HOWARD BANCORP

2009 ANNUAL REPORT

To Our Shareholders

Winston Churchill, one of the most resilient of 20th century leaders, believed that "A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty." Most bankers, me included, are certainly not generally known for being optimists, especially after the financial market and economic turmoil of the past two years. But if taking a long term view and recognizing the opportunities for growth that economic adversity presents equate to optimism about the future and for Howard Bank, then clearly I am an optimist.

Our local economy remains both stronger and more stable than many other parts of the country. Many other local banks either withdrew from the lending markets or did not have the financial or experiential capital to continue to lend. This relative market strength combined with less competition meant that our opportunities for growth remained abundant. We cautiously seized those opportunities. As a result, our assets grew 25% to $280 million driven by a 24 % growth in loans made to small and medium sized business owners in Howard and Anne Arundel counties as well as other locations in central Maryland. We were, once again, able to fund this larger portfolio largely through organic growth in our deposit base and we continue to grow our deposits, especially our low cost transaction account base.

This meant, in financial terms, that we put to good use the $5.9 MM in Capital Purchase Program related preferred shares issued to the US Treasury in early 2009. It meant, from a peer comparison, that we had one of the highest growth rates of banks in the state of Maryland and beyond. Our growth, therefore, was congruent with our strategy of providing our shareholders, our employees and our community with a bank focused on consistently growing our economic impact. We continued our long term perspective and invested in delivery capabilities for our customers and prospective customers. We continued to lead by example and supported local not-for-profit entities in many ways – not least of all with the time and talent of our staff who serve as volunteer board members.

We had a full year of operations at our Western Howard County location at the intersection of Baltimore National Pike and Centennial Lane and are pleased with the strong growth in core deposits at that location. We completed in early 2010 the build out of our first permanent office in Annapolis in Anne Arundel County – which serves as both a regional lending office and cash management sales location as well as a commercial deposit branch – and is staffed by three person relationship management team with a combined 50 years of experience in the Anne Arundel marketplace.

Our operating earnings were strong. Net interest income before provisions plus non interest income was $9.5 million, a 21% increase over 2008. This consistent growth in revenue was once again recognized by Smart CEO magazine as they awarded Howard

Bank with its fourth “Future 50” honor. Our pre-tax and pre-loan loss provision operating earnings were strong – higher than at any time in our history. This pretax, pre-provision growth occurred despite a 400% increase in our FDIC insurance costs as our primary regulator saw a need to replenish their own Deposit Insurance Fund in the wake of national bank failures.

Howard Bank does not, however, operate in a vacuum separate and distinct from its environment and our strong operating earnings were insufficient to fund the necessary and significant loan loss provisioning that we undertook throughout 2009. Our customers are mostly small businesses and many have been particularly besieged in the latter stages of this downturn. So, in addition to the general allowance for the entire loan portfolio, which grows as the bank has grown and has, therefore, always been a significant expense for the bank, we took specific loan loss provisions against a small number of borrowers and subsequently recognized losses for some of these loans. The specific provisioning occurred throughout the year but escalated in the fourth quarter as the lagging effects of the two year downturn began to take hold of some small businesses that no longer had the sales, the collateral or the capital to service their financial obligations. $3 million in provisions as well as the recognition of $1.3 million in further collateral value diminishment on the one OREO (Other Real Estate Owned) in our portfolio led to a $2 million after-tax loss for the year.

Fortunately, one of the traditional values held by the bank is recognition that economic cycles are a very predictable fact of life. While their timing and their depth cannot be forecast, their eventuality is certain. Loan losses are, in turn, also a certainty when there are economic downturns. Only strong capital resources allow financial institutions to safely move through these downturns and only very strong capital resources allow banks to also continue to grow in these downturns. Our very consistent attention to capital levels- and willingness to replenish those capital levels in 2009 – meant that even after a year of 25% asset growth and a loan provision related loss we remained well capitalized.

2009 represented a year of fairly constant asset problem identification, assessment, categorization, and resolution (both positive and negative). Given the depth and length of this recession, 2010 will undoubtedly present some similar challenges and opportunities. Banks, like our customers, are besieged and the reflexive bank-bashing undertaken by our media, our legislators and even our own regulators from time to time makes forward progress more difficult. The compliance burden can be staggering. Economic fundamentals remain fragile. The low interest rate environment projected to continue for at least much of this year always poses challenges for a bank’s net interest margin. And the world is appropriately de-leveraging and that is a long journey not a quick fix.

However, while the path ahead is difficult, it is not impossible. We are later in the cycle and therefore closer to the end of the tunnel. We at Howard Bank are starting the year with the continuing platform of strong core revenue growth and operating earnings strength, healthy reserves for provisions, and generally better collateralized "watch" credits. We have stores of capital, not only at the bank level, but also at the holding company. We operate in a sound market, and have loyal shareholders and clients who take a similarly long term view of the brightness of the future. We are blessed with a huge treasury of skills, competencies and commitments from our board, our executives, our senior leadership and our strong core of dedicated employees. Therefore, we, like Winston Churchill, find much reason for optimism.

We continue to focus our larger staff on the future as well. The daily mantra is still to develop and leverage full relationships with clients that we must know well. That knowledge is the best safeguard for asset quality. When we are wrong about a borrower, asset quality suffers the most. This has always meant for Howard Bank a singular focus not just on loans but on full relationships – including deposit generation through targeted customer acquisition, constantly expanding existing relationships and an invigorated branch sales effort. The investments in our infrastructure must and are reaping daily rewards.

We remain focused on the future while guided by the lessons of the past. There is much talk of the "new normal" that we must navigate as a result of the economic changes. However, Howard Bancorp has always focused on traditional values and traditional operating systems; it was the very reason for our founding almost six years ago. Maybe we can call it the "old normal" but we still believe that it has not only been the reason for our early successes but can and will be the guide for our own recovery from a year that really did represent both the best and the worst of times.

We are confident in our marketplace, as well as our model – the old normal – and its reliance on traditional values. We fervently believe that there will be continued opportunities for a fundamentally strong company doing business in a still exceptional geographic market and we are grateful for all of you who share that belief and tangibly support it with your own banking business.

Sincerely,

Mary Ann Scully

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Howard Bancorp, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009. 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, 2009 and 2008, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Stegman & Company

Baltimore, Maryland
March 16, 2010

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Howard Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	**$ 5,854,463**	$ 7,608,349
Federal funds sold	**4,873,724**	1,360,941
Total cash and cash equivalents	**10,728,187**	8,969,290
Securities available-for-sale	**15,403,225**	10,189,660
Nonmarketable equity securities	**1,695,500**	1,197,900
Loans and leases, net of unearned income	**252,745,448**	204,090,415
Allowance for credit losses	**(3,508,145)**	(2,659,078)
Net loans	**249,237,303**	201,431,337
Bank premises and equipment, net	**2,381,891**	2,464,548
Deferred income taxes	**3,466,551**	2,155,647
Interest receivable and other assets	**3,383,748**	3,402,626
Total assets	**$ 286,296,405**	$ 229,811,008
LIABILITIES		
Noninterest-bearing deposits	**$ 38,997,302**	$ 37,741,653
Interest-bearing deposits	**189,745,510**	144,744,378
Total deposits	**228,742,812**	182,486,031
Short-term borrowings	**20,457,831**	19,928,466
Long-term borrowings	**8,000,000**	2,000,000
Accrued expenses and other liabilities	**582,161**	640,593
Total liabilities	**257,782,804**	205,055,090
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock—series A and B, par value $0.01 (liquidation preference of $1,000 per share) authorized 5,000,000 and 0, respectively; shares issued and outstanding 6,282 and 0, respectively, net of cost	**6,271,909**	-
Common stock - par value of $0.01 authorized 5,000,000 shares; issued and outstanding 2,633,836 shares in 2009 and 2,633,064 in 2008	**26,338**	26,331
Capital surplus	**28,098,169**	28,181,268
Accumulated deficit	**(5,932,258)**	(3,511,418)
Accumulated other comprehensive income, net	**49,443**	59,737
Total shareholders’ equity	**28,513,601**	24,755,918
Total liabilities and shareholders’ equity	**$ 286,296,405**	$ 229,811,008

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

Consolidated Statements of Operations

	Years Ended December 31,		
	2009	2008	2007
INTEREST INCOME			
Interest and fees on loans	**$ 12,179,350**	$ 11,797,710	$ 10,445,966
Interest and dividends on securities	**175,867**	393,297	460,732
Other interest income	**71,201**	97,704	328,696
Total interest income	**12,426,418**	12,288,711	11,235,394
INTEREST EXPENSE			
Deposits	**3,443,259**	4,560,065	5,145,237
Short-term borrowings	**194,775**	317,659	257,596
Long-term borrowings	**106,420**	60,535	20,403
Total interest expense	**3,744,454**	4,938,259	5,423,236
NET INTEREST INCOME	**8,681,964**	7,350,452	5,812,158
Provision for credit losses	**3,670,008**	1,150,365	1,324,800
Net interest income after provision for credit losses	**5,011,956**	6,200,087	4,487,358
NONINTEREST INCOME			
Service charges on deposit accounts	**449,124**	309,721	98,565
Other operating income	**306,518**	205,692	173,646
Total noninterest income	**755,642**	515,413	272,211
NONINTEREST EXPENSE			
Compensation and benefits	**4,129,675**	3,333,957	3,027,066
Occupancy and equipment	**1,397,803**	1,170,667	1,131,800
Provision for other real estate owned	**1,286,000**	-	-
Marketing and business development	**310,906**	344,780	456,978
Professional fees	**352,195**	257,709	196,622
Data processing fees	**538,923**	442,933	342,134
FDIC assessment	**583,762**	143,245	67,983
Other operating expense	**659,683**	452,046	492,989
Total noninterest expense	**9,258,947**	6,145,337	5,715,572
INCOME (LOSS) BEFORE INCOME TAXES	**(3,491,349)**	570,163	(956,003)
Income tax (benefit) expense	**(1,304,185)**	232,861	(2,427,428)
NET (LOSS) INCOME	**$ (2,187,164)**	$ 337,302	$ 1,471,425
Preferred stock dividends	274,433	-	-
Net (loss) income available to common shareholde	**$ (2,461,597)**	$ 337,302	$ 1,471,425
NET (LOSS) INCOME PER COMMON SHARE			
Basic	**$ (0.93)**	$ 0.13	$ 0.57
Diluted	**$ (0.93)**	$ 0.13	$ 0.55
DIVIDENDS PAID PER COMMON SHARE	**$ -**	$ -	$ -

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

Consolidated Statements of Changes in Shareholders' Equity

	Preferred stock	Number of shares	Common stock	Capital surplus	Accumulated deficit	Accumulated other comprehensive income/(loss)	Total
Balances at January 1, 2007	-	2,256,538	$ 22,565	$ 22,802,882	$ (5,320,145)	$ 10,193	$ 17,515,495
Comprehensive income:							
Net income	-	-	-	-	1,471,425	-	1,471,425
Other comprehensive income net of tax:							
Net unrealized gain on securities	-	-	-	-	-	21,561	21,561
Total comprehensive income							1,492,986
Issuance of Common Stock:							
Exercise of options	-	7,561	76	95,664	-	-	95,740
Private placement offering, net of co:	-	365,000	3,650	4,987,957	-	-	4,991,607
Stock-based compensation	-	-	-	55,606	-	-	55,606
Balances at December 31, 2007	-	2,629,099	26,291	27,942,109	(3,848,720)	31,754	24,151,434
Comprehensive income:							
Net income	-	-	-	-	337,302	-	337,302
Other comprehensive income net of tax:							
Net unrealized gain on securities	-	-	-	-	-	27,983	27,983
Total comprehensive income							365,285
Issuance of Common Stock:							
Exercise of options	-	3,965	40	43,067	-	-	43,107
Stock-based compensation	-	-	-	196,092	-	-	196,092
Balances at December 31, 2008	-	2,633,064	26,331	28,181,268	(3,511,418)	59,737	24,755,918
Comprehensive income:							
Net loss	-	-	-	-	**(2,187,164)**	-	**(2,187,164)**
Other comprehensive loss net of tax:							
Net unrealized loss on securities	-	-	-	-	-	**(10,294)**	**(10,294)**
Total comprehensive loss							**(2,197,458)**
Issuance of preferred stock:							
Series A and B	**6,271,909**	-	-	**(299,003)**	-	-	**5,972,906**
Dividends paid on preferred stock	-	-	-	-	**(233,676)**	-	**(233,676)**
Issuance of Common Stock:							
Stock awards	-	**772**	**7**	**6,168**	-	-	**6,175**
Stock-based compensation	-	-	-	**209,736**	-	-	**209,736**
Balances at December 31, 2009	**6,271,909**	**2,633,836**	**$ 26,338**	**$ 28,098,169**	**$ (5,932,258)**	**$ 49,443**	**$ 28,513,601**

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

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	**$ (2,187,164)**	337,302	1,471,425
Adjustments to reconcile net (loss) income to net cash provided (used) by operating activities:			
Provision for credit losses	**3,670,008**	1,150,365	1,324,800
Deferred income taxes (benefit)	**(1,304,185)**	251,801	(2,427,428)
Provision for other real estate owned	**1,286,000**	-	-
Depreciation	**366,833**	349,545	351,415
Stock-based compensation	**215,911**	196,092	55,606
Net accretion of investment securities	**(638,380)**	(126,399)	(60,548)
Increase in interest receivable	**72,015**	(91,748)	(45,787)
(Decrease) increase in interest payable	**(100,485)**	48,274	(13,331)
Increase in other assets	**(2,135,718)**	(649,814)	(393,057)
Increase (decrease) in other liabilities	**42,053**	(181,372)	75,884
Net cash (used) provided by operating activities	**(713,112)**	1,284,046	338,979
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investment securities available-for-sale	**(48,594,180)**	(27,865,455)	(22,411,386)
Proceeds from sale/maturities of investment securities available-for-sale	**44,001,960**	27,238,514	22,414,830
Net increase in loans outstanding	**(51,475,973)**	(34,877,479)	(52,482,337)
Purchase of premises and equipment	**(284,177)**	(316,207)	(138,080)
Net cash used in investing activities	**(56,352,370)**	(35,820,627)	(52,616,973)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in noninterest-bearing deposits	**1,255,649**	10,526,722	6,592,031
Net increase in interest-bearing deposits	**45,001,132**	19,840,411	22,480,242
Net increase in short-term borrowings	**529,365**	5,939,915	10,921,800
Proceeds from issuance of long-term debt	**6,000,000**	2,000,000	-
Repayment of long-term debt	**-**	-	(3,400,000)
Proceeds from issuance of preferred stock, net of cost	**6,271,909**	-	-
Proceeds from issuance of common stock, net of cost	**-**	43,107	5,087,347
Cash dividends on preferred stock	**(233,676)**	-	-
Net cash provided by financing activities	**58,824,379**	38,350,155	41,681,420
Net increase (decrease) in cash and cash equivalents	**1,758,897**	3,813,574	(10,596,574)
Cash and cash equivalents at beginning of period	**8,969,290**	5,155,716	15,752,290
Cash and cash equivalents at end of period	**$ 10,728,187**	$ 8,969,290	$ 5,155,716
SUPPLEMENTAL INFORMATION			
Cash payments for interest	**$ 3,543,744**	$ 4,889,985	$ 5,158,568
Cash payments for income taxes	**$ -**	$ -	$ -
Transferred from loans to other real estate owned	**$ -**	$ 2,116,000	$ -

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

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

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

Howard Bancorp, Inc. was incorporated in April of 2005 under the laws of the State of Maryland and is a bank holding company registered under the Bank Holding Company Act of 1956. The Company is a single bank holding company with one subsidiary, Howard Bank, which operates as a state trust company with commercial banking powers regulated by the Maryland Division of Financial Regulation.

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

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

Principles of Consolidation

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

Use of Estimates

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

Segment Information

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

Cash and Cash Equivalents

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

Investment Securities

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

Nonmarketable Equity Securities

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

Loans

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

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

Allowance for Credit Losses

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

The allowance for credit losses consists of a specific component and a nonspecific component. The components of the allowance for credit losses represent an estimation done pursuant to either Financial Accounting Standards ("FASB") Accounting Standards Codification ("ASC") Topic 450 *Contingencies* or ASC Topic 310 *Receivables*. The specific component of the allowance for credit losses reflects expected losses resulting from analysis developed through credit allocations for individual loans. The credit allocations are based on a regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The specific component of the allowance for credit losses also includes management's determination of the amounts necessary given concentrations and changes in portfolio mix and volume.

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

Other Real Estate Owned

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

Premises and Equipment

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

Income Taxes

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

Net Income (Loss) Per Common Share

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

Share-Based Compensation

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

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

ACCOUNTING STANDARDS CODIFICATION

In July 2009, the Financial Accounting Standards Board's ("FASB") issued guidance on "FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("ASC") Topic 105-10. ASC Topic 105-10 is the single source of authoritative nongovernmental Generally Accepted Accounting Principles ("GAAP"). ASC Topic 105-10 is effective for financial statements issued for interim or annual periods ending September 15, 2009. All existing accounting standards have been superseded. All information not included in the ASC Topic 105-10 is considered nonauthoritative. This guidance will not impact the Company's consolidated financial statements.

Note 2: Cash and Due from Banks

Regulation D of the Federal Reserve Act requires that banks maintain reserve balances with the Federal Reserve Bank based principally on the type and amount of their deposits. During 2009, the Company maintained balances at the Federal Reserve (in addition to vault cash) to meet the reserve requirements as well as balances to partially compensate for services. Additionally, the Company maintained balances with the Federal Home Loan Bank and two domestic correspondents as partial compensation for services they provided to the Company.

Note 3: Investments Securities

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

	December 31, 2009				December 31, 2008			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Federal agencies	**$ 13,707,340**	**$ 2,242**	**$ 40**	**$ 13,709,542**	$ 6,979,931	$ 18,769	$ -	$ 6,998,700
Mortgage-backed	**1,614,261**	**79,422**	**-**	**1,693,683**	3,111,072	79,888	-	3,190,960
	$ 15,321,601	**$ 81,664**	**$ 40**	**$ 15,403,225**	$ 10,091,003	$ 98,657	$ -	$ 10,189,660

There was one individual security with an unrealized loss position at December 31, 2009, while there were no securities in a loss position at the end of 2008. Gross unrealized losses and fair value by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2009 are as follows.

December 31, 2009

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Federal agencies	$ 1,999,960	$ 40	$ -	$ -	$ 1,999,960	$ 40
Mortgage-backed	-	-	-	-	-	-
	$ 1,999,960	$ 40	$ -	$ -	$ 1,999,960	$ 40

The 2009 unrealized losses that existed were a result of market changes in interest rates since the original purchase. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) structure of the security.

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

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

	2009		2008	
	Amortized Cost	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Amounts maturing:				
One year or less	**$ 8,997,340**	**$ 8,997,875**	$ 7,468,022	$ 7,487,838
After one year through five years	**4,950,460**	**4,961,831**	464,660	470,057
After five years through ten years	**402,337**	**422,340**	553,712	578,880
After ten years	**971,464**	**1,021,179**	1,604,609	1,652,885
	$ 15,321,601	**$ 15,403,225**	$ 10,091,003	$ 10,189,660

There were no sales of investment securities during 2009, 2008 or 2007. At December 31, 2009, $10.7 million fair value of securities was pledged as collateral for repurchase agreements. The outstanding balance of no single issuer, except for U. S. Government and U. S. Government agency securities, exceeded ten percent of shareholders' equity at December 31, 2009.

Note 4: Nonmarketable Equity Securities

At December 31, 2009 and 2008, the Company's investment in nonmarketable equity securities consisted of Federal Home Loan Bank of Atlanta stock, which is required for continued membership, of $1.7 million and $1.2 million, respectively. These investments are carried at cost.

Note 5: Loans

The Company makes loans to customers primarily in Howard and Anne Arundel County's, 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,	
	2009	2008
Real estate construction	**$ 33,436,686**	$ 32,229,613
Residential real estate	**30,603,543**	28,247,032
Commercial mortgage	**94,589,566**	64,124,361
Commercial	**92,816,310**	77,436,514
Consumer	**1,299,343**	2,052,895
Total loans	**$ 252,745,448**	$ 204,090,415

Activity in the allowance for credit losses for the years ended December 31, 2009, 2008 and 2007 are shown below:

	December 31,		
	2009	2008	2007
Balance at beginning of year	**$ 2,659,078**	$ 2,670,800	$ 1,346,000
Provision for credit losses	**3,670,008**	1,150,365	1,324,800
Loan charge-offs	**(2,830,651)**	(1,162,132)	-
Loan recoveries	**9,710**	45	-
Balance at end of year	**$ 3,508,145**	$ 2,659,078	$ 2,670,800

The impaired loans for the years ended December 31, 2009, 2008, and 2007 are as follows:

	December 31,		
	2009	2008	2007
Impaired loans with a valuation allowance	**$ 3,885,421**	$ 957,990	$ 2,825,000
Impaired loans without a valuation allowance	**3,763,926**	3,576,543	-
Total impaired loans	**7,649,346**	4,534,533	2,825,000
Allowance for loan loss related to impaired loans	**$ 1,021,493**	$ 259,607	$ 709,000
Average impaired balance	**$ 8,135,757**	$ 4,520,584	$ 2,800,681
Interest collected on impaired loans on cash basis	**$ 7,246**	$ 3,226	$ -

Nonaccrual loans included in impaired loans totaled $4.9 million, $4.1 million and $2.8 million at December 31, 2009, 2008 and 2007 respectively. Interest income that would have been recorded if nonaccrual loans had been current and in accordance with their original terms was $142 thousand, $59 thousand and $284 thousand, respectively.

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

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

At December 31, 2007 one loan for $2.8 million was classified as non-accrual. Included in the 2007 provision was a specific reserve of $709 thousand to reflect the diminution of the collateral value underlying this loan. Foreclosure proceedings commenced in 2007, and upon ratification in 2008, the Company transferred this loan, net of the reserve to Other Real Estate Owned.

Note 6: Premises and Equipment

Premises and equipment include the following at:

	December 31,	
	2009	2008
Building and leasehold improvements	**$ 2,281,661**	$ 2,244,060
Furniture and equipment	**1,540,552**	1,315,252
Software	**140,997**	140,997
	3,963,210	3,700,309
Less: accumulated depreciation and amortization	**1,581,319**	1,235,761
Net premises and equipment	**$ 2,381,891**	$ 2,464,548

The Company occupies banking and office space in four locations under noncancellable lease arrangements accounted for as operating leases. The initial lease periods range from 10 to 20 years and provide for one or more 5-year renewal options. Rent expense applicable to operating leases amounted to $870,670, $685,930 and $665,711 for the year ended December 31, 2009, 2008 and 2007, respectively.

At December 31, 2009, future minimum lease payments under noncancellable operating leases having an initial term in excess of one year are as follows:

Year ended December 31,	
2010	$ 1,066,724
2011	1,091,199
2012	1,110,045
2013	1,130,891
2014	808,246
Thereafter	5,024,095
Total minimum lease payments	$ 10,231,200

Note 7: Deposits

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

	December 31,			
	2009	**% of Total**	2008	% of Total
Noninterest-bearing demand	**$ 38,997,302**	**17** %	$ 37,741,653	21 %
Interest-bearing checking	**15,900,449**	**6**	17,302,122	9
Money market accounts	**44,759,293**	**20**	32,284,918	18
Savings	**15,644,196**	**7**	1,554,926	1
Certificates of deposit $100,000 and over	**65,340,343**	**29**	33,222,016	18
Certificates of deposit under $100,000	**48,101,229**	**21**	60,380,396	33
Total deposits	**$ 228,742,812**	**100** %	$ 182,486,031	100 %

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

Three months or less	**$ 9,004,329**
More than three months through six months	**17,936,506**
More than six months through twelve months	**32,379,111**
Over twelve months	**6,020,397**
Total	**$ 65,340,343**

Interest expense on deposits for the periods ended 2009, 2008 and 2007 were as follows:

	December 31,		
	2009	2008	2007
Interest-bearing checking	**$ 72,642**	$ 212,006	$ 585,460
Savings and money market	**508,893**	967,594	1,444,102
Certificates of deposit $100,000 and over	**1,156,391**	1,058,520	1,096,691
Certificates of deposit under $100,000	**1,705,333**	2,321,945	2,018,984
Total	**$ 3,443,259**	$ 4,560,065	$ 5,145,237

Note 8: Short-Term Borrowings

Short-term borrowings consist of overnight unsecured master notes, overnight securities sold under agreement to repurchase and FHLB advances with a final remaining maturity of less than one year. Information relating to short-term borrowings for the years ended December 31, 2009 and 2008 is presented below:

	December 31,			
	2009		2008	
	Amount	**Rate**	Amount	Rate
At year end	$ 20,457,831	0.73 %	$ 19,928,466	1.03 %
Average for the year	$ 19,463,101	1.00 %	$ 12,849,211	2.47 %
Maximum month-end balance	$ 27,773,575		$ 24,680,495	

The Company pledges U.S. Government Agency securities, based upon their fair value, as collateral for 100% of the principal and accrued interest of its repurchase agreements. At December 31, 2009 and 2008 there were $10.7 million and $3.9 million, respectively in borrowings under these agreements.

If the Company should need to supplement its liquidity, it could borrow, subject to collateral requirements, up to approximately $54.8 million on a line of credit arrangement with the Federal Home Loan Bank of Atlanta (“FHLB”). At December 31, 2009 and 2008 there were $14 million and $17 million in advances outstanding under this arrangement, respectively.

Note 9: Long-Term Borrowings

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

	2009	2008
Federal Home Loan Bank Advances		
3.11% Due 2011 (1)	**$ 2,000,000**	$ 2,000,000
1.13% Due 2011 (2)	**2,000,000**	-
1.52% Due 2011 (2)	**2,000,000**	-
2.18% Due 2012 (2)	**2,000,000**	-
Total long-term borrowings	**$ 8,000,000**	$ 2,000,000

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

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

Year ended December 31,	
2011	$ 6,000,000
2012	2,000,000
Total	$ 8,000,000

Note 10: Income Taxes

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

	December 31,		
	2009	2008	2007
Current federal income tax	**$ -**	$ -	$ -
Current state income tax	**-**	-	-
Deferred federal income tax expense (benefit)	**(1,031,447)**	184,164	(1,919,791)
Deferred state income tax expense (benefit)	**(272,738)**	48,697	(507,637)
Total income tax expense (benefit)	**$ (1,304,185)**	$ 232,861	$ (2,427,428)

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

	December 31,		
	2009	2008	2007
Statutory federal income tax rate	(34.0) %	34.0 %	(34.0) %
State income taxes, net of federal income tax expense (benefit)	(5.1)	4.5	(5.5)
Other, net	1.7	2.3	-
Valuation allowance	-	-	(214.5)
Effective tax rate	(37.4) %	40.8 %	(253.9) %

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

	2009	2008
Deferred tax asset:		
Net operating loss carryforwards	**$ 1,908,857**	$ 1,248,036
Allowance for credit losses	**913,343**	905,261
Valuation on foreclosed real estate	**507,327**	-
Stock-based compensation	**61,476**	-
Deferred loan fees and costs, net	**24,702**	-
Other	**93,782**	100,986
Total deferred tax assets	**3,509,487**	2,254,283
Deferred tax liabilities:		
Deferred loan fees and costs, net	**-**	26,197
Unrealized gain on securities	**32,201**	38,920
Depreciation and amortization	**10,735**	33,519
Total deferred tax liabilities	**42,936**	98,636
Net deferred tax assets	**$ 3,466,551**	$ 2,155,647

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

At December 31, 2009, the Company had approximately $4.9 million in tax loss carryforwards, which expire in 2024 through 2029. Realization depends on generating sufficient taxable income before the expiration of the loss carryforward periods. The amount of loss carryforward available for any one year may be limited if the Company is subject to the alternative minimum tax.

Note 11: Related Party Transactions

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

	2009	2008
Balance January 1	**$ 10,945,211**	$ 8,128,844
Additions	**5,983,857**	5,295,439
Repayments	**2,399,958**	2,479,072
Balance December 31	**$ 14,529,110**	$ 10,945,211

Note 12: Financial Instruments with Off-Balance Sheet Risk

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

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

	December 31,	
	2009	2008
Unfunded loan commitments	**$ 25,857,515**	$ 22,750,916
Unused lines of credit	**32,519,830**	29,363,274
Letters of credit	**4,291,966**	4,857,568

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The Company generally requires collateral to support financial instruments with credit risk on the same basis as it does for on-balance sheet instruments. The collateral is based on management's credit evaluation of the counterparty. Commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Each customer's credit-worthiness is evaluated on a case-by-case basis.

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

Note 13: Stock Options and Warrants

The Company initially raised $4,775,000 of capital by selling to its founders investment units consisting of one share of common stock and a fully detachable warrant equal to .25 shares of common stock per unit. The warrants were issued in recognition of the financial and organizational risk undertaken by the purchasers in the organizational offering. The warrants are immediately exercisable and will expire ten (10) years from the date of issuance. As of December 31, 2009 there have been no exercises of these warrants and the Company has outstanding warrants to purchase 119,376 shares at the price of $10.00 per share.

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

Stock options and stock awards may also be granted to non-employee members of the Board of Directors as compensation for attendance and participation at meetings of the Board of Directors and meetings of the various committees of the Board. The

Company previously maintained an Advisory Board, for which non-employee members were compensated via stock options for meeting attendance. These nonqualified stock options can be granted with terms up to ten years, vest immediately, and are fully exercisable at time of grant. Stock awards granted to directors are based on the fair value of the awards, which is generally the market price of the common stock on the measurement date, and vest immediately. For 2009, 772 shares of the Company's stock were issued to directors as compensation for their service.

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

	2009		2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	**368,958**	**$ 11.47**	333,462	$ 11.59	224,412	$ 10.34
Granted	**54,150**	**9.02**	54,142	10.83	123,963	13.92
Exercised	**-**	**-**	(3,966)	10.87	(7,561)	12.66
Forfeited	**(14,650)**	**11.33**	(14,680)	12.04	(7,352)	11.48
Outstanding at end of year	**408,458**	**$ 11.16**	368,958	$ 11.47	333,462	$ 11.59
Exercisable at end of year	**319,659**	**$ 10.82**	270,863	$ 10.84	230,389	$ 10.54
Weighted average fair value of options granted during the year		**$ 2.52**		$ 3.04		$ 4.77

The intrinsic value of a stock option is the amount that the market value of the underlying stock exceeds the exercise price of the option. Based upon a fair market value of $8.00 on December 31, 2009 the options outstanding had an aggregate intrinsic value of $4 thousand. There were no options exercised in 2009, and the aggregate intrinsic value of the options exercised in 2008 amounted to $11 thousand.

There were no proceeds from stock option exercises for 2009, however proceeds totaled $43 thousand in 2008, and $96 thousand in 2007. Shares issued in connection with stock option exercises are issued from available authorized shares. During 2008 and 2007 3,966 and 7,561 shares respectively, were issued in connection with stock option exercises.

Share-based Compensation Expense: Stock-based compensation is recognized as compensation cost in the statement of operations based on their fair values on the measurement date, which, for the Company, is the date of the grant. The Company recognized additional share-based compensation expense related to stock options of $210 thousand during 2009 and $196 thousand during 2008.

Valuation of Share-Based Compensation: The fair value of the Company's stock options granted as compensation is estimated on the measurement date, which, for the Company, is the date of grant. The fair value of stock options was calculated using the Black-Scholes option-pricing model. The weighted-average fair value of stock options granted was $2.52 for options granted in 2008, $3.04 for 2008 and $4.77 for 2007. The Company estimated expected market price volatility and expected term of the options based on historical data and other factors. The weighted-average assumptions used to determine the fair value of options granted are detailed in the table below:

	2009	2008	2007
Risk-free interest rate	**2.43% %**	3.04 %	4.73 %
Expected dividend yield	**0 %**	0 %	0 %
Expected volatility	**20 %**	20 %	20 %
Expected lives (in years)	**7**	6	7

Note 14: Profit Sharing Plan

The Company sponsors a defined contribution retirement plan through a Section 401(k) profit sharing plan. Employees may contribute up to 15% of their pretax compensation. Participants are eligible for matching Company contributions up to 4% of eligible compensation dependent on the level of voluntary contributions. Company matching contributions totaled $84,266, $83,035 and $79,092 in 2009, 2008 and 2007, respectively. The Company's matching contributions vest immediately.

Note 15: Income (Loss) per Common Share

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

	2009	2008	2007
Net income (loss) applicable to common stock (numerator)	**$ (2,187,164)**	$ 337,302	$ 1,471,425
Preferred dividends	**$ (274,434)**	$ -	$ -
Net income/(loss) available to common shareholders	**$ (2,461,598)**	**$ 337,302**	**$ 1,471,425**
BASIC			
Average common shares outstanding (denominator)	**2,633,066**	2,631,438	2,602,352
Basic income (loss) per common share	**$ (0.93)**	$ 0.13	$ 0.57
DILUTED			
Average common shares outstanding	**2,633,066**	2,631,438	2,602,352
Diluted effect of stock options and warrants	**-**	9,035	81,762
Diluted average common shares outstanding (denominator)	**2,633,066**	2,640,473	2,684,114
Diluted income (loss) per common share	**$ (0.93)**	$ 0.13	$ 0.55

Note 16: Risk-Based Capital

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

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

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

Management believes that, as of December 31, 2009 and 2008, 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, 2009:						
Total capital (to risk-weighted assets)						
Howard Bank	$ 26,715	10.73 %	$ 19,910	8.00 %	$ 24,887	10.00 %
Howard Bancorp	**$ 31,529**	**12.55 %**	**$ 20,099**	**8.00 %**	**N/A**	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$ 23,571	9.47 %	$ 9,955	4.00 %	$ 14,932	6.00 %
Howard Bancorp	**$ 28,384**	**11.30 %**	**$ 10,049**	**4.00 %**	**N/A**	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	$ 23,571	8.44 %	$ 11,178	4.00 %	$ 13,972	5.00 %
Howard Bancorp	**$ 28,384**	**10.08 %**	**$ 11,264**	**4.00 %**	**N/A**	
As of December 31, 2008:						
Total capital (to risk-weighted assets)						
Howard Bank	$ 25,296	12.56 %	$ 16,110	8.00 %	$ 20,138	10.00 %
Howard Bancorp	$ 27,220	13.49 %	$ 16,145	8.00 %	N/A	
Tier 1 capital (to risk-weighted assets)						
Howard Bank	$ 22,777	11.31 %	$ 8,055	4.00 %	$ 12,083	6.00 %
Howard Bancorp	$ 24,696	12.24 %	$ 8,072	4.00 %	N/A	
Tier 1 capital (to average assets) (Leverage ratio)						
Howard Bank	$ 22,777	10.06 %	$ 9,059	4.00 %	$ 11,324	5.00 %
Howard Bancorp	$ 24,696	10.89 %	$ 9,073	4.00 %	N/A	

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

Note 17: Fair Value

Effective January 1, 2008, the Company adopted FASB ASC Topic 820, “Fair Value Measurements” and FASB ASC Topic 825, “the Fair Value Option for Financial Assets and Financial Liabilities” which provides a framework for measuring and disclosing fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, impaired loans).

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

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

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

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

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

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

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

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by FASB ASC Topic 820, the Company does not adjust the quoted price for such instruments.

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

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

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

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a recurring basis as of December 31, 2009.

	Carrying Value (Fair Value)	Quoted Price (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale	$15,403,225	$ -	$15,403,225	$ -

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2009.

	Carrying Value (Fair Value)	Quoted Price (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	$ 839,431	$ -	$ -	$ 839,431
Impaired loans	7,649,346	-	-	7,649,346

The following table provides a reconciliation of all assets measured at fair value on a nonrecurring basis using significant unobservable inputs for the year ended December 31, 2009.

	Forclosed Properties	Impaired Loans
Balance at December 31, 2008	$ 2,116,000	$ 4,534,533
Total net gain (losses) for the year included in:		
Gain on sale of foreclosed properties	-	-
Other comprehensive gain (loss)	-	-
Purchase and sales, net	-	-
Net transfers in (out)	-	3,114,813
Valuation allowance	(1,276,569)	-
Balance at December 31, 2009	839,431	7,649,346

The following table presents required information in accordance with ASC Topic 825 "Financial Instruments" at December 31, 2009 and 2008. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are based on quoted market prices where available or calculated using present value techniques. Since quoted market prices are not available on many of our financial instruments, estimates may be based on the present value of estimated future cash flows and estimated discount rates. These financial assets and liabilities have not been recorded at fair value:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**$10,728,187**	**$10,728,187**	$ 8,969,290	$ 8,969,290
Nonmarketable equity securitie	**1,695,500**	**1,695,500**	1,197,900	1,197,900
Loans	**252,745,448**	**252,752,060**	204,090,415	204,543,988
Financial Liabilities				
Deposits	**228,742,812**	**228,104,856**	182,486,031	181,760,096
Short-term borrowings	**20,457,831**	**20,457,831**	19,928,466	19,928,466
Long-term borrowings	**8,000,000**	**7,952,279**	2,000,000	1,955,978

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

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

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

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

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

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

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

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

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

Note 18: Parent Company Financial Information

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

Howard Bancorp, Inc.

Balance Sheets

	December 31, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	**$ 6,038,669**	$ 1,544,859
Loans, net of unearned income	**-**	429,912
Allowance for credit losses	**-**	(6,300)
Net loans	**-**	423,612
Investment in subsidiary	**25,859,019**	22,782,484
Other assets	**356,379**	47,927
Total assets	**$ 32,254,067**	$ 24,798,882
LIABILITIES		
Short-term borrowings	**$ 3,740,466**	$ 42,964
Other Liabilities	**-**	-
Total liabilities	**3,740,466**	42,964
SHAREHOLDERS' EQUITY		
Preferred stock—series A and B, par value $0.01 (liquidation preference of $1,000 per share) authorized 5,000,000 and 0, respectively; shares issued and outstanding 6,282 and 0, respectively, net of cost	**6,271,909**	-
Common stock - par value of $0.01 authorized 5,000,000 shares; issued and outstanding 2,633,836 shares in 2009 and 2,633,064 shares in 2008	**26,338**	26,331
Capital surplus	**28,098,169**	28,181,268
Accumulated deficit	**(5,932,258)**	(3,511,418)
Accumulated other comprehensive income, net	**49,443**	59,737
Total shareholders’ equity	**28,513,601**	24,755,918
Total liabilities and shareholders’equity	**$ 32,254,067**	$ 24,798,882

Statements of Operations

	For the Year Ended December 31,		
	2009	2008	2007
INTEREST EXPENSE			
Interest and fees on loans	**$ 26,516**	$ 43,710	$ 10,441
INTEREST EXPENSE			
Short-term borrowings	**37,729**	1,924	-
Long-term borrowings	**-**	-	20,403
NET INTEREST EXPENSE	**(11,213)**	41,786	(9,962)
(Reversal) Provision for credit losses	**(6,300)**	(1,500)	7,800
Net interest expense after (reversal) provision for credit losses	**(4,913)**	43,286	(17,762)
NONINTEREST EXPENSE			
Compensation and benefits	**235,262**	180,791	70,906
Other operating expense	**13,138**	7,601	7,459
Total noninterest expense	**248,400**	188,392	78,365
Loss before income tax and equity in undistributed loss of subsidiary	**(253,313)**	(145,106)	(96,127)
Income tax benefit	**(34,400)**	(7,100)	(39,574)
Loss before equity in undistributed loss of subsidiary	**(218,913)**	(138,006)	(56,553)
Equity in undistributed (loss) income of subsidiary	**(1,968,251)**	475,308	1,527,978
Net (loss) income	**$ (2,187,164)**	$ 337,302	$ 1,471,425
Preferred stock dividends	**274,433**	-	-
Net (loss) income available to common shareholder	**$ (2,461,597)**	$ 337,302	$ 1,471,425

Statements of Cash Flows

	For the Year Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	**$ (2,187,164)**	$ 337,302	$ 1,471,425
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:			
(Reversal) provision for credit losses	**(6,300)**	(1,500)	7,800
Deferred income taxes (benefits)	**(34,400)**	(7,100)	(39,574)
Share-based compensation	**215,911**	196,092	55,606
Equity in undistributed loss (gain) of subsidiary	**1,978,545**	(475,308)	(1,527,978)
(Increase) decrease in other assets	**(638,429)**	55,742	8,662
Decrease in other liabilities	**-**	(15,300)	(144,147)
Net cash provided (used) by operating activities	**(671,837)**	89,928	(168,206)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease (increase) in loans outstanding	**429,912**	118,784	(548,696)
Investment in subsidiary	**-**	-	-
Net cash provided (used) by investing activities	**429,912**	118,784	(548,696)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in short-term borrowings	**3,697,502**	42,964	-
Additional capital investment in subsidiary	**(5,000,000)**	-	-
Repayment of long-term debt	**-**	-	(3,400,000)
Proceeds from issuance of preferred stock, net of cost	**6,271,909**	-	-
Proceeds from issuance of common stock, net of cost	**-**	43,107	5,087,347
Cash dividends on preferred stock	**(233,676)**	-	-
Net cash provided by financing activities	**4,735,735**	86,071	1,687,347
Net increase in cash and cash equivalents	**4,493,810**	294,783	970,445
Cash and cash equivalents at beginning of period	**1,544,859**	1,250,076	279,631
Cash and cash equivalents at end of period	**$ 6,038,669**	$ 1,544,859	$ 1,250,076

NOTE 19 — PREFERRED STOCK

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

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

Howard Bancorp, Inc.

CORPORATE HEADQUARTERS

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

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

Website: www.howardbank.com

ANNUAL MEETING

The annual meeting of Stockholders of Howard Bancorp, Inc. will be held on Wednesday, May 26, 2010 at 6:00 p.m. at the:

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

COMMON STOCK

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

TRANSFER AGENT

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

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

MARKET MAKERS

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

INVESTOR RELATIONS

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

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

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

INDEPENDENT AUDITORS

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

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

Board of Directors

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

Executive Management

Mary Ann Scully
President and Chief Executive Officer

George C. Coffman
Executive Vice President and Chief Financial Officer

Paul G. Brown
Executive Vice President and Chief Lending Officer

Charles E. Schwabe
Executive Vice President and Chief Administrative Officer

Officers

Michael T. Cavey Senior Vice President
Barbara S. Knickman Senior Vice President
Christopher G. Marasco Senior Vice President
Steven M. Poynot Senior Vice President
Rocco Ricci Senior Vice President
Rosa M. Scharf Senior Vice President
A. James Belson Vice President
Christine A. DeBernard Vice President
Thomas E. Drake Vice President
Daphne A. Dressler Vice President
Michele O. Healy Vice President
Patricia L. Howard Vice President
Michael A. Munoz Vice President
Peter J. Stephan Vice President
Lois D. Tringali Vice President

Locations

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

Products and Services

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

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

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

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

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

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