HOWARD BANCORP

2005 ANNUAL REPORT

To Our Shareholders

I am pleased to report our financial performance for our first full year of operations which ended December 31, 2005. As you will see in the following pages, we entered 2005 with a little under $11 million in loans and $21 million in deposits. During the year we have experienced dramatic growth in our balance sheet, with year end assets of $94 million, gross loans in excess of $69 million, and deposits nearing $76 million. This growth continued through the first quarter of 2006 with March 31st 2006 total assets well in excess of the $100 million milestone. This growth in the size of the company is generating revenues which have us well on our way toward reaching overall profitable results.

It has been twenty months since Howard Bank commenced operations and thirty months since we presented to our first shareholders our vision of a bank that would succeed by providing a level and quality of service and advice that would differentiate us from other banks. Over 350 shareholders understood and embraced that vision, giving Howard Bank the distinction of starting with more capital than any other de novo bank in the history of Maryland. This solid platform of capital and shareholders remains a key underpinning of the bank, as we continue to rely on our shareholders and existing customers for access to their banking opportunities, as well as referrals to their network of friends, families and business associates. Ours is the epitome of a relationship business.

The last twelve months have been a time of great growth and progress in leveraging our initial successes. Our decision in early 2005 - supported by over 90% of our shareholders - to form a holding company, provided the foundation for a more diversified and stronger capital structure. Our capital growth continued with our secondary offering of additional bank shares to existing shareholders, which raised a total of $5.9 million, 95% of which came from existing shareholders. The success of the offering fortified an already strong capital position and increased lending capacity to better attract and serve customers. At the end of 2005, we sealed these accomplishments with the actual formation of Howard Bancorp, Inc.

Our capital base was further leveraged by our team of dedicated Howard bankers who continued to deliver on our promise of adding valued advice customized to each unique situation, resulting in the bank breaking the $100 million asset threshold shortly after the end of the year. We introduced more sophisticated cash management services which have allowed us to attract and retain the deposits of businesses as well as individuals - helping them to grow their capital as well as providing optimal funding for the bank.

A stronger capital position also allowed us to further invest in the physical infrastructure that is critical to servicing Howard County's businesses, business owners, and professionals with convenience as well as sophistication and personalization. These branches are another foundation of our funding strategy as well. Our third branch at Maple Lawn is scheduled to open late in the third quarter of 2006 and our fourth branch at Route 40 and Centennial Lane and Old Frederick Road is planned to open in the spring of 2007.

As our distribution network expands and our team strengthens, our influence in the community grows as well. Events in 2005 resulted in Howard Bank becoming the **only** locally owned, locally managed bank in Howard County - one of the wealthiest, economically healthiest and fastest growing geographies in the United States and one slated for more growth as a result of the government's recent Base Realignment Activities Council recommendations.

All of the above investments in infrastructure – legal, physical, people and systems, with a concurrent investment in our community are described in the following pages. These investments provide, we believe, the best foundation for long term growth in earnings and return on investment. Our income statement shows the projected movement towards profitability with losses diminishing each quarter to date. We expect that broad trend to continue despite some inherent challenges. We operate in a highly competitive financial services environment, marked by more and more regulation for small, focused, traditional banks and a more advantaged playing field for some competitors. Since opening, we have also operated in an interest rate environment that has taken away many of the traditional opportunities for a bank to profit from a normally sloped yield curve. Still, our results show positive progression in net interest margins, and employee revenue generating productivity.

We are very optimistic about what the future holds for your banking company. Thank you for the support you have provided to date and I encourage you to enable Howard Bank to join the ranks of those very special, high growth community bankers who say, " Every day I get a referral from my shareholders" .

Sincerely,

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

2005. THE YEAR THE VISION BEGAN TO TAKE HOLD.

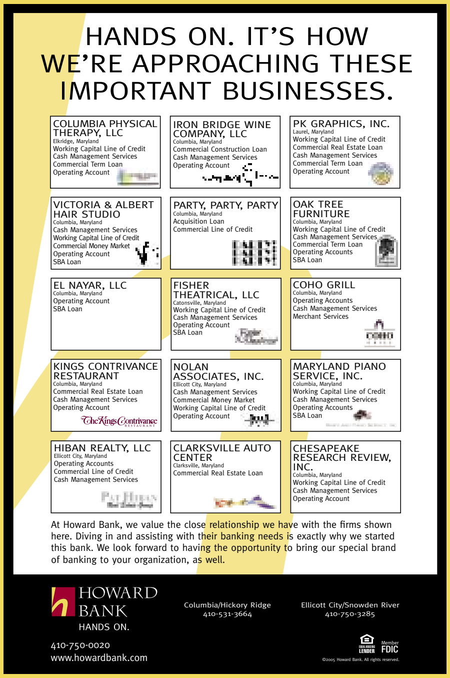
Thirty months ago when we began speaking about the vision for Howard Bank we said a lot of things. We said how we wanted to be a different kind of a bank. We talked about spending time with our customers so that we could learn about their wishes and dreams. We expressed our commitment to contribute in meaningful ways to this county and to the people who live and work here. We told prospective customers that we would be the first ones to pick up the phone to check in. We even established a two-word phrase that we believed would sum up our approach to banking and to serving this community. “Hands On” became our mantra.

Today, we are that bank.

Our business customers have seen, firsthand, how we find ways to help them accomplish their mission even when other financial institutions have said it can’t be done. Families and individuals have benefited from our competitive rates, sophisticated products, and money-saving services such as ATM fee rebates. And the community has seen us step up to the plate time after time, with financial support, creative partnering and enthusiastic volunteerism.

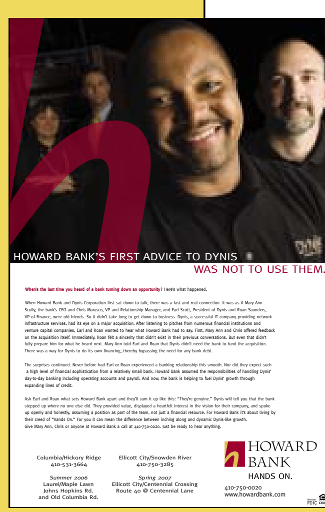
Most importantly, the building block values that are the foundation of this bank have resonated with both businesses and individual account holders. Over the course of the last 18 months, our customers have told us, “It’s working.” They’ve recognized the value of relationships that are rich in personal service. And they’ve seen our ability to provide sophisticated banking solutions. Eighteen months ago, the people of Howard County heard that this bank would be different. Now they know it is.

ALREADY, THERE ARE HUNDREDS OF STORIES. HERE ARE A FEW.



By the close of 2005, we had the privilege of contributing to the success of more than 300 small businesses. These organizations have come to us for operating accounts, working capital lines of credit, cash management services, construction and real estate loans, term loans and more.

Inherent in each relationship has been more than the nuts and bolts of banking. Yes, each customer has asked us to help them achieve success in their business. But it has been behind the scenes where the true spirit of this bank has shined through. It has been around the table in offices, restaurants, meeting rooms, and even living rooms, where Howard Bank's approach to listening and problem solving has made a difference. We've begun to tell some of these stories in our marketing so that businesses in this county can see what is possible and available. You may recall the stories of Party, Party, Party and Dynis. There will be more as the year goes on.



Each story represents a success for the customer and, therefore, the community. Each is a testament to what can happen when a bank adds heart and soul to due diligence.

INCREASING OUR REACH THROUGH COMPETITIVE AND TIMELY PRODUCTS.

As 2005 progressed, Howard Bank proved to not only be a bank for small businesses, but a bank for individuals, as well. We prided ourselves on being out there first. We were first with a checking account that provided absolutely free ATM use, allowing our customers to access their accounts, free, at more than one million locations worldwide. And we offered competitive CDs, money market accounts, checking accounts and credit products. By year's end, our reach had extended to more than 1,000 individuals.

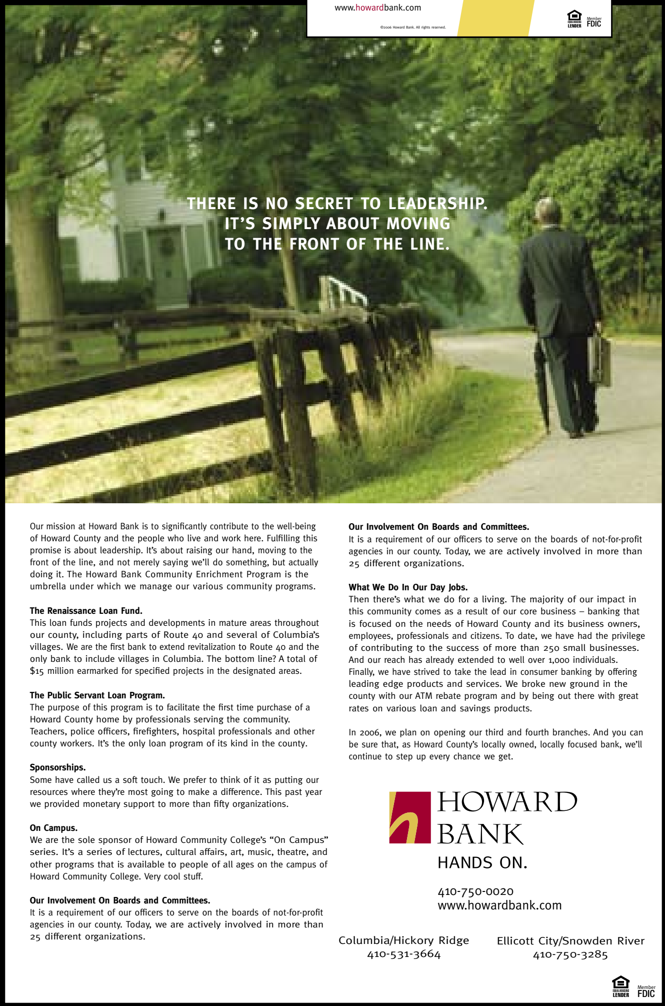
From the beginning our goal has been to grow intelligently, with the customer as our focus. As you know, we opened with two branches. One year from now we will have four. New Howard Bank branches are set to open in late summer of '06 in the Laurel/Maple Lawn area, and spring of '07 at Centennial Lane and Route 40. Soon, this will be a bank that is as geographically convenient to its walk-in and drive-up customers as it is convenient in every other way.

TAKING OUR PLACE AS HOWARD COUNTY'S ONLY LOCALLY OWNED, LOCALLY FOCUSED BANK.

This bank's mission, written on day one, is to significantly contribute to the well-being of Howard County and the people who live and work here. In 2005, those words were backed by comprehensive programs, services and personal and professional commitments that raised Howard Bank's profile as an informed and committed leader in the community.

Our Renaissance Loan Fund earmarked dollars for projects and developments in mature areas throughout the county. Howard Bank's Public Servant Loan Program established itself as the only one of its kind in the county, facilitating the first-time purchase of a Howard County home by professionals serving the community. In 2005, Howard Bank provided sponsorship money to more than fifty organizations. And we became the sole sponsor of Howard Community College's "On Campus" series.

By the close of 2005, our officers and Directors were actively involved on the boards of more than 25 different not-for-profit agencies.



THANK YOU FOR SUPPORTING THE VISION OF HOWARD BANK.

The year 2005 at Howard Bank was successful on so many levels. But it was particularly gratifying to have heard from so many of our customers who've expressed their appreciation for the extra mile we traveled on their behalf. For us it was, and will always be, about integrity. About doing what we say we will do and continuing to exceed even the highest of expectations. We could not have had the impact we've had on the people and businesses of Howard County without the support of our investors. As we continue to take our brand of banking out into the community, we will look to you for that continued support. In return, this brand, this differentiation, this consistency in execution will provide you with the added value that our customers and this community have come to know.

Howard Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	(Unaudited) **March 31, 2006**	December 31, 2005
ASSETS		
Cash and due from banks	**$ 3,473,238**	$ 2,324,221
Federal funds sold	**5,634,865**	7,995,922
Total cash and cash equivalents	**9,108,103**	10,320,143
Securities available-for-sale	**19,348,327**	13,297,790
Nonmarketable equity securities	**188,300**	72,600
Loans, net of unearned income	**75,886,788**	69,227,719
Allowance for credit losses	**(850,000)**	(775,500)
Net loans	**75,036,788**	68,452,219
Bank premises and equipment, net	**1,333,546**	1,386,745
Interest receivable and other assets	**730,307**	605,177
Total assets	**$ 105,745,372**	$ 94,134,674
LIABILITIES		
Noninterest-bearing deposits	**$ 13,953,565**	$ 10,097,093
Interest-bearing deposits	**73,479,574**	65,650,403
Total deposits	**87,433,139**	75,747,496
Securities sold under agreement to repurchase	**181,871**	
Accrued expenses and other liabilities	**429,188**	429,161
Total liabilities	**88,044,198**	76,176,657
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock - par value of $0.01 in 2005 and 2004; authorized 5,000,000 shares; issued and outstanding 2,238,295 shares in 2005 and 1,677,500 in 2004	**22,392**	22,383
Capital surplus	**22,549,276**	22,540,070
Accumulated deficit	**(4,830,928)**	(4,574,078)
Accumulated other comprehensive loss	**(39,565)**	(30,358)
Total shareholders’ equity	**17,701,175**	17,958,017
Total liabilities and shareholders’ equity	**$ 105,745,372**	$ 94,134,674

STEGMAN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS SINCE 1915

INDEPENDENT AUDITORS' REPORT

Audit Committee of the
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, 2005 and 2004, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year ended December 31, 2005 and for the period from June 30, 2004 (date of inception) to December 31, 2004. 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, 2005 and 2004, and the results of its operations and cash flows for the year ended December 31, 2005 and 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 11, 2006

Howard Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31, 2005	December 31, 2004
ASSETS		
Cash and due from banks	**$ 2,324,221**	$ 851,648
Federal funds sold	**7,995,922**	11,087,215
Total cash and cash equivalents	**10,320,143**	11,938,863
Securities available-for-sale	**13,297,790**	11,961,770
Nonmarketable equity securities	**72,600**	54,800
Loans, net of unearned income	**69,227,719**	10,842,210
Allowance for credit losses	**(775,500)**	(121,000)
Net loans	**68,452,219**	10,721,210
Bank premises and equipment, net	**1,386,745**	1,218,010
Interest receivable and other assets	**605,177**	364,121
Total assets	**$ 94,134,674**	$ 36,258,774
LIABILITIES		
Noninterest-bearing deposits	**$ 10,097,093**	$ 2,920,842
Interest-bearing deposits	**65,650,403**	18,490,915
Total deposits	**75,747,496**	21,411,757
Accrued expenses and other liabilities	**429,161**	210,084
Total liabilities	**76,176,657**	21,621,841
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock - par value of $0.01 in 2005 and 2004; authorized 5,000,000 shares; issued and outstanding 2,238,295 shares in 2005 and 1,677,500 in 2004	**22,383**	16,775
Capital surplus	**22,540,070**	16,688,725
Accumulated deficit	**(4,574,078)**	(2,049,840)
Accumulated other comprehensive loss	**(30,358)**	(18,727)
Total shareholders' equity	**17,958,017**	14,636,933
Total liabilities and shareholders' equity	**$ 94,134,674**	$ 36,258,774

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

Consolidated Statements of Operations

	For the Year Ended December 31, 2005	For the Period from June 30, 2004 (Date of Inception) to December 31, 2004
INTEREST INCOME		
Interest and fees on loans	$ 2,523,536	$ 78,789
Interest and dividends on securities	259,146	157,092
Other interest income	314,105	66,354
Total interest income	3,096,787	302,235
INTEREST EXPENSE		
Deposits	1,049,479	119,257
Short-term borrowings	1,561	-
Total interest expense	1,051,040	119,257
NET INTEREST INCOME	2,045,747	182,978
Provision for credit losses	654,500	121,000
Net interest income after provision for credit losses	1,391,247	61,978
NONINTEREST INCOME		
Service charges on deposit accounts	17,982	1,055
Other operating income	70,498	8,105
Total noninterest income	88,480	9,160
NONINTEREST EXPENSE		
Compensation and benefits	2,174,242	1,001,903
Occupancy and equipment	742,390	367,051
Marketing and business development	284,290	263,832
Professional fees	222,811	359,116
Data processing fees	171,033	10,723
Communication and data lines	65,868	15,635
Other operating expense	343,331	102,718
Total noninterest expense	4,003,965	2,120,978
LOSS BEFORE INCOME TAXES	(2,524,238)	(2,049,840)
Income tax benefit	-	-
NET LOSS	$ (2,524,238)	$ (2,049,840)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (1.39)	$ (2.43)
DIVIDENDS PAID PER COMMON SHARE	$ -	$ -
Average common shares outstanding	1,817,053	843,334

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

Consolidated Statements of Changes in Shareholders' Equity

	Number of shares	Common stock	Capital Surplus	Accumulated deficit	Accumulated other comprehensive loss	Total
Balances at June 30, 2004	-	$ -	$ -	$ -	$ -	$ -
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)
Issuance of Common Stock						
net of costs	1,677,500	16,775	16,688,725	-	-	16,705,500
Balances at December 31, 2004	1,677,500	16,775	16,688,725	(2,049,840)	(18,727)	14,636,933
Comprehensive loss:						
Net loss	**-**	**-**	**-**	**(2,524,238)**	**-**	**(2,524,238)**
Other comprehensive loss net of tax:						
Net unrealized loss on securities	**-**	**-**	**-**	**-**	**(11,631)**	**(11,631)**
Total comprehensive loss	**-**	**-**	**-**	**(2,524,238)**	**(11,631)**	**(2,535,869)**
Issuance of Common Stock:						
Exercise of options	**1,550**	**16**	**15,684**	**-**	**-**	**15,700**
Rights offering, net of costs	**536,540**	**5,365**	**5,582,365**	**-**	**-**	**5,587,730**
Public offering, net of costs	**22,705**	**227**	**249,528**	**-**	**-**	**249,755**
Stock-based compensation	**-**	**-**	**3,768**	**-**	**-**	**3,768**
Balances at December 31, 2005	**2,238,296**	**$ 22,383**	**$ 22,540,070**	**$ (4,574,078)**	**$ (30,358)**	**$ 17,958,017**

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

Consolidated Statements of Cash Flows

	For the Year Ended December 31, 2005	For the Period from June 30, 2004 (Date of Inception) to December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	**$ (2,524,238)**	$ (2,049,840)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for credit losses	**654,500**	121,000
Depreciation	**214,851**	61,542
Stock-based compensation	**3,768**	-
Net discount accretion of investments securities	**(63,339)**	(43,964)
Increase in interest receivable	**(274,208)**	(41,233)
Increase in interest payable	**68,192**	3,403
Decrease (increase) in other assets	**15,353**	(322,888)
Increase in other liabilities	**150,885**	206,681
Net cash used by operating activities	**(1,754,236)**	(2,065,299)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available-for-sale	**(23,765,983)**	(17,968,216)
Proceeds from sale/maturities of investment securities available-for-sale	**22,481,670**	5,976,883
Net increase in loans outstanding	**(58,385,509)**	(10,842,210)
Purchase of premises and equipment	**(383,586)**	(1,279,552)
Net cash used in investing activities	**(60,053,408)**	(24,113,095)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	**7,176,251**	2,920,842
Net increase in interest-bearing deposits	**47,159,488**	18,490,915
Proceeds from issuance of common stock, net of cost	**5,853,185**	16,705,500
Net cash provided by financing activities	**60,188,924**	38,117,257
Net (decrease) increase in cash and cash equivalents	**(1,618,720)**	11,938,863
Cash and cash equivalents at beginning of period	**11,938,863**	-
Cash and cash equivalents at end of period	**$ 10,320,143**	$ 11,938,863
SUPPLEMENTAL INFORMATION		
Cash payments for interest	**$ 981,287**	$ 115,854
Cash payments for income taxes	**$ -**	$ -

The accompanying notes are an integral part of these 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 Bank common stock was converted into two shares of Bancorp common stock effected by the filing of Articles of Exchange on that date, and the shareholders of the Bank became the shareholders of Bancorp. The accompanying consolidated financial statements of Bancorp and its wholly-owned subsidiary of the Bank (collectively the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States of America and are presented as if the exchange of shares occurred on June 30, 2004 (date of inception). The financial statements for the period from June 30, 2004 to December 31, 2004 reflect only the operations of the Bank, since the Bancorp had not been formed at that time.

Howard Bancorp, Inc. was incorporated in April of 2005 under the laws of the State of Maryland and is a bank holding company registered under the Bank Holding Company Act of 1956. The Company is a single bank holding company with one subsidiary, Howard Bank, which operates as a state trust company with commercial banking powers regulated by the Maryland Division of Financial Regulation. On June 30, 2004, the Bank completed its initial capital raising efforts and issued shares of common stock for gross proceeds of $16.775 million. The 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, obtaining the approval of the Federal Deposit Insurance Corporation to insure its deposit accounts, and meeting certain other regulatory requirements. On October 31, 2005, the Bank completed a common stock offering to shareholders, raising additional equity capital of $5,837,485, net of issuance costs, in exchange for the issuance of 559,245 shares of Bank common stock. Substantially all of the shares offered were purchased by existing shareholders.

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.

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

Principles of Consolidation

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

Use of Estimates

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

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

Nonmarketable Equity Securities

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

Loans

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

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

Allowance for Credit Losses

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

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

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. 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 Company.

Net Loss Per Common Share

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

Costs Associated with Start-Up Activities

The Company 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 ended December 31, 2004, is approximately $697,930 incurred prior to the commencement of operations of Howard Bank on August 9, 2004.

Stock-Based Compensation

The Company 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 plans. 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."

During 2005 the Board of Directors of the Company accelerated the vesting periods associated with certain previously issued stock options making them immediately fully vested and exercisable. This resulted in a charge to compensation expense in the amount of $3,768. As of December 31, 2005 all outstanding options to purchase common stock of the Company were fully exercisable.

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 Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	December 31,	
	2005	2004
Net loss, as reported	**$ (2,524,238)**	$ (2,049,840)
Add stock-based compensation expense determined under the fair value method, net of related tax effects that is included in net loss	**3,768**	-
Less pro forma stock-based compensation expense determined under the fair value method, net of related tax effects	**(847,436)**	(92,268)
Pro forma net loss	**$ (3,367,906)**	$ (2,142,108)
Loss per common share:		
Basic and Diluted - as reported	**$ (1.39)**	$ (2.43)
Basic and Diluted - pro forma	**$ (1.85)**	$ (2.54)

The 2005 pro forma stock-based compensation expense above was materially impacted by the action of the Company to accelerate the vesting schedule associated with previously issued stock options making them immediately fully vested and exercisable in 2005. In addition, all options granted during 2005 were granted such that those options were fully vested and exercisable as of their 2005 grant date.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123(R), "Share-Based Payment" ("SFAS No. 123(R))." This statement replaces SFAS No. 123, and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 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. The Company plans to adopt the statement under the prospective method beginning January 1, 2006. Since all stock options outstanding as of December 31, 2005 are fully vested, the impact of this Statement on the Company in 2006 and beyond will depend upon various factors, among them being the Company's future compensation strategy.

In May 2005, the FASB issued Statement No. 154, ("SFAS No. 154") "Accounting Changes and Error Corrections - A Replacement of APB Opinion No. 20 and FASB Statement No. 3." This new standard replaces Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." Among other changes, SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement. " The new standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not anticipate this revision will have a material effect on its financial statements.

On November 3, 2005, the FASB issued FSP Nos. FAS 115-1 and FAS 124-1 to address the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of the impairment loss. The FSPs also includes guidance on the accounting subsequent to the recognition of an other-than-temporary impairment and requires additional disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FAS amends FASB Statements No. 115, "Accounting for Certain Investments in Debt and Equity Securities. The guidance in this FSP shall be applied to reporting periods beginning after December 15, 2005. This revision will not have a material effect on the Company'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 2005, 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 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, 2005				December 31, 2004			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury and federal agencies	**$ 13,328,148**	**$ -**	**$ 30,358**	**$ 13,297,790**	$ 11,980,497	$ -	$ 18,727	$ 11,961,770
Total	**$ 13,328,148**	**$ -**	**$ 30,358**	**$ 13,297,790**	$ 11,980,497	$ -	$ 18,727	$ 11,961,770

As of December 31, 2005, all continuous unrealized losses were held for less than twelve months. The available-for-sale investment portfolio has a fair value of approximately $13.3 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 Company has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value substantiates that the unrealized losses in the available for sale portfolio are temporary.

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

	2005		2004	
	Amortized Cost	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	**$12,328,148**	**$12,306,850**	$11,980,497	$11,961,770
After one year through five years	**1,000,000**	**990,940**	-	-
After five years through ten years	**-**	**-**	-	-
	$13,328,148	**$13,297,790**	$11,980,497	$11,961,770

There were no sales of investment securities, during 2005 or 2004. At December 31, 2005, $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, 2005.

Note 4: Nonmarketable Equity Securities

At December 31, 2005 and 2004, the Company's investment in nonmarketable equity securities consisted of Federal Home Loan Bank of Atlanta stock which is required for continued membership. These investments are carried at cost.

Note 5: Loans

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

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

	December 31,	
	2005	2004
Real estate construction	**$ 20,428,757**	$ 4,826,209
Residential real estate	**7,383,036**	812,262
Commercial mortgage	**18,408,693**	1,612,742
Commercial	**22,895,658**	3,572,459
Consumer	**111,575**	18,538
Total loans	**$ 69,227,719**	$ 10,842,210

Activity in the allowance for credit losses for the years ended December 31, 2005 and 2004 are shown below:

	December 31,	
	2005	2004
Balance at beginning of year	**$ 121,000**	$ -
Provision for credit losses	**654,500**	121,000
Loan charge-offs	**-**	-
Loan recoveries	**-**	-
Balance at end of year	**$ 775,500**	$ 121,000

At December 31, 2005, there were no loans deemed to be impaired.

Note 6: Premises and Equipment

Premises and equipment include the following at:

	December 31,	
	2005	2004
Furniture and equipment	**$ 938,835**	$ 849,888
Leasehold improvements	**588,909**	330,161
Software	**135,393**	99,502
	1,663,137	1,279,552
Less: accumulated depreciation and amortization	**276,392**	61,541
Net premises and equipment	**$ 1,386,745**	$ 1,218,010

The Company occupies banking and office space in two 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. In 2004, the Company entered into a noncancellable ground lease arrangement for its third branch banking office which is expected to open in 2006. The lease term is 20 years and allows for up to four 5-year renewal options. In November of 2005, the Company entered into another noncancellable lease arrangement for its fourth branch location. The lease term of this arrangement is 15 years and allows for up to three 5-year renewal options. Rent expense applicable to operating leases amounted to $509,490 for the year ended December 31, 2005 and $288,654 for the period from June 2004 (inception date) to December 31, 2004.

At December 31, 2005, future minimum lease payments under noncancellable operating leases having an initial term in excess of one year are as follows:

Year ended December 31,	
2006	$ 616,353
2007	771,541
2008	860,428
2009	880,759
2010	907,658
Thereafter (2011 - 2025)	7,404,995
Total minimum lease payments	$ 11,441,735

Note 7: Deposits

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

	December 31,			
	2005	**% of Total**	2004	% of Total
Noninterest-bearing demand	**$ 10,097,093**	**13** %	$ 2,920,842	14 %
Interest-bearing checking	**4,993,631**	**7**	1,976,967	9
Money market accounts	**29,352,156**	**39**	13,384,333	63
Savings	**585,636**	**1**	467,399	2
Certificates of deposit $100,000 and over	**8,734,832**	**11**	2,203,110	10
Certificates of deposit under $100,000	**21,984,148**	**29**	459,106	2
Total deposits	**$ 75,747,496**	**100** %	$ 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	**$ 1,366,031**
More than three months through six months	**1,170,128**
More than six months through twelve months	**1,232,192**
Over twelve months	**4,966,481**
Total	**$ 8,734,832**

Interest expense on deposits for the periods ended December 31, 2005 and 2004 were as follows:

	December 31, 2005	For the Period from June 30, 2004 (Date of Inception) to December 31, 2004
Interest-bearing checking	**$ 11,711**	$ 2,780
Savings and money market	**377,908**	97,744
Certificates of deposit $100,000 and over	**219,685**	12,384
Certificates of deposit under $100,000	**440,175**	6,350
Total	**$ 1,049,479**	$ 119,257

Note 8: Short-Term Borrowings

Short-term borrowings consist of securities sold under agreement to repurchase for the year ended December 31, 2005. There were no borrowings in 2004. Information relating to short-term borrowings is presented below:

	December 31, 2005	
	Amount	Rate
At year end	$ -	- %
Average for the year	$ 44,762	1.88 %
Maximum month-end balance	$ 140,982	

The Company pledges U.S. Government Agency securities, based upon their market value, as collateral for 100% of the principal and accrued interest of its repurchase agreements.

If the Company should need to supplement its liquidity it could borrow, subject to collateral requirements, up to approximately $12.3 million on a line of credit arrangement with the Federal Home Loan Bank of Atlanta. Under this arrangement there were no borrowings outstanding at December 31, 2005 or December 31, 2004.

Note 9: Income Taxes

Federal and state income tax expense (benefit) consists of the following for the year ended December 31, 2005 and 2004:

	2005	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:

	2005	2004
Net operating loss carryforwards	**$ 1,557,604**	$ 694,419
Organizational costs	**41,459**	55,279
Unrealized loss on securities	**11,724**	7,232
Deferred loan fees/(costs), net	**2,189**	(5,657)
Allowance for credit losses	**241,184**	46,730
Other	**20,718**	-
Total deferred tax assets	**1,874,878**	798,003
Less valuation allowance	**(1,801,411)**	(791,730)
Deferred tax assets, net of valuation allowance	**73,467**	6,273
Deferred tax liabilities:		
Depreciation and amortization	**73,467**	6,273
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, 2005, the Company had approximately $4.0 million in tax loss carryforwards, which expire in 2024 and 2025. 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 10: 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. At December 31, 2005, loans to the Company's executive officers, directors and their related interests totaled $4.0 million. All loans were originated during 2005.

Note 11: 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,	
	2005	2004
Unfunded loan commitments	**$30,435,536**	$ 1,650,000
Unused lines of credit	**3,569,894**	2,923,597
Letters of credit	**2,495,376**	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 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. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Note 12: 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 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 a result, the Company has outstanding warrants to purchase 119,376 shares as of December 31, 2005 at the price of $10.00 per share.

The Company's stock incentive plans provide for awards of nonqualified and incentive stock options. Employee stock options can be granted with exercise prices at the fair market value (as defined within the plan) of the stock at the date of grant and with terms of up to ten years. Except as otherwise permitted in the plan, upon termination of employment for reasons other than retirement, permanent disability or death, the option exercise period is reduced or the options are canceled. No compensation expense was recorded for the options granted under the plans, as the exercise price was at least equal to the market price of the stock at the date of grant.

During 2005, the Board of Directors of the Company accelerated the vesting periods associated with previously issued stock options making them immediately fully vested and exercisable. Stock based compensation expense of $3,768 was recorded upon the acceleration of the options. In addition, the options granted in 2005 were granted such that those options were fully vested and exercisable as of their 2005 grant date.

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

The following table summarizes the Company's stock option activity and related information for the period ended December 31, 2005 and 2004:

	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	**117,024**	**$ 10.00**	-	-
Granted	**119,110**	**10.59**	117,024	$ 10.00
Exercised	**(1,550)**	**10.13**	-	-
Forfeited	**(3,400)**	**10.00**	-	-
Outstanding at end of year	**231,184**	**$ 10.30**	117,024	$ 10.00
Exercisable at end of year	**231,184**	**$ 10.30**	12,385	$ 10.00
Weighted average fair value of options granted during the year		**$ 4.38**		$ 3.73

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 2005 and 2004:

	2005	2004
Risk-free interest rate	**4.52** %	4.01 %
Expected dividend yield	**0** %	0 %
Expected volatility	**15** %	15 %
Expected lives (in years)	**10**	10

Note 13: Profit Sharing Plan

Retirement 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 $58,095 in 2005 and $13,593 in 2004. The Company's matching contributions vest immediately.

Note 14: Losses per Common Share

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

	December 31, 2005	December 31, 2004
Net loss applicable to common stock (numerator)	**$ (2,524,238)**	$ (2,049,840)
Average common shares outstanding (denominator)	**1,817,053**	843,334
Basic and diluted loss per common share	**$ (1.39)**	$ (2.43)

Note 15: 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 the 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, 2005 and 2004, 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, 2005:						
Total capital (to risk-weighted assets)						
Howard Bank	$ 18,766	24.21 %	$ 6,200	8.00 %	$ 7,750	10.00 %
Howard Bancorp	**$ 18,760**	**24.55 %**	**$ 6,114**	**8.00 %**	**N/A**	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$ 17,990	23.21 %	$ 3,100	4.00 %	$ 4,650	6.00 %
Howard Bancorp	**$ 17,984**	**23.53 %**	**$ 3,057**	**4.00 %**	**N/A**	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	$ 17,990	20.23 %	$ 3,557	4.00 %	$ 4,446	5.00 %
Howard Bancorp	**$ 17,984**	**20.22 %**	**$ 3,557**	**4.00 %**	**N/A**	
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 16: Litigation

In the normal course of business, the Company 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 Company's financial condition, operating results or liquidity.

Note 17: Parent Company Financial Information

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

Howard Bancorp, Inc.

Balance Sheets

	December 31, 2005	December 31, 2004
ASSETS		
Cash and cash equivalents	**$ 3,066**	$ -
Investment in subsidiary	**17,959,951**	14,636,933
Total assets	**$ 17,963,017**	$ 14,636,933
LIABILITIES		
Notes payable	**$ 5,000**	$ -
Total liabilities	**5,000**	-
SHAREHOLDERS' EQUITY		
Common stock - par value of $0.01 in 2005 and 2004; authorized 5,000,000 shares; issued and outstanding 2,238,295 shares in 2005 and 1,677,500 in 2004	**22,383**	16,775
Capital surplus	**22,540,070**	16,688,725
Accumulated deficit	**(4,574,078)**	(2,049,840)
Accumulated other comprehensive loss	**(30,358)**	(18,727)
Total shareholders' equity	**17,958,017**	14,636,933
Total liabilities and shareholders' equity	**$ 17,963,017**	$ 14,636,933

Statements of Operations

	For the Year Ended December 31, 2005	For the Period from June 30, 2004 (Date of Inception) to December 31, 2004
NONINTEREST EXPENSE		
Other operating expense	**$ 5,701**	$ -
Total noninterest expense	**5,701**	-
Loss before income tax and equity in undistributed income of subsidiary	**(5,701)**	-
Income tax benefit	**-**	-
Loss before equity in undistributed income of subsidiary	**(5,701)**	-
Equity in undistributed loss of subsidiary	**(2,518,537)**	(2,049,840)
Net loss	**$ (2,524,238)**	$ (2,049,840)

Statements of Cash Flows

	For the Year Ended December 31, 2005	For the Period from June 30, 2004 (Date of Inception) to December 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	**$ (2,524,238)**	$ (2,049,840)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock-based compensation	**3,768**	-
Equity in undistributed loss of subsidiary	**2,518,536**	2,049,840
Increase in other liabilities	**5,000**	-
Net cash provided by operating activities	**3,066**	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash used in investing activities	**-**	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net cash provided by financing activities	**-**	-
Net increase in cash and cash equivalents	**3,066**	-
Cash and cash equivalents at beginning of period	**-**	-
Cash and cash equivalents at end of period	**$ 3,066**	$ -

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

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 of our common stock, we utilize the following two investment firms which make a market in Howard Bancorp, Inc. Common Stock:

Koonce Securities, Inc.
6550 Rock Spring Drive, Ste. 600
Bethesda, MD 20817
(800) 368-2806
Website:www.koonce.net

Ferris, Baker Watts Inc.
100 Light Street
Baltimore, Maryland 21202
(800) 436-2000
Website:www.fbw.com

ANNUAL MEETING

The annual meeting of Stockholders of Howard Bancorp, Inc. will be held on Wednesday, May 17, 2006 at 6:00 p.m. at:
Howard Community College,
Instructional Laboratory Building,
Multipurpose Room,
10901 Little Patuxent Parkway,
Columbia, MD 21044

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

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405 East Joppa Road
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Phone: (800) 686-3883
Website: www.stegman.com

Board of Directors

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Andrew E. Clark	**Kenneth C. Lundeen**
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Robert J. Hartson	**Steven W. Sachs**
John M. Kingsmore	**Mary Ann Scully**

Management

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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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Marc C. Lee Assistant Vice President
A. James Belson Assistant Vice President

Branch Locations

Columbia
Hickory Ridge Branch
6430 Freetown Road
Columbia, MD 21044

P (410) 531-3664
F (410) 531-8541
Laura Cowan, Mgr

Ellicott City
Snowden River Branch
6011 University Blvd
Suite 150
Ellicott City, MD 21043
P (410) 750-3285
F (410) 750-3685
Michele Healy, Mgr

Laurel/Maple Lawn

Summer 2006

Maple Lawn Branch
10985 Johns Hopkins Rd
Laurel, MD 20723

Ellicott City/ Centennial Crossing

Spring 2007

Route 40 Branch
10163 Baltimore National Pike
Ellicott City, MD 21042

Products and Services

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

Electronic Banking & Convenience Services
- Business OnLine Banking
- Personal OnLine Banking
- Web BillPay
- Classic & Gold Visa Check Cards & ATM Cards

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

Savings, Money Market & CDs
- Business Savings
- Anniversary Money Market
- Incentive Money Market
- Business Money Market
- CDs with terms of 3 to 60 months
- IRA
- Personal Savings
- Junior Savings
- IRA Savings
- CDs

Cash Management & Business Services
- IOLTA, MAHT & Escrow accounts
- LockBox processing
- 4:00 p.m. same day branch deposit
- Free Courier service for non-negotiable deposits
- ACH & Wire Transfers
- Hands On Evaluator
- Night Depositories
- Customer Convenience drop off boxes at branches

HOWARD BANCORP

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