HOWARD BANCORP

2010 ANNUAL REPORT

To Our Shareholders

2010 proved to be a good year for Howard Bancorp, marked by four successive quarters of profitability, ongoing asset growth led by continuing loan growth and robust growth in deposits especially the demand deposits so critical to the successful implementation of our relationship banking model.

Howard Bank continues to win accolades as well - our fifth straight year being recognized as one of the fastest growing companies in the Greater Baltimore region, recognition of our executive management team as a Baltimore Smart CEO Top 10 executive team, selection of seven of our bankers as Top Bankers in the Central Maryland region, assumption of the #8 ranking in deposit market share in Howard County and a Top 10 ranking in SBA lending in the Baltimore region.

Clearly, the bank's continued success flies in the face of those pundits who are predicting the end of community banking as we know it. I am reminded of Mark Twain's famous response to an erroneously published obituary that, "The report of my death was an exaggeration". We remain committed to the concept that banks such as Howard Bank can and do add great value to communities during both boom and bust times. And while we recognize that there are significant issues facing community banks, specifically scale, industry consolidation, access to capital and economic growth - we also believe that we are well prepared for these challenges,

The need for scale is often noted as banking is beset by more and more regulations resulting in higher expenses and in some cases a reduction in revenue. The 200 plus new rules promulgated by the Dodd-Frank Act are just the latest in a long list of compliance regulations. Perhaps some particularly bad actors in this bill may be amended, for example the Durbin amendment, which imposes fixed pricing that makes it impossible for banks to recover their debit card operating costs, including fraud protection, but compliance costs are definitely rising. Howard Bank has, from the beginning, relied on strategic partners for data processing, item processing, information security and other areas and this provides us with access to the scale of production that has always been an issue in banking – since long before we started the bank. We have always made growth a hallmark as well. Most predictions of community bank extinction are for those thousands of banks - almost half all FDIC insured banks - that have never grown beyond $100 million in asset size. Howard Bank does not intend to rest at its present level of $300 million in assets.

Further industry consolidation has undoubtedly happened. However, Howard Bank believes that the end result is fewer larger banks able to underwrite traditionally, and offer expert advice face to face which gives us a wider window from which to extend our brand and value proposition. Our Hands On approach to delivering to local small and medium sized businesses a very broad and deep array of competitive credit and cash management services through a team of very experienced advisors and providing them with access to similarly local policy and decision makers still fills a unique "white space" between the sophisticated but distracted large banks whose best personnel work with the largest companies and the small banks who are very responsive but less capable of being proactive in giving expert advice.

While it is undoubtedly true that the equity markets have not yet recovered sufficiently or evenly to recognize the value of the financial services sector except for the largest and most liquid banks, Howard Bank, through earnings retention and participation in the Capital Purchase Program explicitly designed for community banks, has funded its growth and remains comfortably above the well capitalized ratios. We are advantaged in that we do not suffer from the tired board and/or tired executive management team syndrome prevalent in other board rooms around the country and we benefit from the early positioning of Howard Bancorp as a growth stock, not an income stock, and the consistent advocacy to take the long term view. Our shareholders have demonstrated their support of this positioning. However, we are certainly cognizant of the desirability of seeking the right opportunities to provide more liquidity in our stock through traditional capital raises. We will pick the optimal time to do this in the future, striking the right balance between presently low multiples for community banks which hurts every shareholder's ultimate capital gains and some shareholders' desire for more liquidity right now.

Finally, it is true that employment growth is not robustly rebounding and, until it does, any growth is more fragile than is desirable. A study of history would show that after an asset bubble caused recession, equity markets might rebound in a year to 18 months and property values might rebound in 2 to 5 years, but employment will not fully rebound for 5 to 8 years. We are only in the third year of our recovery and while some would say that Maryland entered the recession later albeit more modestly and will, therefore, recover fully even later, we see sizable growth potential for government, cyber security, health and education related sectors.

2011 is off to a good start although we are seeing the above signs of ongoing weakness in the local economy. For some time now, the bank has seen much of our growth derived from two sources: first, the participation in a growing economy where government contractors, builders and developers and professional service firms were expanding their businesses and came to Howard Bank to assist them in their growth plans; and second, the migration of customers from larger or troubled banks unable or unwilling to pay attention to the small and medium clientele that make up the bread and butter not only of our target customer segment but of the economy as a whole. This second movement and capture of clients from other banks continues but the corresponding growth in funding for new businesses and existing customers seems to have slowed for the most part. As we listen to our customers, it seems that many do not yet have enough confidence in the recovery and enough capacity to begin hiring again or investing in infrastructure fueled by growth. Despite this, we are confident that growth through shifts in market share can fuel our engine for some time. We believe that there are many good credit-worthy clients in our Central Maryland marketplace and we are successfully working with both existing and new networks of influencers to identify them and introduce them to Howard Bank's unique way of doing business.

The hallmark of strong leadership is the ability to handle shifts in the landscape and to benefit from those shifts. We remain focused first and foremost on building on our strengths –

- Talented staff who give our customers access to better and more experienced advice than they will receive at other competitors;
- Committed leadership at both the executive management and board level who will not give up the quest for profitable growth and will access the appropriate mix of capital to fund it.
- Strong partnerships that give us access to scale and a dynamic product set;

As always, please let us know when you want to talk. You can stay up to date with Howard Bank through the Investor Relations section of howardbank.com and through our new communications tool - MarylandBankingBlog.com. Thanks for all that you - our shareholders, customers, employees and communities - have done for us.

Sincerely,

Mary Ann Scully

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

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MANAGEMENT CONSULTANTS SINCE 1915

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, 2010 and 2009, 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, 2010. 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, 2010 and 2009, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Stegman & Company

Baltimore, Maryland
April 8, 2011

Suite 100, 405 East Joppa Road Baltimore, Maryland 21286 • 410-823-8000 • 1-800-686-3883 • Fax: 410-296-4815 • www.stegman. com

Howard Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
ASSETS		
Cash and due from banks	**$ 11,456,493**	$ 5,854,463
Federal funds sold	**297,991**	4,873,724
Total cash and cash equivalents	**11,754,484**	10,728,187
Securities available-for-sale	**15,039,845**	15,403,225
Nonmarketable equity securities	**1,514,800**	1,695,500
Loans held for sale	**1,063,000**	-
Loans and leases, net of unearned income	**256,306,790**	252,745,448
Allowance for credit losses	**(3,523,122)**	(3,508,145)
Net loans	**253,846,668**	249,237,303
Bank premises and equipment, net	**9,239,396**	2,381,891
Deferred income taxes	**2,663,187**	3,466,551
Interest receivable and other assets	**6,160,334**	3,383,748
Total assets	**$ 300,218,714**	$ 286,296,405
LIABILITIES		
Noninterest-bearing deposits	**$ 48,678,635**	$ 38,997,302
Interest-bearing deposits	**190,635,064**	189,745,510
Total deposits	**239,313,699**	228,742,812
Short-term borrowings	**25,023,960**	20,457,831
Long-term borrowings	**6,000,000**	8,000,000
Accrued expenses and other liabilities	**593,071**	582,161
Total liabilities	**270,930,730**	257,782,804
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock—series A and B, par value $0.01 (liquidation preference of $1,000 per share) authorized 5,000,000; shares issued and outstanding 6,282 at each period, net of cost	**6,271,909**	6,271,909
Common stock - par value of $0.01 authorized 5,000,000 shares; issued and outstanding 2,636,837 shares in 2010 and 2,633,836 in 2009	**26,368**	26,338
Capital surplus	**28,284,883**	28,098,169
Accumulated deficit	**(5,325,270)**	(5,932,258)
Accumulated other comprehensive income, net	**30,094**	49,443
Total shareholders' equity	**29,287,984**	28,513,601
Total liabilities and shareholders' equity	**$ 300,218,714**	$ 286,296,405

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

Consolidated Statements of Operations

	Years Ended December 31,		
	2010	2009	2008
INTEREST INCOME			
Interest and fees on loans	**$ 14,102,731**	$ 12,179,350	$ 11,797,710
Interest and dividends on securities	**124,058**	175,867	393,297
Other interest income	**27,829**	71,201	97,704
Total interest income	**14,254,618**	12,426,418	12,288,711
INTEREST EXPENSE			
Deposits	**2,572,008**	3,443,259	4,560,065
Short-term borrowings	**214,978**	194,775	317,659
Long-term borrowings	**119,750**	106,420	60,535
Total interest expense	**2,906,736**	3,744,454	4,938,259
NET INTEREST INCOME	**11,347,882**	8,681,964	7,350,452
Provision for credit losses	**1,633,336**	3,670,008	1,150,365
Net interest income after provision for credit losses	**9,714,546**	5,011,956	6,200,087
NONINTEREST INCOME			
Service charges on deposit accounts	**390,268**	449,124	309,721
Other operating income	**351,343**	306,518	205,692
Total noninterest income	**741,611**	755,642	515,413
NONINTEREST EXPENSE			
Compensation and benefits	**4,592,573**	4,129,675	3,333,957
Occupancy and equipment	**1,519,918**	1,397,803	1,170,667
Provision for other real estate owned	**-**	1,286,000	-
Marketing and business development	**362,553**	310,906	344,780
Professional fees	**278,756**	352,195	257,709
Data processing fees	**353,861**	538,923	442,933
FDIC assessment	**476,017**	583,762	143,245
Other operating expense	**1,123,474**	659,683	452,046
Total noninterest expense	**8,707,152**	9,258,947	6,145,337
INCOME (LOSS) BEFORE INCOME TAXES	**1,749,005**	(3,491,349)	570,163
Income tax expense (benefit)	**815,957**	(1,304,185)	232,861
NET INCOME (LOSS)	**$ 933,048**	$ (2,187,164)	$ 337,302
Preferred stock dividends	326,060	274,433	-
Net income (loss) available to common shareholders	**$ 606,988**	$ (2,461,597)	$ 337,302
NET INCOME (LOSS) PER COMMON SHARE			
Basic	**$ 0.23**	$ (0.93)	$ 0.13
Diluted	**$ 0.23**	$ (0.93)	$ 0.13
DIVIDENDS PAID PER COMMON SHARE	**$ -**	$ -	$ -

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

Consolidated Statements of Changes in Shareholders' Equity

	Preferred stock	Number of common shares	Common stock	Capital surplus	Accumulated deficit	Accumulated other comprehensive income	Total
Balances at January 1, 2008	$ -	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
Comprehensive income:							
Net loss	-	-	-	-	(2,187,164)	-	(2,187,164)
Other comprehensive loss net of tax:							
Net unrealized loss on securities	-	-	-	-	-	(10,294)	(10,294)
Total comprehensive loss							(2,197,458)
Issuance of preferred stock:							
Series A and B	6,271,909	-	-	(299,003)	-	-	5,972,906
Dividends paid on preferred stock	-	-	-	-	(233,676)	-	(233,676)
Issuance of common stock:							
Stock awards	-	772	7	6,168	-	-	6,175
Stock-based compensation	-	-	-	209,736	-	-	209,736
Balances at December 31, 2009	6,271,909	2,633,836	26,338	28,098,169	(5,932,258)	49,443	28,513,601
Comprehensive income:							
Net income	**-**	**-**	**-**	**-**	**933,048**	**-**	**933,048**
Other comprehensive income net of tax:							
Net unrealized loss on securities	**-**	**-**	**-**	**-**	**-**	**(19,349)**	**(19,349)**
Total comprehensive income							**913,699**
Dividends paid on preferred stock	**-**	**-**	**-**	**-**	**(326,060)**	**-**	**(326,060)**
Issuance of common stock:							
Stock awards	**-**	**3,001**	**30**	**20,446**	**-**	**-**	**20,476**
Stock-based compensation	**-**	**-**	**-**	**166,268**	**-**	**-**	**166,268**
Balances at December 31, 2010	**$ 6,271,909**	**2,636,837**	**$ 26,368**	**$ 28,284,883**	**$ (5,325,270)**	**$ 30,094**	**$ 29,287,984**

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

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 933,048**	$ (2,187,164)	$ 337,302
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Provision for credit losses	**1,633,336**	3,670,008	1,150,365
Deferred income taxes (benefit)	**815,936**	(1,304,185)	251,801
Provision for other real estate owned	**-**	1,286,000	-
Depreciation	**355,535**	366,833	349,545
Stock-based compensation	**186,744**	215,911	196,092
Net accretion of investment securities	**173,076**	(638,380)	(126,399)
Gains on sales of loans	**(52,618)**	-	-
(Decrease) increase in interest receivable	**(127,989)**	72,015	(91,748)
(Decrease) increase in interest payable	**(30,241)**	(100,485)	48,274
Increase in other assets	**(283,468)**	(2,135,718)	(649,814)
Increase (decrease) in other liabilities	**41,151**	42,053	(181,372)
Net cash provided (used) by operating activities	**3,644,510**	(713,112)	1,284,046
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investment securities available-for-sale	**(53,220,729)**	(48,594,180)	(27,865,455)
Proceeds from sale/maturities of investment securities available-for-sale	**53,379,111**	44,001,960	27,238,514
Net increase in loans outstanding	**(8,374,512)**	(51,475,973)	(34,877,479)
Purchase of premises and equipment	**(7,213,039)**	(284,177)	(316,207)
Net cash used in investing activities	**(15,429,169)**	(56,352,370)	(35,820,627)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in noninterest-bearing deposits	**9,681,333**	1,255,649	10,526,722
Net increase in interest-bearing deposits	**889,554**	45,001,132	19,840,411
Net increase in short-term borrowings	**4,566,129**	529,365	5,939,915
Proceeds from issuance of long-term debt	**-**	6,000,000	2,000,000
Repayment of long-term debt	**(2,000,000)**	-	-
Proceeds from issuance of preferred stock, net of cost	**-**	6,271,909	-
Proceeds from issuance of common stock, net of cost	**-**	-	43,107
Cash dividends on preferred stock	**(326,060)**	(233,676)	-
Net cash provided by financing activities	**12,810,956**	58,824,379	38,350,155
Net increase in cash and cash equivalents	**1,026,297**	1,758,897	3,813,574
Cash and cash equivalents at beginning of period	**10,728,187**	8,969,290	5,155,716
Cash and cash equivalents at end of period	**$ 11,754,484**	$ 10,728,187	$ 8,969,290
SUPPLEMENTAL INFORMATION			
Cash payments for interest	**$ 2,936,977**	$ 3,543,744	$ 4,889,985
Cash payments for income taxes	**$ -**	$ -	$ -
Transferred from loans to other real estate owned	**$ 2,146,726**	$ -	$ 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 Bank has three subsidiaries, two hold foreclosed real estate and the other holds and manages real estate that is used as a branch locations and has office and retail space. 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.

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.

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, its subsidiary bank and the bank's subsidiaries. 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 may 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 amortized 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 or that management would be required to sell the security before 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 Held-For-Sale

The Company engages in sales of residential mortgage loans originated by the Bank. Loans held for sale are carried at the lower of aggregate cost or fair value. Fair value is derived from secondary market quotations for similar instruments. Gains and losses on sales of these loans are recorded as a component of noninterest income in the Consolidated Statements of Operations. The Company's current practice is to sell residential mortgage loans on a servicing released basis, and, therefore, it has no intangible asset recorded for the value of such servicing as of December 31, 2010 and 2009.

The Company enters into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e. rate lock commitment). Such rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 15 to 60 days. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at a premium at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Company is not exposed to losses nor will it realize gains related to its rate lock commitments due to changes in interest rates.

The market value of rate lock commitments and best efforts contracts are not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded. Because of the high correlation between rate lock commitments and best efforts contracts, no gain or loss occurs on rate lock commitments.

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 Financial Accounting Standards ("FASB") Accounting Standards Codification ("ASC") Topic 450 *Contingencies* or ASC Topic 310 *Receivables.* 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 noninterest income. Additions to the valuation allowance are included in noninterest 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.

As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Interest and penalties related to income tax matters are recognized in income tax expense.

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.

Compensation expense for non-vested common stock awards is based on the fair value of the awards, which is generally the market price of the common stock on the measurement date, which, for the Company, is the date of grant, and is recognized ratably over the service period of the award.

Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure through April 8, 2011, the date the consolidated financial statements were available to be issued.

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 2010, 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, 2010				December 31, 2009			
	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	**$ 14,036,911**	**$ 2,937**	**$ 2,708**	**$ 14,037,140**	$ 13,707,340	$ 2,242	$ 40	$ 13,709,542
Mortgage-backed	**953,232**	**49,473**	**-**	**1,002,705**	1,614,261	79,422	-	1,693,683
	$ 14,990,143	**$ 52,410**	**$ 2,708**	**$ 15,039,845**	$ 15,321,601	$ 81,664	$ 40	$ 15,403,225

There have not been any individual securities with an unrealized loss position for a period greater than one year as of either December 31, 2010 or December 31, 2009. 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, 2010 and December 31, 2009 are as follows.

December 31, 2010

	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	$ 5,996,360	$ 2,708	$ -	$ -	$ 5,996,360	$ 2,708
Mortgage-backed	-	-	-	-	-	-
	$ 5,996,360	$ 2,708	$ -	$ -	$ 5,996,360	$ 2,708

December 31, 2009

	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	$ 1,999,960	$ 40	$ -	$ -	$ 1,999,960	$ 40
Mortgage-backed	-	-	-	-	-	-
	$ 1,999,960	$ 40	$ -	$ -	$ 1,999,960	$ 40

The unrealized losses that existed were a result of market changes in interest rates since the original purchase. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) structure of the security.

An impairment loss is recognized in earnings if any of the following are true: (1) the Company intends to sell the debt security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis or (3) the Company does not expect to recover the entire amortized cost basis of the security. In situations where the Company intends to sell or when it is more likely than not that the Company will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in shareholders' equity as a component of other comprehensive income, net of deferred tax.

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

	2010		2009	
	Amortized Cost	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	**$ 12,036,911**	**$ 12,039,560**	$ 8,997,340	$ 8,997,875
After one year through five years	**2,424,016**	**2,441,662**	4,950,460	4,961,831
After five years through ten years	**-**	**-**	402,337	422,340
After ten years	**529,216**	**558,623**	971,464	1,021,179
	$ 14,990,143	**$ 15,039,845**	$ 15,321,601	$ 15,403,225

There were no sales of investment securities during 2010, 2009 or 2008. At December 31, 2010 and 2009, $9.0 and $10.7 million fair value of securities was pledged as collateral for repurchase agreements, respectively. 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, 2010.

Note 4: Nonmarketable Equity Securities

At December 31, 2010 and 2009, the Company's investment in nonmarketable equity securities consisted of Federal Home Loan Bank of Atlanta stock, which is required for continued membership, of $1.5 million and $1.7 million, respectively. These investments are carried at cost.

Note 5: Loans

The Company makes loans to customers primarily in Howard and Anne Arundel Countyies, 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,	
	2010	2009
Real estate construction	**$ 30,604,440**	$ 33,436,686
Residential real estate (1)	**33,260,712**	30,603,543
Commercial mortgage	**105,384,510**	94,589,566
Commercial	**86,850,911**	92,816,310
Consumer	**1,269,217**	1,299,343
Total loans	**$ 257,369,790**	$ 252,745,448

(1) Included $1,063,000 in loans held for sale at December 31, 2010 and -0- at December 31, 2009

Activity in the allowance for credit losses for the years ended December 31, 2010, 2009 and 2008 are shown below:

	December 31,		
	2010	2009	2008
Balance at beginning of year	**$ 3,508,145**	$ 2,659,078	$ 2,670,800
Provision for credit losses	**1,633,336**	3,670,008	1,150,365
Loan charge-offs	**(1,754,026)**	(2,830,651)	(1,162,132)
Loan recoveries	**135,667**	9,710	45
Balance at end of year	**$ 3,523,122**	$ 3,508,145	$ 2,659,078

The impaired loans for the years ended December 31, 2010, 2009, and 2008 are as follows:

	December 31,		
	2010	2009	2008
Impaired loans with a valuation allowance	**$ 2,122,448**	$ 3,885,421	$ 957,990
Impaired loans without a valuation allowance	**3,527,609**	3,763,926	3,576,543
Total impaired loans	**5,650,057**	7,649,346	4,534,533
Allowance for loan loss related to impaired loans	**$ 800,000**	$ 1,021,493	$ 259,607
Average impaired balance	**$ 6,935,385**	$ 8,135,757	$ 4,520,584
Interest collected on impaired loans on cash basis	**$ -**	$ 7,246	$ 3,226

Nonaccrual loans included in impaired loans totaled $5.4 million, $4.9 million and $4.1 million at December 31, 2010, 2009 and 2008 respectively. Interest income that would have been recorded if nonaccrual loans had been current and in accordance with their original terms was $183 thousand, $142 thousand and $59 thousand, respectively.

On December 31, 2010 nonaccrual loans totaled $5.4 million. In 2010, the Company transferred three loans totaling $2.1 million, net of the reserve, to other real estate owned.

On December 31, 2009, the $4.9 million in nonaccrual loans represented nine loan customers of which one loan represented $3.1 million or 63% of the total. Of the remaining eight relationships, five of the eight were for customers with remaining balances of less than $125 thousand.

At 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.

Note 6: Premises and Equipment

Premises and equipment include the following at:

	December 31,	
	2010	2009
Land	**$ 2,660,000**	$ -
Building and leasehold improvements	**6,652,772**	2,281,661
Furniture and equipment	**1,701,891**	1,540,552
Software	**161,587**	140,997
	11,176,250	3,963,210
Less: accumulated depreciation and amortization	**1,936,854**	1,581,319
Net premises and equipment	**$ 9,239,396**	$ 2,381,891

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 $961,072, $870,670 and $685,930 for the year ended December 31, 2010, 2009 and 2008, respectively.

In 2010 the Company purchased and now owns a property which includes one of our branch locations as well as both office and retail units. In addition to the current branch, the Company expects to utilize a portion of the center for future Bank expansion and intends to lease the remainder of the space.

At December 31, 2010, future minimum lease payments under noncancellable operating leases having an initial term in excess of one year are as follows:

Year ended December 31,	
2011	$ 770,175
2012	782,601
2013	796,897
2014	467,573
2015	239,484
Thereafter	1,610,939
Total minimum lease payments	$ 4,667,669

Note 7: Deposits

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

	December 31,			
	2010	**% of Total**	2009	% of Total
Noninterest-bearing demand	**$ 48,678,635**	**20** %	$ 38,997,302	17 %
Interest-bearing checking	**17,152,035**	**7**	15,900,449	6
Money market accounts	**64,636,888**	**27**	44,759,293	20
Savings	**13,608,012**	**6**	15,644,196	7
Certificates of deposit $100,000 and over	**68,117,644**	**29**	65,340,343	29
Certificates of deposit under $100,000	**27,120,485**	**11**	48,101,229	21
Total deposits	**$ 239,313,699**	**100** %	$ 228,742,812	100 %

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

Three months or less	**$ 12,891,375**
More than three months through six months	**8,213,689**
More than six months through twelve months	**28,497,664**
Over twelve months	**18,514,916**
Total	**$ 68,117,644**

Interest expense on deposits for the periods ended 2010, 2009 and 2008 were as follows:

	December 31,		
	2010	2009	2008
Interest-bearing checking	**$ 69,353**	$ 72,642	$ 212,006
Savings and money market	**652,591**	508,893	967,594
Certificates of deposit $100,000 and over	**1,053,222**	1,156,391	1,058,520
Certificates of deposit under $100,000	**796,842**	1,705,333	2,321,945
Total	**$ 2,572,008**	$ 3,443,259	$ 4,560,065

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, 2010 and 2009 is presented below:

	December 31,			
	2010		2009	
	Amount	**Rate**	Amount	Rate
At year end	$ 25,023,960	0.91 %	$ 20,457,831	0.73 %
Average for the year	$ 23,185,880	0.93 %	$ 19,463,101	1.00 %
Maximum month-end balance	$ 28,508,974		$ 27,773,575	

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, 2010 and 2009 there were $11.0 million and $10.7 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 $62.0 million on a line of credit arrangement with the Federal Home Loan Bank of Atlanta (“FHLB”). At December 31, 2010 and 2009 there were $20 million and $14 million in advances outstanding under this arrangement, respectively.

Note 9: Long-Term Borrowings

Long-term borrowings at December 31 consisted of the following:

		2010	2009
Federal Home Loan Bank Advances			
2.18%	Due 2012 (2)	**$ 2,000,000**	$ 2,000,000
1.17%	Due 2012 (2)	**2,000,000**	-
1.82%	Due 2013 (2)	**2,000,000**	-
3.11%	Due 2011 (1)	-	2,000,000
1.13%	Due 2011 (2)	-	2,000,000
1.52%	Due 2011 (2)	-	2,000,000
	Total long-term borrowings	**$ 6,000,000**	$ 8,000,000

(1) This advance is convertible to three-month LIBOR at the option of the FHLB. It is convertible on a quarterly basis upon written notice from the FHLB.
(2) Fixed rate advances

The maturities of long-term borrowings are shown in the following table:

Year ended December 31,	
2012	$ 4,000,000
2013	2,000,000
Total	$ 6,000,000

Note 10: Income Taxes

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

	December 31,		
	2010	2009	2008
Current federal income tax	**$ -**	$ -	$ -
Current state income tax	**-**	-	-
Deferred federal income tax expense (benefit)	**645,106**	(1,031,447)	184,164
Deferred state income tax expense (benefit)	**170,581**	(272,738)	48,697
Total income tax expense (benefit)	**$ 815,687**	$ (1,304,185)	$ 232,861

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

	December 31,		
	2010	2009	2008
Statutory federal income tax rate	34.0 %	(34.0) %	34.0 %
State income taxes, net of federal income tax expense (benefit)	5.2	(5.1)	4.5
Other, net	7.5	1.7	2.3
Effective tax rate	46.6 %	(37.4) %	40.8 %

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

	2010	2009
Deferred tax assets:		
Net operating loss carryforwards	**$ 1,130,567**	$ 1,908,857
Allowance for credit losses	**872,374**	913,343
Valuation on foreclosed real estate	**507,327**	507,327
Stock-based compensation	**59,227**	61,476
Deferred loan fees and costs, net	**31,841**	24,702
Other	**137,146**	93,782
Total deferred tax assets	**2,738,482**	3,509,487
Deferred tax liabilities:		
Unrealized gain on securities	**19,607**	32,201
Depreciation and amortization	**55,688**	10,735
Total deferred tax liabilities	**75,295**	42,936
Net deferred tax assets	**$ 2,663,187**	$ 3,466,551

At December 31, 2010, the Company had approximately $2.8 million in tax loss carryforwards, which expire in 2024 through 2029. 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 principal changes in loans to the Company's executive officers, directors and their related interests during the years:

	2010	2009
Balance January 1	**$ 14,529,110**	$ 10,945,211
Additions	**1,425,038**	5,983,857
Repayments	**4,281,457**	2,399,958
Balance December 31	**$ 11,672,691**	$ 14,529,110

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,	
	2010	2009
Unfunded loan commitments	**$ 20,944,659**	$ 25,857,515
Unused lines of credit	**26,219,351**	32,519,830
Letters of credit	**4,906,366**	4,291,966

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, 2010 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 as well as vested and non-vested common stock awards. 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 and stock awards 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. Stock awards granted to directors are based on the fair value of the awards, which is generally the market price of the common stock on the measurement date, and vest immediately. In 2010, the Company's issued 3,001 shares of stock to directors as compensation for their service.

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

	2010		2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	**408,458**	**$ 11.16**	368,958	$ 11.47	333,462	$ 11.59
Granted	**-**	**-**	54,150	9.02	54,142	10.83
Exercised	**-**	**-**	-	-	(3,966)	10.87
Forfeited	**(10,547)**	**10.84**	(14,650)	11.33	(14,680)	12.04
Outstanding at end of year	**397,911**	**$ 11.16**	408,458	$ 11.16	368,958	$ 11.47
Exercisable at end of year	**345,314**	**$ 10.98**	319,659	$ 10.82	270,863	$ 10.84
Weighted average fair value of options granted during the year		**$ -**		$ 2.52		$ 3.04

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 $6.00 on December 31, 2010 the options outstanding had no aggregate intrinsic value. There were no options exercised in 2010 or 2009, and the aggregate intrinsic value of the options exercised in 2008 amounted to $11 thousand.

There were no proceeds from stock option exercises for 2010 and 2009, however proceeds totaled $43 thousand in 2008. Shares issued in connection with stock option exercises are issued from available authorized shares. During 2008 3,966 shares 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 $166 thousand during 2010 and $210 thousand during 2009.

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. There were no stock options granted in 2010, and the weighted-average fair value of stock options granted was $2.52 for 2009 and $3.04 for 2008. 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:

	2009	2008
Risk-free interest rate	2.43 %	3.04 %
Expected dividend yield	0 %	0 %
Expected volatility	20 %	20 %
Expected lives (in years)	7	6

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 $82,135, $84,266 and $83,035 in 2010, 2009 and 2008, 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:

	2010	2009	2008
Net income (loss) applicable to common stock (numerator)	**$ 933,048**	$ (2,187,164)	$ 337,302
Preferred dividends	**$ (326,060)**	$ (274,433)	$ -
Net income (loss) available to common shareholders	**$ 606,988**	$ (2,461,597)	$ 337,302
BASIC			
Average common shares outstanding (denominator)	**2,634,822**	2,633,066	2,631,438
Basic income (loss) per common share	**$ 0.23**	$ (0.93)	$ 0.13
DILUTED			
Average common shares outstanding	**2,634,822**	2,633,066	2,631,438
Diluted effect of stock options and warrants	**-**	-	9,035
Diluted average common shares outstanding (denominator)	**2,634,822**	2,633,066	2,640,473
Diluted income (loss) per common share	**$ 0.23**	$ (0.93)	$ 0.13

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, 2010 and 2009, 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, 2010:						
Total capital (to risk-weighted assets)						
Howard Bank	$ 30,859	11.83 %	$ 20,875	8.00 %	$ 26,094	10.00 %
Howard Bancorp	**$ 32,450**	**12.39 %**	**$ 20,951**	**8.00 %**	**N/A**	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$ 27,594	10.57 %	$ 10,437	4.00 %	$ 15,656	6.00 %
Howard Bancorp	**$ 29,173**	**11.14 %**	**$ 10,475**	**4.00 %**	**N/A**	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	$ 27,594	9.05 %	$ 12,199	4.00 %	$ 15,248	5.00 %
Howard Bancorp	**$ 29,173**	**9.52 %**	**$ 12,256**	**4.00 %**	**N/A**	
As of December 31, 2009:						
Total capital (to risk-weighted assets)						
Howard Bank	$ 26,715	10.73 %	$ 19,910	8.00 %	$ 24,887	10.00 %
Howard Bancorp	$ 31,529	12.55 %	$ 20,099	8.00 %	N/A	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$ 23,571	9.47 %	$ 9,955	4.00 %	$ 14,932	6.00 %
Howard Bancorp	$ 28,384	11.30 %	$ 10,049	4.00 %	N/A	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	$ 23,571	8.44 %	$ 11,178	4.00 %	$ 13,972	5.00 %
Howard Bancorp	$ 28,384	10.08 %	$ 11,264	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

Effective January 1, 2008, the Company adopted FASB ASC Topic 820, "Fair Value Measurements" which provides a framework for measuring and disclosing fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, impaired loans).

FASB ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under FASB ASC Topic 820, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These hierarchy levels are:

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 FASB ASC Topic 820, 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, 2010 and 2009.

December 31, 2010	Carrying Value (Fair Value)	Quoted Price (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Federal agencies	**$14,037,140**	**$ -**	**$14,037,140**	**$ -**
Mortgage-backed	**1,002,705**	**-**	**1,002,705**	**-**

December 31, 2009	Carrying Value (Fair Value)	Quoted Price (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Federal agencies	$13,709,542	$ -	$13,709,542	$ -
Mortgage-backed	1,693,683	-	1,693,683	-

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, 2010 and 2009
.

December 31, 2010	Carrying Value (Fair Value)	Quoted Price (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	**$ 3,023,859**	**$ -**	**$ -**	**$ 3,023,859**
Impaired loans	**5,650,057**	**-**	**-**	**5,650,057**

December 31, 2009	Carrying Value (Fair Value)	Quoted Price (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	$ 839,431	$ -	$ -	$ 839,431
	7,649,346	-	-	7,649,346

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, 2010.

	Foreclosed Properties	Impaired Loans
Balance at December 31, 2009	$ 839,431	$ 7,649,346
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)	2,184,428	(1,999,289)
Valuation allowance	-	-
Balance at December 31, 2010	3,023,859	5,650,057

The following table presents required information in accordance with ASC Topic 825 "Financial Instruments" at December 31, 2010 and 2009. 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:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**$11,754,484**	**$11,754,484**	$10,728,187	$10,728,187
Nonmarketable equity securities	**1,514,800**	**1,514,800**	1,695,500	1,695,500
Loans	**256,306,790**	**256,698,177**	252,745,448	252,752,060
Financial Liabilities				
Deposits	**239,313,699**	**238,965,272**	228,742,812	228,104,856
Short-term borrowings	**25,023,960**	**25,023,960**	20,457,831	20,457,831
Long-term borrowings	**6,000,000**	**5,952,707**	8,000,000	7,952,279

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

	For the Year Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 933,048**	$ (2,187,164)	$ 337,302
Adjustments to reconcile net income (loss)to net cash provided (used) by operating activities:			
Provision for credit losses	**-**	(6,300)	(1,500)
Deferred income taxes (benefits)	**(4,063)**	(34,400)	(7,100)
Share-based compensation	**186,744**	215,911	196,092
Equity in undistributed loss (income) of subsidiary	**(922,842)**	1,978,545	(475,308)
Decrease (increase) in other assets	**28,899**	(638,429)	55,742
Decrease in other liabilities	**-**	-	(15,300)
Net cash provided (used) by operating activities	**221,786**	(671,837)	89,928
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease in loans outstanding	**-**	429,912	118,784
Investment in subsidiary	**(1,500,000)**	(5,000,000)	-
Net cash (used) provided by investing activities	**(1,500,000)**	(4,570,088)	118,784
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (decrease) increase in short-term borrowings	**(1,742,779)**	3,697,502	42,964
Proceeds from issuance of preferred stock, net of cost	**-**	6,271,909	-
Proceeds from issuance of common stock, net of cost	**-**	-	43,107
Cash dividends on preferred stock	**(326,060)**	(233,676)	-
Net cash provided by financing activities	**(2,068,839)**	9,735,735	86,071
Net increase in cash and cash equivalents	**(3,347,053)**	4,493,810	294,783
Cash and cash equivalents at beginning of period	**6,038,669**	1,544,859	1,250,076
Cash and cash equivalents at end of period	**$ 2,691,616**	$ 6,038,669	$ 1,544,859

Statements of Operations

	For the Year Ended December 31,		
	2010	2009	2008
INTEREST INCOME			
Interest and fees on loans	**$ -**	$ 26,516	$ 43,710
INTEREST EXPENSE			
Short-term borrowings	**29,154**	37,729	1,924
NET INTEREST EXPENSE	**(29,154)**	(11,213)	41,786
Provision for credit losses	**-**	(6,300)	(1,500)
Net interest expense after provision for credit losses	**(29,154)**	(4,913)	43,286
NONINTEREST EXPENSE			
Compensation and benefits	**166,266**	235,262	180,791
Other operating expense	**107,673**	13,138	7,601
Total noninterest expense	**273,939**	248,400	188,392
Loss before income tax and equity in undistributed loss of subsidiary	**(303,093)**	(253,313)	(145,106)
Income tax benefit	**(4,063)**	(34,400)	(7,100)
Loss before equity in undistributed loss of subsidiary	**(299,030)**	(218,913)	(138,006)
Equity in undistributed income (loss) of subsidiary	**1,232,078**	(1,968,251)	475,308
Net income (loss)	**$ 933,048**	$ (2,187,164)	$ 337,302
Preferred stock dividends	**326,060**	274,433	-
Net income (loss) available to common shareholders	**$ 606,988**	$ (2,461,597)	$ 337,302

Statements of Cash Flows

	For the Year Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 933,048**	$ (2,187,164)	$ 337,302
Adjustments to reconcile net income (loss)to net cash provided (used) by operating activities:			
Provision for credit losses	**-**	(6,300)	(1,500)
Deferred income taxes (benefits)	**(4,063)**	(34,400)	(7,100)
Share-based compensation	**186,744**	215,911	196,092
Equity in undistributed loss (income) of subsidiary	**(922,842)**	1,978,545	(475,308)
Decrease (increase) in other assets	**28,899**	(638,429)	55,742
Decrease in other liabilities	**-**	-	(15,300)
Net cash provided (used) by operating activities	**221,786**	(671,837)	89,928
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease in loans outstanding	**-**	429,912	118,784
Investment in subsidiary	**(1,500,000)**	(5,000,000)	-
Net cash (used) provided by investing activities	**(1,500,000)**	(4,570,088)	118,784
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (decrease) increase in short-term borrowings	**(1,742,779)**	3,697,502	42,964
Proceeds from issuance of preferred stock, net of cost	**-**	6,271,909	-
Proceeds from issuance of common stock, net of cost	**-**	-	43,107
Cash dividends on preferred stock	**(326,060)**	(233,676)	-
Net cash provided by financing activities	**(2,068,839)**	9,735,735	86,071
Net increase in cash and cash equivalents	**(3,347,053)**	4,493,810	294,783
Cash and cash equivalents at beginning of period	**6,038,669**	1,544,859	1,250,076
Cash and cash equivalents at end of period	**$ 2,691,616**	$ 6,038,669	$ 1,544,859

NOTE 19 — PREFERRED STOCK

On February 27, 2009, the United States Department of the Treasury ("Treasury"), acting under the authority granted to it by the Troubled Asset Relief Program's Capital Purchase Program, purchased $5,983,000 of Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock") issued by the Company. The preferred stock has a perpetual life, has liquidation priority over the Company's common shareholders, and is cumulative. The dividend rate is 5% for the first five years, rising to 9% thereafter. The Series A Preferred Stock may not be redeemed for three years unless the Company has sold an equal amount of common or preferred shares for cash, has redeemed all Series B Preferred Stock, and has paid all dividends accumulated. As condition to the issuance of the Series A Preferred Stock, the Company agreed to accept restrictions on the repurchase of its common stock, the payment of dividends, and certain compensation practices.

At the same time the Company issued its Series A Preferred Stock, it issued to the Treasury warrants to purchase Fixed Rate Cumulative Perpetual Preferred Stock, Series B Preferred Stock ("Preferred B") in the amount of 5% of the Preferred A shares or 299 shares with a par value of $299,003. The warrants had an exercise price of $.01 per share. These Preferred B shares have the same rights, preferences, and privileges as the Series A Preferred Shares. The Series B Preferred Shares have a dividend rate of 9%. These warrants were immediately exercised. The Company believes that it is in compliance with all terms of the Preferred Stock purchase agreement.

Howard Bancorp, Inc.

CORPORATE HEADQUARTERS

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

Phone: (410) 750-0020
Fax: (410) 750-8588

Website: www.howardbank.com

ANNUAL MEETING

The annual meeting of Stockholders of Howard Bancorp, Inc. will be held on Wednesday, May 25, 2011 at 11:30 a.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:

George C. Coffman
Executive Vice President and Chief Financial Officer
Howard Bancorp, Inc.
6011 University Boulevard
Suite 370
Ellicott City, MD 21043

Phone: (410) 750-0020
Fax: (410) 750-8588
E-mail: gcoffman@howardbank.com

INDEPENDENT AUDITORS

Stegman & Company
405 East Joppa Road
Suite 100
Baltimore, MD 21286

Phone: (410) 823-8000
Phone: (800) 686-3883
Website: www.stegman.com

Board of Directors

Richard G. Arnold	Barbara K. Lawson
Nasser Basir	Kenneth C. Lundeen
Andrew E. Clark	Robert N. Meyers
Arthur D. Ebersberger	Richard H. Pettingill
Robert J. Hartson	Steven W. Sachs
Philip W. Gibbs	Mary Ann Scully
Paul I. Latta, Jr.	Donna Hill Staton

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

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Timothy S. Rozalski Vice President
Peter J. Stephan Vice President
Lois D. Tringali Vice President

Locations

Columbia	Ellicott City	Laurel/Maple Lawn	Ellicott City/	Annapolis
Hickory Ridge 6430 Freetown Road Columbia, MD 21044	Snowden River 6011 University Blvd Suite 150 Ellicott City, MD 21043	Maple Lawn 10985 Johns Hopkins Rd Laurel, MD 20723	Centennial Crossing 10161 Baltimore National Pike Ellicott City, MD 21042	Annapolis Office 1997 Annapolis Exchange Parkway Suite 140 Annapolis, MD 21401
P (410) 531-3664 F (410) 531-8541	P (410) 750-3285 F (410) 750-3685	P (301) 490-2100 F (301) 490-1302	P (410) 465-6645 F (410) 465-4025	P (410) 266-9010 F (410) 266-9730

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
- ZashPay
- Classic & Gold Visa Check Cards & ATM Cards
- Business & Personal 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
- Business Money Market
- 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
- Livewire – Wire Transfer Notification Service
- Hands On Evaluator
- Night Depositories
- Customer Convenience drop off boxes at branches
- Hands on Connection (Remote Deposit)
- Repurchase Agreements
- Merchant Card Services
- Master Notes

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Phone: (410) 750-0020
Fax: (410) 750-8588
www.howardbank.com