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. Interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Management considers loans impaired when, based on current information, it is probable that the Company will not collect all principal and interest payments according to contractual terms. Loans are tested for impairment no later than when principal or interest payments become ninety days or more past due and they are placed on nonaccrual. Management also considers the financial condition of the borrower, cash flows of the loan and the value of the related collateral. Impaired loans do not include large groups of smaller balance homogeneous loans such as residential real estate and consumer installment loans which are evaluated collectively for impairment. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (ninety days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided by the collateral. Generally, the Company's impairment on such loans is measured by reference to the fair value of the collateral. Interest income on impaired loans is recognized on the cash basis.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans, actual loss experience, current economic events in specific industries and geographic areas including unemployment levels and other pertinent factors including regulatory guidance and general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogenous loans based on historical loss experience and consideration of economic trends, all of which may be susceptible to significant change. Credit losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more often if deemed necessary.

The allowance for credit losses consists of a specific component and a nonspecific component. The components of the allowance for credit losses represent an estimation done pursuant to either Statement of Financial Accounting Standards ("SFAS") No. 5 "Accounting for Contingencies," or SFAS No. 114 "Accounting by Creditors for Impairment of a Loan." The specific component of the allowance for credit losses reflects expected losses resulting from analysis developed through credit allocations for individual loans. The credit allocations are based on a regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The specific component of the allowance for credit losses also includes management's determination of the amounts necessary given concentrations and changes in portfolio mix and volume.

The nonspecific portion of the allowance is determined based on management's assessment of general economic conditions, as well as economic factors in the individual markets in which the Company operates including the strength and timing of economic cycles and concerns over the effects of a prolonged economic downturn in the current cycle. This determination inherently involves a higher risk of uncertainty and considers current risk factors that may not have yet manifested themselves in the Bank's historical loss factors used to determine the specific component of the allowance and it recognizes knowledge of the portfolio may be incomplete.

Other Real Estate Owned

Other real estate acquired through, or in lieu of, foreclosure is initially recorded at the lower of book value or fair value at the date of acquisition, establishing a new cost basis. Revenues and expenses from operations are included in other income. Additions to the valuation allowance are included in other expense. Subsequent to foreclosure, valuations are periodically performed by management and an allowance for losses is established, if necessary, by a charge to operations if the carrying value of a property exceeds its estimated fair value less estimated costs to sell.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization computed using the straight-line method. Premises and equipment are depreciated over the useful lives of the assets, which generally range from 3 to 10 years for furniture, fixtures and equipment, 3 to 5 years for computer software and hardware. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. The costs of major renewals and betterments are capitalized, while the costs of ordinary maintenance and repairs are included in noninterest expense.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, deferred-tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates that will be in effect when these differences reverse. During 2007 the 100% valuation allowance was removed from net deferred tax asset when it was deemed more likely than not that the benefits of such deferred income taxes will be realized; accordingly, the Company recorded a $2.4 million tax benefit in 2007.

Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted net income (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year including any potential dilutive effects of common stock equivalents, such as options and warrants.

Share-Based Compensation

Compensation cost is recognized for stock options issued to directors and employees. Compensation cost is measured as the fair value of these awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period for stock option awards. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. When an award is granted to an employee who is retirement eligible, the compensation cost of these awards is recognized over the period up to the director or employee first becomes eligible to retire.

NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement No. 157 ("SFAS 157"), "Fair Value Measurement." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of SFAS 157 did not have a material effect on its consolidated financial position and results of operations.

In February 2007, the FASB issued Statement No. 159 ("SFAS 159") "The Fair Value Option for Financial Assets and Financial Liabilities." This Statement permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes must be recorded in earnings. The adoption of SFAS 159 did not have a material impact on its consolidated financial statements.

In December 2007, the FASB issued Statement No. 160 ("SFAS 160") "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB 51." SFAS 160's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued Statement No. 141, Revised 2007 ("SFAS 141R"), "Business Combinations." SFAS 141R's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after December 31, 2008. This pronouncement will affect the Company's accounting for business combinations completed after January 1, 2009.

In March 2008, the FASB issued Statement No. 161 ("SFAS 161") "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. SFAS 161 requires enhanced disclosure about how derivative and hedging activities affect an entity's financial position, financial performance, and cash flows. It requires the purpose of derivative be disclosed in terms of underlying risk and accounting designation. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect the implementation of SFAS 161 to have an impact on its consolidated financial statements.

In May 2008, the FASB issued Statement No. 162 ("SFAS 162") "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States. The implementation of SFAS 162 did not have a material impact on its consolidated financial statements.

Note 2: Cash and Due from Banks

Regulation D of the Federal Reserve Act requires that banks maintain reserve balances with the Federal Reserve Bank based principally on the type and amount of their deposits. During 2008, the Company maintained balances at the Federal Reserve (in addition to vault cash) to meet the reserve requirements as well as balances to partially compensate for services. Additionally, the Company maintained balances with the Federal Home Loan Bank and two domestic correspondents as partial compensation for services they provided to the Company.

Note 3: Investments Securities

The amortized cost and estimated fair values of investments available for sale are as follows:

	December 31, 2008				December 31, 2007			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Federal agencies	**$ 6,979,931**	**$ 18,769**	**$ -**	**$ 6,998,700**	$ 6,479,712	$ 1,560	$ 5,362	$ 6,475,910
Mortgage-backed	**3,111,072**	**79,888**	**-**	**3,190,960**	2,857,951	56,807	1,272	2,913,486
	$ 10,091,003	**$ 98,657**	**$ -**	**$ 10,189,660**	$ 9,337,663	$ 58,367	$ 6,634	$ 9,389,396

There were no individual securities in an unrealized loss position at December 31, 2008. Gross unrealized losses and fair value by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2007 are as follows.

December 31, 2007

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Federal agencies	$ 4,474,350	$ 5,362	$ -	$ -	$ 4,474,350	$ 5,362
Mortgage-backed	-	-	714,994	1,272	714,994	1,272
	$ 4,474,350	$ 5,362	$ 714,994	$ 1,272	$ 5,189,344	$ 6,634

The 2007 unrealized losses that existed were a result of market changes in interest rates since the original purchase. These factors coupled with the fact that the Company has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value substantiates that the unrealized losses in the available for sale portfolio were temporary.

The amortized cost and estimated fair values of investments available for sale by contractual maturity are shown below:

	2008		2007	
	Amortized Cost	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	**$ 7,468,022**	**$ 7,487,838**	$ 5,479,712	$ 5,475,600
After one year through five years	**464,660**	**470,057**	1,716,266	1,715,304
After five years through ten years	**553,712**	**578,880**	1,229,694	1,255,525
After ten years	**1,604,609**	**1,652,885**	911,991	942,967
	$ 10,091,003	**$ 10,189,660**	$ 9,337,663	$ 9,389,396

There were no sales of investment securities during 2008, 2007 or 2006. At December 31, 2008, $3.9 million fair value of securities was pledged as collateral for certain government deposits and repurchase agreements. The outstanding balance of no single issuer, except for U. S. Government and U. S. Government agency securities, exceeded ten percent of shareholders' equity at December 31, 2008.

Note 4: Nonmarketable Equity Securities

At December 31, 2008 and 2007, the Company's investment in nonmarketable equity securities consisted of Federal Home Loan Bank of Atlanta stock, which is required for continued membership, of $1.2 million and $700 thousand, respectively. These investments are carried at cost.

Note 5: Loans

The Company makes loans to customers primarily in Howard County, Maryland and surrounding communities. A substantial portion of the Company's loan portfolio consists of loans to businesses secured by real estate and/or other business assets.

Loans, net of unamortized deferred fees, are summarized by type as follows:

	December 31,	
	2008	2007
Real estate construction	**$ 32,229,613**	$ 27,897,583
Residential real estate	**28,247,032**	24,418,254
Commercial mortgage	**64,124,361**	55,185,819
Commercial	**77,436,514**	62,959,351
Consumer	**2,052,895**	2,030,016
Total loans	**$ 204,090,415**	$ 172,491,023

Activity in the allowance for credit losses for the years ended December 31, 2008, 2007 and 2006 are shown below:

	December 31,		
	2008	2007	2006
Balance at beginning of year	**$ 2,670,800**	$ 1,346,000	$ 775,500
Provision for credit losses	**1,150,365**	1,324,800	570,500
Loan charge-offs	**(1,162,132)**	-	-
Loan recoveries	**45**	-	-
Balance at end of year	**$ 2,659,078**	$ 2,670,800	$ 1,346,000

The impaired loans for the years ended December 31, 2008 and 2007 are as follows:

	December 31,		
	2008	2007	2006
Impaired loans with a valuation allowance	$ 957,990	$ 2,825,000	$ -
Impaired loans without a valuation allowance	3,576,543	-	-
Total impaired loans	4,534,533	2,825,000	-
Allowance for loan loss related to impaired loans	$ 259,607	$ 709,000	
Average impaired balance	**$ 4,520,584**	$ 2,800,681	$ -
Interest collected on impaired loans on cash basis	**$ 3,226**	$ -	$ -

Nonaccrual loans included in impaired loans totaled $4.1 million, $2.8 million and $0 at December 31, 2008, 2007 and 2006 respectively. Interest income that would have been recorded if nonaccrual loans had been current and in accordance with their original terms was $59 thousand, $284 thousand and $0, respectively.

On December 31, 2008 there were loans to four customers which represented the $4.1 million balance in nonaccrual loans. Of this amount $3.3 million was to one borrower which, based upon the receipt of an updated appraisal, reflected there was sufficient value in the underlying collateral to minimize the risk of loss. The amount reflected in the above table as restructured loans represented modifications to only one customer relationship.

At December 31, 2007 one loan for $2.8 million was classified as non-accrual. Included in the 2007 provision was a specific reserve of $709 thousand to reflect the diminution of the collateral value underlying this loan. Foreclosure proceedings commenced in 2007, and upon ratification in 2008, the Company transferred this loan, net of the reserve to Other Real Estate Owned. There were no loans deemed to be impaired in 2006.

Note 6: Premises and Equipment

Premises and equipment include the following at:

	December 31, 2008	December 31, 2007
Building and leasehold improvements	**$ 2,244,060**	$ 2,003,762
Furniture and equipment	**1,315,252**	1,241,022
Software	**140,997**	139,318
	3,700,309	3,384,102
Less: accumulated depreciation and amortization	**1,235,761**	886,217
Net premises and equipment	**$ 2,464,548**	$ 2,497,885

The Company occupies banking and office space in four locations under noncancellable lease arrangements accounted for as operating leases. The initial lease periods range from 10 to 20 years and provide for one or more 5-year renewal options. Rent expense applicable to operating leases amounted to $685,930, $665,711 and $574,949 for the year ended December 31, 2008, 2007 and 2006, respectively.

At December 31, 2008, future minimum lease payments under noncancellable operating leases having an initial term in excess of one year are as follows:

Year ended December 31,	
2009	$ 963,438
2010	989,732
2011	1,012,475
2012	1,028,959
2013	1,047,372
Thereafter	5,635,398
Total minimum lease payments	$ 10,677,374

Note 7: Deposits

The following table details the composition of deposits and the related percentage mix of total deposits, respectively:

	December 31, 2008	% of Total	2007	% of Total
Noninterest-bearing demand	**$ 37,741,653**	**21** %	$ 27,214,931	18 %
Interest-bearing checking	**17,302,122**	**9**	21,254,807	14
Money market accounts	**32,284,918**	**18**	43,740,586	29
Savings	**1,554,926**	**1**	721,173	0
Certificates of deposit $100,000 and over	**33,222,016**	**18**	19,757,946	13
Certificates of deposit under $100,000	**60,380,396**	**33**	39,429,455	26
Total deposits	**$ 182,486,031**	**100** %	$ 152,118,898	100 %

The contractual maturities of certificates of deposits greater than $100,000 are shown in the following table:

Three months or less	**$ 6,233,827**
More than three months through six months	**11,246,887**
More than six months through twelve months	**12,034,237**
Over twelve months	**3,707,065**
Total	**$ 33,222,016**

Interest expense on deposits for the periods ended 2008, 2007 and 2006 were as follows:

	December 31,		
	2008	2007	2006
Interest-bearing checking	**$ 212,006**	$ 585,460	$ 354,514
Savings and money market	**967,594**	1,444,102	696,304
Certificates of deposit $100,000 and over	**1,058,520**	1,096,691	654,847
Certificates of deposit under $100,000	**2,321,945**	2,018,984	1,481,946
Total	**$ 4,560,065**	$ 5,145,237	$ 3,187,611

Note 8: Short-Term Borrowings

Short-term borrowings consist of overnight unsecured master notes, overnight securities sold under agreement to repurchase and FHLB advances with a final remaining maturity of less than one year. Information relating to short-term borrowings for the years ended December 31, 2008 and 2007 is presented below:

	December 31,			
	2008		2007	
	Amount	**Rate**	Amount	Rate
At year end	$ 19,928,466	1.03 %	$ 13,988,551	2.50 %
Average for the year	$ 12,849,211	2.47 %	$ 6,490,564	3.97 %
Maximum month-end balance	$ 24,680,495		$ 13,988,551	

The Company pledges U.S. Government Agency securities, based upon their fair value, as collateral for 100% of the principal and accrued interest of its repurchase agreements. At December 31, 2008 and 2007 there were $3.9 million and $5.0 million, respectively in borrowings under these agreements.

If the Company should need to supplement its liquidity, it could borrow, subject to collateral requirements, up to approximately $45.1 million on a line of credit arrangement with the Federal Home Loan Bank of Atlanta. At December 31, 2008 and 2007 there were $17 million and $9 million in advances outstanding under this arrangement, respectively.

Note 9: Long-Term Borrowings

During 2008, Company borrowed $2.0 million from the FHLB with rate of 3.10% and a final maturity of 3 years. This represents the only long term borrowing for the Company as of December 31, 2008. During 2006, Company initiated a $5 million revolving line of credit with a local correspondent bank. This variable rate debt had a rate of 8.0% with interest only payments for the first eighteen months followed by principal and interest amortization for three years. The full amount of the debt that existed at December 31, 2006 was repaid early in 2007, and no subsequent advances were taken.

Note 10: Income Taxes

Federal and state income tax expense (benefit) consists of the following for the years ended:

	December 31,		
	2008	2007	2006
Current federal income tax	**$ -**	$ -	$ -
Current state income tax	**-**	-	-
Deferred federal income tax expense (benefit)	**184,164**	(1,919,791)	-
Deferred state income tax expense (benefit)	**48,697**	(507,637)	-
Total income tax expense (benefit)	**$ 232,861**	$ (2,427,428)	$ -

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate for the periods ended follows:

	December 31, 2008	2007	2006
Statutory federal income tax rate	**34.0 %**	(34.0) %	(34.0) %
State income taxes, net of federal income tax expense (benefit)	**4.5**	(5.5)	-
Other, net	**2.3**	-	-
Valuation allowance	**-**	(214.5)	34.0
Effective tax rate	**40.8 %**	(253.9) %	- %

The following table is a summary of the tax effect of temporary differences that give rise to a significant portion of deferred tax assets:

	2008	2007
Deferred tax asset:		
Net operating loss carryforwards	**$ 1,248,036**	$ 1,322,559
Organizational costs	**-**	14,118
Allowance for credit losses	**905,261**	1,033,519
Other	**100,986**	176,677
Total deferred tax assets	**2,254,283**	2,546,873
Deferred tax liabilities:		
Deferred loan fees and costs, net	**26,197**	23,725
Unrealized gain on securities	**38,920**	20,409
Depreciation and amortization	**33,519**	95,720
Total deferred tax liabilities	**98,636**	139,854
Net deferred tax assets	**$ 2,155,647**	$ 2,407,019

During 2007 management determined that the realization of previously unrecorded deferred tax assts was more likely than not. Accordingly the valuation allowance was removed in 2007.

At December 31, 2008, the Company had approximately $3.1 million in tax loss carryforwards, which expire in 2024 through 2026. Realization depends on generating sufficient taxable income before the expiration of the loss carryforward periods. The amount of loss carryforward available for any one year may be limited if the Company is subject to the alternative minimum tax.

Note 11: Related Party Transactions

In the normal course of business, loans are made to officers and directors of the Company, as well as to their related interests. In the opinion of management, these loans are consistent with sound banking practices, are within regulatory lending limitations and do not involve more than the normal risk of collectibility. The following table presents a summary of changes in loans to the Company's executive officers, directors and their related interests during the years:

	2008	2007
Balance January 1	**$ 8,128,844**	$ 6,112,118
Additions	**5,295,439**	2,725,169
Repayments	**2,479,072**	708,443
Balance December 31	**$ 10,945,211**	$ 8,128,844

Note 12: Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments may include commitments to extend credit, standby letters of credit and purchase commitments. The Company uses these financial instruments to meet the financing needs of its customers. Financial instruments involve, to varying degrees, elements of credit, interest rate, and liquidity risk. These do not represent unusual risks, and management does not anticipate any losses which would have a material effect on the accompanying financial statements.

Outstanding loan commitments and lines and letters of credit are as follows:

	December 31, 2008	2007
Unfunded loan commitments	**$ 22,750,916**	$ 23,762,166
Unused lines of credit	**29,363,274**	24,652,253
Letters of credit	**4,857,568**	3,512,606

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. The Company 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 counterparty. Commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Each customer's credit-worthiness is evaluated on a case-by-case basis.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party.

Note 13: Stock Options and Warrants

The Company initially raised $4,775,000 of capital by selling to its founders investment units consisting of one share of common stock and a fully detachable warrant equal to .25 shares of common stock per unit. The warrants were issued in recognition of the financial and organizational risk undertaken by the purchasers in the organizational offering. The warrants are immediately exercisable and will expire ten (10) years from the date of issuance. As of December 31, 2008 there have been no exercises of these warrants and the Company has outstanding warrants to purchase 119,376 shares at the price of $10.00 per share.

The Company's stock incentive plans provide for awards of nonqualified and incentive stock options. Employee stock options can be granted with exercise prices at the fair market value (as defined within the plan) of the stock at the date of grant and with terms of up to ten years. Except as otherwise permitted in the plan, upon termination of employment for reasons other than retirement, permanent disability or death, the option exercise period is reduced or the options are canceled.

Stock options may also be granted to non-employee members of the Board of Directors as compensation for attendance and participation at meetings of the Board of Directors and meetings of the various committees of the Board. The Company previously maintained an Advisory Board, for which non-employee members were compensated via stock options for meeting attendance. These nonqualified stock options can be granted with terms up to ten years, vest immediately, and are fully exercisable at time of grant.

The following table summarizes the Company's stock option activity and related information for the years ended:

	2008		2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	**333,462**	**$ 11.59**	224,412	$ 10.34	231,184	$ 10.30
Granted	**54,142**	**10.83**	123,963	13.92	14,040	11.70
Exercised	**(3,966)**	**10.87**	(7,561)	12.66	(18,242)	10.93
Forfeited	**(14,680)**	**12.04**	(7,352)	11.48	(2,570)	10.36
Outstanding at end of year	**368,958**	**$ 11.47**	333,462	$ 11.59	224,412	$ 10.34
Exercisable at end of year	**270,863**	**$ 10.84**	230,389	$ 10.54	224,412	$ 10.34
Weighted average fair value of options granted during the year		**$ 3.04**		$ 4.77		$ 3.38

The intrinsic value of a stock option is the amount that the market value of the underlying stock exceeds the exercise price of the option. Based upon a fair market value of $10.20 on December 31, 2008 the options outstanding had an aggregate intrinsic value of

$26 thousand. The aggregate intrinsic value of the options exercised in 2008 and 2007 amounted to $11 thousand and $1 thousand, respectively.

Proceeds from stock option exercises totaled $43 thousand in 2008, $96 thousand in 2007 and $199 thousand in 2006. Shares issued in connection with stock option exercises are issued from available authorized shares. During 2008, 2007, and 2006 3,966, 7,561 and 18,242 shares respectively, were issued in connection with stock option exercises.

Share-based Compensation Expense: Stock-based compensation is recognized as compensation cost in the statement of operations based on their fair values on the measurement date, which, for the Company, is the date of the grant. The Company recognized additional share-based compensation expense related to stock options of $196 thousand during 2008 and $56 thousand during 2007.

Valuation of Share-Based Compensation: The fair value of the Company's stock options granted as compensation is estimated on the measurement date, which, for the Company, is the date of grant. The fair value of stock options was calculated using the Black-Scholes option-pricing model. The weighted-average fair value of stock options granted was $3.04 for options granted in 2008, $4.77 for 2007 and $3.38 for 2006. The Company estimated expected market price volatility and expected term of the options based on historical data and other factors. The weighted-average assumptions used to determine the fair value of options granted are detailed in the table below:

	2008	2007	2006
Risk-free interest rate	**3.04 %**	4.73 %	4.89 %
Expected dividend yield	**0 %**	0 %	0 %
Expected volatility	**20 %**	20 %	20 %
Expected lives (in years)	**6**	7	5

Note 14: Profit Sharing Plan

The Company sponsors a defined contribution retirement plan through a Section 401(k) profit sharing plan. Employees may contribute up to 15% of their pretax compensation. Participants are eligible for matching Company contributions up to 4% of eligible compensation dependent on the level of voluntary contributions. Company matching contributions totaled $83,035, $79,092 and $69,414 in 2008, 2007 and 2006, respectively. The Company's matching contributions vest immediately.

Note 15: Income (Loss) per Common Share

The table below shows the presentation of basic and diluted income (loss) per common share for the years ended:

	2008	2007	2006
Net income (loss) applicable to common stock (numerator)	**$ 337,302**	$ 1,471,425	$ (746,067)
BASIC			
Average common shares outstanding (denominator)	**2,631,438**	2,602,352	2,243,522
Basic income (loss) per common share	**$ 0.13**	$ 0.57	$ (0.33)
DILUTED			
Average common shares outstanding	**2,631,438**	2,602,352	2,243,522
Diluted effect of stock options and warrants	**9,035**	81,762	-
Diluted average common shares outstanding (denominator)	**2,640,473**	2,684,114	2,243,522
Diluted income (loss) per common share	**$ 0.13**	$ 0.55	$ (0.33)

Note 16: Risk-Based Capital

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required that the federal regulatory agencies adopt regulations defining five capital tiers for banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Quantitative measures, established by the regulators to ensure capital adequacy, require that the Bank and Bancorp maintain minimum ratios (set forth below) of capital to risk-weighted assets. There are three categories of capital under the guidelines. Tier 1 capital includes common shareholders' equity, qualifying preferred stock and trust preferred securities, less goodwill and certain other deductions (including the unrealized net gains and losses, after applicable income taxes, on securities available for sale carried at fair value). Tier 2 capital includes preferred stock not qualifying as Tier 1 capital, subordinated debt, the allowance for credit losses and net unrealized gains on marketable equity securities, subject to limitations by the guidelines. Tier 2 capital is limited to the amount of Tier 1 capital (i.e., at least half of total capital must be in the form of Tier 1 capital). Tier 3 capital includes certain qualifying unsecured subordinated debt.

Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of four risk weights (0%, 20%, 50% and 100%) is applied to the different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. For example, claims guaranteed by the U.S. government or one of its agencies are risk-weighted at 0%. Off-balance sheet items, such as loan commitments, are also applied a risk weight after calculating balance sheet equivalent amounts. One of four credit conversion factors (0%, 20%, 50% and 100%) is assigned to loan commitments based on the likelihood of the off-balance sheet item becoming an asset. For example, certain loan commitments are converted at 50% and then risk-weighted at 100%. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Management believes that, as of December 31, 2008 and 2007, the Bank met all capital adequacy requirements to which they are subject.

	Actual		**For capital adequacy purposes**		**To be well capitalized under the FDICIA prompt corrective action provisions**	
(in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2008:						
Total capital (to risk-weighted assets)						
Howard Bank	$ 25,296	12.56 %	$ 16,110	8.00 %	$ 20,138	10.00 %
Howard Bancorp	**$ 27,220**	**13.49 %**	**$ 16,145**	**8.00 %**	**N/A**	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$ 22,777	11.31 %	$ 8,055	4.00 %	$ 12,083	6.00 %
Howard Bancorp	**$ 24,696**	**12.24 %**	**$ 8,072**	**4.00 %**	**N/A**	
Tier 1 capital (to average assets)						
(Leverage ratio)						
Howard Bank	$ 22,777	10.06 %	$ 9,059	4.00 %	$ 11,324	5.00 %
Howard Bancorp	**$ 24,696**	**10.89 %**	**$ 9,073**	**4.00 %**	**N/A**	
As of December 31, 2007:						
Total capital (to risk-weighted assets)						
Howard Bank	$ 24,487	14.05 %	$ 13,947	8.00 %	$ 17,434	10.00 %
Howard Bancorp	$ 26,314	15.03 %	$ 14,006	8.00 %	N/A	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$ 22,302	12.79 %	$ 6,974	4.00 %	$ 10,460	6.00 %
Howard Bancorp	$ 24,120	13.78 %	$ 7,003	4.00 %	N/A	
Tier 1 capital (to average assets)						
(Leverage ratio)						
Howard Bank	$ 22,302	12.20 %	$ 7,314	4.00 %	$ 9,142	5.00 %
Howard Bancorp	$ 24,120	13.16 %	$ 7,329	4.00 %	N/A	

The bank is currently prohibited from paying dividends without the prior approval of the State Banking Commissioner.

Note 17: Fair Value

The Company adopted SFAS 159 effective January 1, 2008. This Statement permits entities to measure many financial instruments and certain other items at fair value on a contract by contract basis. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes must be recorded in earnings.

Simultaneously with the adoption of SFAS 159, the Company adopted SFAS 157. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under SFAS 157, fair value measurements are not adjusted for transaction costs. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below.

Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by SFAS 157, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Company. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a recurring basis as of December 31, 2008.

	Carrying Value (Fair Value)	Quoted Price (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale	$ 10,189,660	$ -	$ 10,189,660	$ -

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2008.

	Carrying Value (Fair Value)	Quoted Price (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 2,116,000	$ -	$ -	$ 2,116,000
Impaired loans	4,534,533	-	-	4,534,533

The following table provides a reconciliation of all assets measured at fair value on a nonrecurring basis using significant unobservable inputs for the year ended December 31, 2008.

	Forclosed Properties	Impaired Loans
Balance at December 31, 2007	$ -	$ 2,825,000
Total net gain (losses) for the year included in:		
Gain on sale of foreclosed properties	-	-
Other comprehensive gain (loss)	-	-
Purchase and sales, net	-	-
Net transfers in (out)	2,116,000	1,709,533
Balance at December 31, 2008	2,116,000	4,534,533

The following table presents required information in accordance with SFAS No. 107, “Disclosures about Fair Value of Financial Instruments,” at December 31, 2008 and 2007. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are based on quoted market prices where available or calculated using present value techniques. Since quoted market prices are not available on many of our financial instruments, estimates may be based on the present value of estimated future cash flows and estimated discount rates. These financial assets and liabilities have not been recorded at fair value:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**$ 8,969,290**	**$ 8,969,290**	$ 5,155,716	$ 5,155,716
Nonmarketable equity securities	**1,197,900**	**1,197,900**	716,000	716,000
Loans	**204,090,415**	**204,543,988**	172,491,023	171,999,206
Financial Liabilities				
Deposits	**182,486,031**	**181,760,096**	152,118,898	151,700,982
Short-term borrowings	**19,928,466**	**19,928,466**	13,988,551	13,988,551
Long-term borrowings	**2,000,000**	**1,955,978**	-	-

The following methods and assumptions were used to estimate the fair value of financial instruments where it is practical to estimate fair value:

Cash and cash equivalents: The fair value of cash and cash equivalents is estimated to approximate the carrying amounts.

Securities available-for-sale: Based on quoted market prices. See Note 3 for additional information.

Nonmarketable equity securities: Because these securities are not marketable, the carrying amount approximates the fair value.

Loans: For variable rate loans the carrying amount approximates the fair value. For fixed rate loans the fair value is calculated by discounting estimated cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The estimated cash flows do not anticipate prepayments.

Deposits: The carrying amount of non-maturity deposits such as demand deposits, money market and saving deposits approximates the fair value. The fair value of deposits with predetermined maturity dates such as certificate of deposits is estimated by discounting the future cash flows using current rates of similar deposits with similar remaining maturities.

Short-term borrowing: Variable rate repurchase agreements carrying amounts approximate the fair values at the reporting date.

Long-term borrowing: Because the borrowing is a variable rate instrument, the carrying amount approximates the fair value.

Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

Note 18: Parent Company Financial Information

The condensed financial statement for Howard Bancorp, Inc. (Parent Only) is presented below:

Howard Bancorp, Inc.

Balance Sheets

	December 31, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	**$ 1,544,859**	$ 1,250,076
Loans, net of unearned income	**429,912**	548,696
Allowance for credit losses	**(6,300)**	(7,800)
Net loans	**423,612**	540,896
Investment in subsidiary	**22,782,484**	22,334,273
Other assets	**47,927**	41,489
Total assets	**$ 24,798,882**	$ 24,166,734
LIABILITIES		
Short-term borrowings	**$ 42,964**	$ -
Other Liabilities	**-**	15,300
Total liabilities	**42,964**	15,300
SHAREHOLDERS' EQUITY		
Common stock - par value of $0.01 authorized 5,000,000 shares; issued and outstanding 2,633,064 shares in 2008 and 2,629,099 shares in 2007	**26,331**	26,291
Capital surplus	**28,181,268**	27,942,109
Accumulated deficit	**(3,511,418)**	(3,848,720)
Accumulated other comprehensive income, net	**59,737**	31,754
Total shareholders' equity	**24,755,918**	24,151,434
Total liabilities and shareholders'equity	**$ 24,798,882**	$ 24,166,734

Statements of Operations

	For the Year Ended December 31,		
	2008	2007	2006
INTEREST EXPENSE			
Interest and fees on loans	**$ 43,710**	$ 10,441	$ -
INTEREST EXPENSE			
Short-term borrowings	**1,924**	-	-
Long-term borrowings	**-**	20,403	8,197
NET INTEREST EXPENSE	**41,786**	(9,962)	(8,197)
Provision for credit losses	**(1,500)**	7,800	-
Net interest expense after provision for credit losses	**43,286**	(17,762)	(8,197)
NONINTEREST EXPENSE			
Compensation and benefits	**180,791**	70,906	63,546
Other operating expense	**7,601**	7,459	8,557
Total noninterest expense	**188,392**	78,365	72,103
Loss before income tax and equity in undistributed income (loss) of subsidiary	**(145,106)**	(96,127)	(80,300)
Income tax benefit	**(7,100)**	(39,574)	-
Loss before equity in undistributed income (loss) of subsidiary	**(138,006)**	(56,553)	(80,300)
Equity in undistributed income (loss) of subsidiary	**475,308**	1,527,978	(665,767)
Net income (loss)	**$ 337,302**	$ 1,471,425	$ (746,067)

Statements of Cash Flows

	For the Year Ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 337,302**	$ 1,471,425	$ (746,067)
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:			
Provision for credit losses	**(1,500)**	7,800	-
Deferred income taxes (benefits)	**(7,100)**	(39,574)	-
Share-based compensation	**196,092**	55,606	63,546
Equity in undistributed (gain) loss of subsidiary	**(475,308)**	(1,527,978)	665,767
Decrease (increase) in other assets	**55,742**	8,662	(10,577)
(Decrease) increase in other liabilities	**(15,300)**	(144,147)	154,448
Net cash provided (used) by operating activities	**89,928**	(168,206)	127,117
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease (increase) in loans outstanding	**118,784**	(548,696)	-
Investment in subsidiary	**-**	-	(3,450,000)
Net cash provided (used) by investing activities	**118,784**	(548,696)	(3,450,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in short-term borrowings	**42,964**	-	-
Proceeds from issuance of long-term debt	**-**	-	3,400,000
Repayment of long-term debt	**-**	(3,400,000)	-
Proceeds from issuance of common stock, net of cost	**43,107**	5,087,347	199,448
Net cash provided by financing activities	**86,071**	1,687,347	3,599,448
Net increase in cash and cash equivalents	**294,783**	970,445	276,565
Cash and cash equivalents at beginning of period	**1,250,076**	279,631	3,066
Cash and cash equivalents at end of period	**$ 1,544,859**	$ 1,250,076	$ 279,631

Note 18: Subsequent Event

On February 27, 2009, pursuant to the Capital Purchase Program established by the United States Department of the Treasury (the "Treasury") under the Emergency Economic Stabilization Act of 2008, the Company issued the following securities to the Treasury for aggregate consideration of $5,983,000: (i) 5,983 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, par value $1.00 per share (the "Series B Preferred Stock"); and (ii) pursuant to the exercise of an immediately exercisable warrant, 299 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series C, par value $1.00 per share (the "Series C Preferred Stock"). The Series B Preferred Stock pay a cumulative preferred dividend of 5% per annum per $1,000 of liquidation amount from February 27, 2009 to May 15, 2014, and a cumulative preferred dividend of 9% per annum per $1,000 of liquidation amount on and after May 16, 2014. The Series C Preferred Stock pay a cumulative preferred dividend of 9% per annum per $1,000 of liquidation amount. Prior to the third anniversary of issuance, unless the Company has redeemed all of the Series B and Series C Preferred Stock or the Treasury has transferred all of the Series B and Series C Preferred Stock to a third party, the consent of the Treasury will be required for the Company to increase its common stock dividend or repurchase its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Purchase Agreement relating to the issuance. After the third anniversary and prior to the tenth anniversary, the Treasury's consent is required for any increase in aggregate common dividends per share greater than 3% per year, and after the tenth anniversary, no dividend may be paid on the common stock, and no shares of common stock may be repurchased without Treasury consent, in each case unless the Company has redeemed all of the Series B and Series C Preferred Stock or the Treasury has transferred all of the Series B and Series C Preferred Stock to a third party. The Series B and Series C Preferred Stock are treated as Tier 1 capital without limitation.

Howard Bancorp, Inc.

CORPORATE HEADQUARTERS

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6011 University Boulevard
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Website: www.howardbank.com

ANNUAL MEETING

The annual meeting of Stockholders of Howard Bancorp, Inc. will be held on Wednesday, May 27, 2009 at 6:00 p.m. at the:

Corporate Offices of
Howard Bancorp, Inc.
6011 University Boulevard
Suite 370
Ellicott City, MD 21043

COMMON STOCK

Howard Bancorp, Inc.'s Common Stock is listed on the NASDAQ Over-the-Counter Bulletin Board (OTCBB) under the symbol HBMD.OB

TRANSFER AGENT

Shareholders seeking information on stock transfer requirements, lost certificates, or other shareholder matters should contact our transfer agent:

Registrar and Transfer Company
10 Commerce Drive
Cranford NJ 07016-3572
(800) 368-5948
E-mail: info@rtco.com
Website: www.rtco.com

MARKET MAKERS

In order to facilitate shareholders or other investors in the purchase or sale our common stock, there are several firms which make a market in our common stock. The Company's market makers can be viewed at the About Us – Investor Relations section of the Bank's website www.howardbank.com.

INVESTOR RELATIONS

Howard Bancorp, Inc.'s Annual Report, Regulatory Filings, and other corporate publications are on our website at www.howardbank.com or are available to shareholders upon request, without charge, by writing:

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Executive Vice President and Chief Financial Officer
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Ellicott City, MD 21043

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Phone: (800) 686-3883
Website: www.stegman.com

Board of Directors

Richard G. Arnold	**Kenneth C. Lundeen**
Andrew E. Clark	**Robert N. Meyers**
Bernaldo J. Dancel	**Richard H. Pettingill**
Robert J. Hartson	**Steven W. Sachs**
Paul I. Latta, Jr.	**Mary Ann Scully**
Barbara K. Lawson	**Richard B. Talkin**

Executive Management

Mary Ann Scully
President and Chief Executive Officer

George C. Coffman
Executive Vice President and Chief Financial Officer

Paul G. Brown
Executive Vice President and Chief Lending Officer

Charles E. Schwabe
Executive Vice President and Chief Administrative Officer

Officers

Michael T. Cavey Senior Vice President
Barbara S. Knickman Senior Vice President
Christopher G. Marasco Senior Vice President
Rosa M. Scharf Senior Vice President
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Patricia L. Howard Vice President
Linda J. Paterni Vice President
Steven M. Poynot Vice President
Rocco Ricci Vice President
Christa L. Spalding Vice President
Shannon M. Boswell Assistant Vice President
Patricia D. Brown Assistant Vice President
Yvonne C. Carter Assistant Vice President
Diane M. Griffitts Assistant Vice President

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F (410) 750-3685
Michele Healy, Mgr

Laurel/Maple Lawn
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Daphne Dressler, Mgr

Products and Services

Checking

Small Business Checking
Community Business Checking
Business Relationship Checking
Business Solutions Checking
Super Checking
Howard Relationship Checking
Howard Maximum Checking

Electronic Banking & Convenience Services

Business OnLine Banking
Personal OnLine Banking
Web BillPay
Classic & Gold Visa Check Cards & ATM Cards
Personal & Business Credit Cards

Credit and Lending Services

Commercial Lines of Credit
Commercial Construction Loans
Commercial Real Estate Loans
Mini-perm Financing
SBA 7a, SBA Express, SBA 504, SBA Patriot
Receivables Financing – commercial & government
Equipment Financing
Home Equity Loans & Lines
Residential Mortgages
Consumer Installment Loans
Unsecured Lines of Credit
Renaissance Loan Fund
Public Servant Loan Program
Sustainability Loan Program

Savings, Money Market & CDs

Business Savings
Personal Money Market
Business Money Market
CDs with terms of 3 to 60 months
IRA
Personal Savings
Junior Savings
IRA Savings
CDARS

Cash Management & Business Services

IOLTA, MAHT & Escrow accounts
LockBox processing
4:00 p.m. same day branch deposit
Free Courier service for non-negotiable deposits
ACH & Wire Transfers
Hands On Evaluator
Night Depositories
Customer Convenience drop off boxes at branches
Hands on Connection (Remote Deposit)
Repurchase Agreements
Merchant Card Services
Master Notes

Investment Services

Annuities
Mutual Funds
WRAP Accounts
Individual Securities
SEP's, Serp's, 401K's

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