2004 ANNUAL REPORT

HOWARD BANK

TO OUR STAKEHOLDERS

It gives me great pleasure to provide you with Howard Bank's 2004 Annual Report as well as our financial position for the first quarter of 2005. Together these show the results of our activities thus far. As we reflect back on a very rewarding year and look forward to challenges and successes in the future, we acknowledge a huge debt of gratitude to our key stakeholders.

To our shareholders-

Thanks to our organizing founders who risked capital and reputations to realize a shared vision; our advisory board members who extend our ambassadorial reach into the community; our board of directors who work tirelessly to help us build and grow the bank; and to each shareholder-especially those who have now enhanced their investment with a Howard Bank customer relationship. Those investors who are now customers receive our highest debt of gratitude and deserve to be recognized and emulated by all other investors.

To our customers-

Thanks especially to those who trust their day to day personal or business cash management needs to us and allow us to handle their most basic and important money flows, to those who entrust their long term savings to us and to those who look to us to provide their long term capital financing needs.

As we help our customers manage and simplify day to day life as well as help build their future, we have made significant progress towards fulfilling our core mission of being "the leader in building full financial relationships in Howard County".

To our colleagues-

Thanks to each Howard Bank team member for bringing the vision to life each and every day. We have recruited an outstanding team of excellent banking professionals. They each possess the years of experience, skills and talents that we sought but, just as importantly, they each demonstrate a passion for discovering client needs, for anticipating client dreams and work every day to fulfill both.

Every person who works at Howard Bank was hand selected, not only for experience and talent, but because they share the same philosophy about taking care of people that motivates each shareholder to invest in us and each customer to bank with us.

We look back on the milestones reached to date

The Bank's activities from the summer of 2003 until April of 2004, focused on setting a strong capital foundation for our bank, first by raising \$4.775MM in a private placement in 2003 and then an additional \$12MM in the first four months of 2004. The same period saw us apply for all regulatory approvals and we received in 2004 both the approval of the Federal Deposit Insurance Corporation and the Commissioner of Financial Regulation of the State of Maryland.

We then turned our attention to developing the strategic partnerships that allowed us to launch our sophisticated community focused brand, and to offer a broad range of banking and advisory products.

We opened our doors on August 9, 2004 ready and able to deliver on the vision that we have for a bank that will generate shareholder value by ***making a difference*** first and foremost, for the Howard County small business owner, his or her business, family, and employees by always being ***"hands on"***.

Our early months of operation show great tangible success in raising brand awareness – first through our capital raising efforts, then our initial capabilities materials and promotions –receptions, seminars, ads, direct mailings, and the rollout of our web site www.howardbank.com.

More recently, we have announced our Community Enrichment Program- an umbrella program of sponsorships, not for profit board leadership, and our Renaissance Loan Fund. The fund provides attractive rates and terms for investments in more mature areas of Howard County and is the first county wide program offered by any bank that supports investment in or refurbishing of properties on Route 1, Route 40 and the more established villages in Columbia.

We look ahead to a future of making a difference

This vision has been about building dreams. What we do through a unique hands-on approach to customer service can and does have an impact. It combines the best of the old and the new.

We believe in the old, too infrequently found commitment that EVERY customer large or small is important and that their unique needs are to be met in unique ways… not via homogenized selections from a fixed menu of products and services.

We also are committed to the possibilities of the new – an ability to deliver this level of intimate and customized knowledge across face to face delivery channels as well as telephonically and via the Internet.

During this first year, in addition to establishing the capital, governance, brand and product frameworks and to acquiring and growing our first customer relationships, we made two additional long term investments of our own- both in keeping with commitments that we made in our offering circular to prospective shareholders.

We established ***Howard Investments***- the "doing business as" division of the bank that allows us to establish a partnership with a world class broker dealer whose own core mission and core competency is working through other financial institutions. *Howard Investments* is now able to offer advice on the full spectrum of financial products. Through *Howard Investments*, our branch management staff, our relationship managers and our dedicated financial advisors have the ability to work with customers on financial planning, management of qualified and non qualified plan assets, and assessing life, disability and long term care insurance needs. We have committed that we will be able to look at our target customers' full range of needs and discuss all of their dreams…. and this additional capability allows us to do that.

We also applied for and received approval for ***our third branch location*** to complement our offices at Snowden River Parkway and Hickory Ridge Village. This third branch will be located at Johns Hopkins Road contiguous to the ***Maple Lawn*** development that is transforming our community yet again. We expect the office to open for business before the end of the year.

Financial Results

Our financials reflect investment in the vision- the costs of establishing the foundations of the bank. They also show the first fruits of those investments. Deposits are ahead of plan due to the success of our first promotional offer. Loans reflect our success in managing the longer pipelines associated with commercial activities.

Our bottom line is very much on track with the projections provided to the regulatory authorities in conjunction with their approval of the Bank and more recently with their approval of our third branch.

We ended March 2005 with over $41 million in assets, two operating branches, 27 employees and over 500 customers- investing in Howard Bank's full array of checking, savings, cash management and asset management products - financing their dreams with our consumer loan and commercial loan offerings.

Thank You

Let me close as I opened - with thanks to all of you investors, customers and colleagues. You are the foundation as well as the future of this bank. Without you, none of this can happen…. and we will live that belief every day.

Mary Ann Scully
Chairman & President

Balance Sheet

HOWARD BANK

	Unaudited March 31, 2005	December 31, 2004
ASSETS		
Cash and due from banks	**$ 898,441**	$ 851,648
Federal funds sold	**4,504,530**	11,087,215
Total cash and cash equivalents	**5,402,971**	11,938,863
Securities available for sale	**11,933,670**	11,961,770
Nonmarketable equity securities	**72,600**	54,800
Loans, net of unearned income	**22,378,806**	10,842,210
Allowance for credit losses	**(250,500)**	(121,000)
Net loans	**22,128,306**	10,721,210
Bank premises and equipment, net	**1,229,776**	1,218,010
Interest receivable and other assets	**448,706**	364,121
Total assets	**$ 41,216,029**	$ 36,258,774
LIABILITIES		
Noninterest-bearing deposits	**$ 5,099,106**	$ 2,920,842
Interest-bearing deposits	**21,944,107**	18,490,915
Total deposits	**27,043,213**	21,411,757
Accrued expenses and other liabilities	**344,978**	210,084
Total liabilities	**27,388,191**	21,621,841
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock - $10 par value; authorized 5,000,000 shares; issued and outstanding 838,750 shares	**8,388,625**	8,387,500
Surplus	**8,319,125**	8,318,000
Accumulated deficit	**(2,847,271)**	(2,049,840)
Accumulated other comprehensive loss	**(32,641)**	(18,727)
Total shareholders' equity	**13,827,838**	14,636,933
Total liabilities and shareholders' equity	**$ 41,216,029**	$ 36,258,774

STEGMAN
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND
MANAGEMENT CONSULTANTS SINCE 1915

INDEPENDENT AUDITORS' REPORT

Audit Committee of the
Board of Directors and Shareholders
Howard Bank
Ellicott City, Maryland

We have audited the accompanying balance sheet of Howard Bank as of December 31, 2004, and the related statements of operations, changes in shareholders' equity, and cash flows for the period from June 30, 2004 (date of inception) to December 31, 2004. These financial statements are the responsibility of Howard Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Howard Bank as of December 31, 2004, and the results of its operations and cash flows for the period from June 30, 2004 (date of inception) to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Stegman & Company

Baltimore, Maryland
January 14, 2005

Suite 200, 405 East Joppa Road Baltimore, Maryland 21286 • 410-823-8000 • 1-800-686-3883 • Fax: 410-296-4815
• www.stegman.com •

Balance Sheet

HOWARD BANK

	December 31, 2004
ASSETS	
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Common stock - $10 par value; authorized 5,000,000 shares; issued and outstanding 838,750 shares	8,387,500
Surplus	8,318,000
Accumulated deficit	(2,049,840)
Accumulated other comprehensive loss	(18,727)
Total shareholders' equity	14,636,933
Total liabilities and shareholders' equity	$ 36,258,774

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

Statement of Operations

HOWARD BANK

	For the Period from June 30, 2004 (Date of Inception) to December 31, 2004
INTEREST INCOME	
Loans	$ 78,789
Securities available for sale	157,092
Other interest income	66,354
Total interest income	302,235
INTEREST EXPENSE	
Deposits	119,257
NET INTEREST INCOME	182,978
Provision for credit losses	121,000
Net interest income after provision for credit losses	61,978
NONINTEREST INCOME	
Service charges on deposit accounts	1,055
Other operating income	8,105
Total noninterest income	9,160
NONINTEREST EXPENSE	
Salaries and benefits	1,001,903
Occupancy and equipment expense	367,051
Professional fees	359,116
Other operating expense	392,908
Total noninterest expense	2,120,978
LOSS BEFORE TAXES	(2,049,840)
Tax benefit	-
NET LOSS	$ (2,049,840)
BASIC & DILUTED LOSS PER COMMON SHARE	$ (4.86)
DIVIDENDS PAID PER COMMON SHARE	$ -
Average common share outstanding	421,667

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

Statement of Changes in Shareholders' Equity

HOWARD BANK

	Number of shares	Common stock	Surplus	Accumulated deficit	Accumulated other comprehensive loss	Total
Balances at June 30, 2004	-	$ -	$ -	$ -	$ -	$ -
Issuance of Common Stock net of costs	838,750	8,387,500	8,318,000	-	-	16,705,500
Comprehensive loss:						
Net loss	-	-	-	(2,049,840)	-	(2,049,840)
Other comprehensive loss net of tax:						
Net unrealized loss on securities	-	-	-	-	(18,727)	(18,727)
Total comprehensive loss	-	-	-	(2,049,840)	(18,727)	(2,068,567)
Balances at December 31, 2004	838,750	$ 8,387,500	$ 8,318,000	$ (2,049,840)	$ (18,727)	$14,636,933

The accompanying notes are an integral part of these financial statements

Statement of Cashflows

HOWARD BANK

		For the Period from June 30, 2004 (Date of Inception) to December 31, 2004
Cash Flows from Operating Activities		
Net Loss	$	(2,049,840)
Adjustments to reconcile net loss to net cash used by operating activities		
Provision for credit losses		121,000
Depreciation and amortization		61,542
Net discount accretion on investment securities		(43,964)
Increase in interest receivable		(41,233)
Increase in interest payable		3,403
Increase in other assets		(322,888)
Increase in other liabilities		206,681
Net cash used by operating activities		(2,065,299)
Cash Flows from Investing Activities		
Purchases of investment securities available for sale		(17,968,216)
Proceeds from sales/maturities of securities available for sale		5,976,883
Net increase in loans		(10,842,210)
Purchases of premises and equipment		(1,279,552)
Net cash used in investing activities		(24,113,095)
Cash Flows from Financing Activities		
Net increase in noninterest-bearing deposits		2,920,842
Net increase in interest-bearing deposits		18,490,915
Proceeds from issuance of common stock, net of costs		16,705,500
Net cash provided by financing activities		38,117,257
Net increase in cash and cash equivalents		11,938,863
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	$	11,938,863
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$	115,854
Cash payments for taxes	$	-

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Howard Bank (the "Bank") was incorporated in January of 2004 under the laws of the State of Maryland to operate as a state trust company with commercial banking powers regulated by the Maryland Division of Financial Regulation. On June 30, 2004, the Company completed its capital raising efforts and issued 838,750 shares of common stock for gross proceeds of $16.775 million. The Bank's operations through that date were limited to taking the necessary actions to organize and capitalize the Bank. The Bank commenced operations on August 9, 2004 after successfully meeting the conditions of the state of Maryland to receive its charter authorizing it to commence operations as a bank, and obtaining the approval of the Federal Deposit Insurance Corporation to insure its deposit accounts, and meeting certain other regulatory requirements.

Howard Bank 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. The accounting and reporting policies and practices of the Bank conform with accounting principles generally accepted in the United States of America ("GAAP") and prevailing practice within the financial services industry.

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

Use of Estimates

The preparation of financial statements in conformity with 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 reported period. Actual results could differ from those estimates.

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 which mature in 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 or trading 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 fair value, with unrealized gains or losses based on the difference between amortized cost and fair value reported as accumulated other comprehensive income, a separate component of shareholders' equity, net of deferred tax,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, deferred origination fees, and the allowance for credit losses. 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 as an adjustment of yield. 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 Bank will not collect all principal and interest payments according to contractual terms. Loans are tested for impairment once 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 Bank'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 for 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 Howard Bank 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.

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 Bank 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. Deferred income taxes will be recognized when it is deemed more likely than not that the benefits of such deferred income taxes will be realized; accordingly, no deferred income taxes or income tax benefits have been recorded by the Bank.

Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted net loss per common share is computed by dividing net income available to common stockholders 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. No consideration was given to the outstanding options or warrants because of their anti-dilutive effect.

Costs Associated with Start-Up Activities

The Bank expensed costs incurred during the start-up phase of organization in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-5 Reporting on the Costs of Start-Up Activities, which requires such costs to be expensed in the period incurred. Included in the total noninterest expenses of $2,120,978 reflected on the Statement of Operations for the period ending December 31, 2004, approximately $697,930 were incurred prior to the commencement of operations of Howard Bank on August 9, 2004.

Stock-Based Compensation

The Bank has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", but applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plan. Compensation expense for stock option awards is disclosed as a pro forma income adjustment ratably recognized over the vesting period, based on the fair value of the stock on the date of grant under SFAS No. 123, and SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure."

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following table illustrates the effect on net income and earnings per share if the Bank had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

		2004
Net income, as reported	$	(2,049,840)
Less pro forma stock-based compensation expense determined under the fair value method, net of related tax effects		(92,268)
Pro forma net income	$	(2,142,108)
Basic and Diluted - as reported	$	(4.86)
Basic and Diluted - pro forma	$	(5.08)

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123(R), *Share-Based Payment.* This statement replaces SFAS No. 123, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees.* SFAS 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. This statement is effective for non-public entities as of the beginning of the first interim or annual reporting period that begins after December 15, 2005.

In November 2003, the Emerging Issues Task Force ("EITF") of the FASB issued EITF Abstract 03-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments* ("EITF 03-1") effective for fiscal years ending after December 15, 2003. This abstract provides guidelines on the meaning of other-than-temporary impairment and its application to investments, in addition to requiring quantitative and qualitative disclosures in the financial statements. The adoption of EITF 03-1did not have any impact on the Bank's 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 2004, the Bank 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 Bank maintained balances with the Federal Home Loan Bank and two domestic correspondents as compensation for services they provided to the Bank.

Note 3: Investments Securities

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

	December 31, 2004			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Securities of U.S. Treasury and federal agencies	$ 11,980,497	$ -	$ 18,727	$ 11,961,770
Total	$ 11,980,497	$ -	$ 18,727	$ 11,961,770

As of December 31, 2004, all continuous unrealized losses were held for less than twelve months. The available for sale investment portfolio has a fair value of approximately $11.96 million. All of the bonds are rated AAA. The unrealized losses that exist are the result of market changes in interest rates since the original purchase. These factors coupled with the fact that the Bank 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 are temporary.

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

	2004	
	Amortized Cost	**Estimated Fair Value**
Amounts maturing:		
One year or less	$11,980,497	$11,961,770
After one year through five years	-	-
After five years through ten years	-	-
	$11,980,497	$11,961,770

There were no sales of investment securities, and therefore no realized gains or losses in 2004. At December 31, 2004, $1.0 million fair value of securities were pledged as collateral for certain government deposits. 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, 2004.

Note 4: Loans

The Bank makes loans to customers primarily in Howard County, Maryland and surrounding communities. A substantial portion of the Bank'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, 2004
Real estate construction	$ 1,918,239
Residential real estate	812,262
Commercial mortgage	4,520,712
Commercial	3,572,459
Consumer	18,538
Total loans	$ 10,842,210

Activity in the allowance for credit losses for the period ended December 31, 2004 is shown below:

Balance at beginning of year	$	-
Provision for credit losses		121,000
Loan charge-offs		-
Loan recoveries		-
Balance at end of year	$	121,000

At December 31, 2004, there were no loans deemed to be impaired.

Note 5: Premises and Equipment

Premises and equipment include the following at :

	December 31, 2004
Furniture and equipment	$ 849,888
Leasehold improvements	330,161
Software	99,502
	1,279,552
Less: accumulated depreciation and amortization	61,541
Net premises and equipment	$ 1,218,010

The Bank occupies banking and office space in two locations under noncancellable lease arrangements accounted for as operating leases. The Bank has also entered into a noncancellable ground lease arrangement for a future banking office. The initial lease periods range from 10 to 20 years and provide for one or more 5-year renewal options. The leases provide for percentage annual rent escalations and require that the lessee pay certain operating expenses applicable to the leased space. Rent expense applicable to operating leases amounted to $289 thousand in 2004.

At December 31, 2004, future minimum lease payments under noncancellable operating leases having an initial term in excess of one year are as follows:

Year ended December 31,	
2005	$ 482,376
2006	616,353
2007	628,207
2008	641,128
2009	654,880
Thereafter (2010 - 2025)	4,902,399
Total minimum lease payments	$ 7,925,344

Note 6: Deposits

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

	December 31, 2004	% of Total
Noninterest-bearing demand	$ 2,920,842	14%
Interest-bearing checking	1,976,967	9%
Savings	467,399	2%
Money market accounts	13,384,333	63%
Certificates of deposit under $100,000	459,106	2%
Certificates of deposit $100,000 and over	2,203,110	10%
Total deposits	$ 21,411,757	100%

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

Three months or less	$ -
More than three months through six months	-
More than six months through twelve months	601,883
Over twelve months	1,601,227
Total	$ 2,203,110

Interest expense on deposits for the period ended December 31, 2004 is as follows:

Interest-bearing checking	$ 2,780
Savings and money market	97,744
Certificates, $100,000 or more	12,384
Other certificates	6,350
Total	$ 119,257

Note 7: Income Taxes

Federal and state income tax expense (benefit) consists of the following for the period ended December 31, 2004:

Current federal income tax	$ -
Current state income tax	-
Deferred federal income tax expense (benefit)	-
Deferred state income tax expense (benefit)	-
Total income tax expense (benefit)	$ -

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

	2004
Net operating loss carryforwards	$ 694,419
Organizational costs	55,279
Unrealized loss on securities	7,232
Allowance for credit losses	46,730
Total deferred tax assets	803,660
Less valuation allowance	(791,730)
Deferred tax assets, net of valuation allowance	11,930
Deferred tax liabilities:	
Depreciation and amortization	6,273
Deferred loan costs, net	5,657
Net deferred tax assets (liabilities)	$ -

No income tax benefit or deferred tax asset is reflected in the financial statements. Deferred tax assets are recognized for future deductible temporary differences and tax loss carryforwards if their realization is deemed "more likely than not".

At December 31, 2004 the Bank had approximately $1.8 million in tax loss carryforwards, which expire in 2024. 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 Bank is subject to the alternative minimum tax.

Note 8: Financial Instruments with Off-Balance Sheet Risk

The Bank 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 Bank 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, 2004
Loan commitments	$ 1,650,000
Unused lines of credit	2,923,597
Letters of credit	1,815,000

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 Bank 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 generally 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. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Note 9: Stock Options and Warrants

Howard Bank 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 to purchase 0.25 shares of common stock (at an exercise price of $20.00 per share), for a purchase price of $20.00 per investment 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 a result, the Bank issued warrants to purchase 59,688 shares.

The Bank’s stock incentive plans provide for awards of nonqualified 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. The options may be exercised in increments commencing after one year from the date of grant. The options generally become fully exercisable over three years from the date of grant. 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. No compensation expense was recorded for the options granted under the plans, as the exercise price was equal to the market price of the stock at the date of grant.

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 Bank also maintains an Advisory Board, for which non-employee members are 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 Bank’s director and employee stock option activity and related information for the period ended December 31, 2004:

	Shares	**Weighted Average Exercise Price**
Outstanding at beginning of period	-	-
Granted	58,516	$ 20.00
Exercised	-	-
Forfeited	-	-
Outstanding at end of year	58,516	$ 20.00
Exercisable at end of year	12,385	$ 20.00
Weighted average fair value of options granted during the year		$ 7.45

In accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, the Bank has elected to continue applying the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for the stock plans described above. Had compensation cost for those stock plans been determined based on the (optional) fair value method established by SFAS No. 123, the Bank’s net loss and loss per common share would have been increased.

The fair value of each option grant is estimated based on the date of grant using an option pricing model. The following weighted-average assumptions were used in 2004: risk-free interest rate 4.0%; expected dividend yield 0%; expected life 10 years, and expected volatility of 15%.

Note 10: Employee Benefits and Other Expenses

Retirement Plan

The Bank sponsors a defined contribution retirement plan through a Section 401(k) profit sharing plan. Under the plan, eligible employees who meet a certain age are eligible to participate. Employees may contribute up to 15% of their pretax compensation. Participants are eligible for matching bank contributions up to 4% of eligible compensation dependent on the level of voluntary contributions. Bank matching contributions totaled $13,593 in 2004. The Bank's matching contributions are not subject to a vesting schedule.

Note 11: Losses Per Common Share

The table below shows the presentation of basic loss per common share and diluted loss per common share.

	December 31, 2004
Net loss applicable to common stock (numerator)	$ (2,049,840)
Average common shares outstanding (denominator)	421,667
Basic and diluted loss per common share	$ (4.86)

Note 12: 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 Bank's financial statements.

Quantitative measures, established by the regulators to ensure capital adequacy require that the Bank and 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, 2004, the Bank met all capital adequacy requirements to which they are subject.

(in thousands)	Actual		For capital adequacy purposes		To be well capitalized under the FDICIA prompt corrective action provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2004:						
Total capital (to risk-weighted assets)						
Howard Bank	$ 14,777	82.96 %	$ 1,425	8.00 %	$ 1,781	10.00 %
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$ 14,656	82.28 %	$ 712	4.00 %	$ 1,069	6.00 %
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	$ 14,656	46.70 %	$ 1,255	4.00 %	$ 1,569	5.00 %

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

Note 13: Litigation

In the normal course of business, the Bank may become involved in litigation arising from the banking, financial, and other activities it conducts. Management, after consultation with legal counsel, does not anticipate that the ultimate liability, if any, arising out of these matters will have a material effect on the Bank's financial condition, operating results or liquidity.

Board of Directors

Richard G. Arnold	**Paul I. Latta, Jr.**
Andrew E. Clark	**Kenneth C. Lundeen**
Martha A. Clark	**Donald A. Manekin**
Bernaldo J. Dancel	**Robert N. Meyers**
Tamara K. Fuller	**Richard H. Pettingill**
Robert J. Hartson	**Steven W. Sachs**
John M. Kingsmore	**Mary Ann Scully**

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

Christine A. DeBernard Senior Vice President
Rosa M. Scharf Senior Vice President
Laura A. Cowan Vice President
Michele O. Healy Vice President
Christopher G. Marasco Vice President
Kenneth L. Pittman Vice President
Christa L. Spalding Vice President
Pamela J. Conwell Assistant Vice President
Marc C. Lee Assistant Vice President
Steven M. Poynot Assistant Vice President
Brenda J. Tompkins Assistant Vice President

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Michele Healy, Mgr

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