

## LETTER TO OUR SHAREHOLDERS

Dear Shareholders:

We continue to make significant progress in Carrollton Bank's transformation to Central Maryland's best community bank.

As you, our shareholders, are aware, Carrollton Bancorp set out to establish itself as the region's premier community banking choice for commercial lending products. This has been the Company's unwavering focus for four years. The Company has transformed its balance sheet into that of a true commercial bank; 74% of loans are now commercial loans, while four years ago commercial loans represented only 30% of the loan portfolio. Over this four year period, we have grown commercial loans by 98%, from \$82.1 million at year end 2000, to \$162.4 million at year end 2004. The Company will maintain a disciplined approach to growth by continuing to methodically and meticulously grow our commercial loan portfolio, thereby assuring credit quality.

Comparing 2004 balances to those of 2003, total assets increased 6% to \$319.1 million. Gross loans and leases, including loans held for sale, increased 14% to \$229.9 million, and investment securities decreased 32% to \$42.5 million. These changes reflect the implementation of our strategy to redeploy investment securities into higher yielding assets, primarily loans. Total deposits increased 9% to \$225.8 million. Non-interest bearing deposits experienced a 26%, or \$11.3 million, increase over 2003. Because of our increased lending volume and the more advantageous deposit mix, the Company's net interest margin expanded to 3.81% in 2004 from 3.36% in 2003.

Core earnings (earnings before the effect of investment security transactions) for the year were \$1,123,000, a 79% increase over 2003 core earnings of \$626,000. Net income for 2004 was \$888,000, or \$.031 basic earnings per share, compared to \$925,000, or \$.033 basic earnings per share for the same period of 2003. In the fourth quarter of 2004, the Company wrote down its investment in the Federal Home Loan Mortgage Corporation ("FHLMC") preferred stock resulting in a reduction to income, net of taxes, of \$305,000.

Carrollton Bancorp continues to be rated as a well capitalized financial institution. The Company's year end total capital ratio was 12.74%, our Tier 1 risk-based capital ratio was 11.52%, and our leverage capital ratio was 9.41%. All remain substantially above federal regulatory standards for a well capitalized financial services institution.

The Company derives the majority of its revenue from two sources; interest and fee income on loans and investments and non-interest income derived mainly from the Company's Electronic Banking Division and the Company's subsidiaries, Carrollton Mortgage Services, Inc. and Carrollton Financial Services, Inc.

Within the Company's Electronic Banking Division is a network of 158 ATMs; the great majority are deployed in Wal-Marts and Sam's Clubs. 2004 was a milestone year for the profitability of our ATM network. The Company's ATM network is now fully depreciated; the net result will be a reduction in associated expenses of approximately \$500,000 for 2005.

In an effort to further trim expenses, the Company has frozen its Defined Benefits Plan and enhanced its 401K Defined Contribution Plan. The net result will be a reduction in benefit expense of approximately \$400,000 in 2005.

While the Company has taken these and other steps to reduce expenses, it continues to advance its detailed plan to increase branch banking activities. In January 2005, the Company opened its first Harford County location, and anticipates additional branch growth and development in 2005, and beyond. The Company will strategically enhance its branch network by identifying areas of strong commercial and consumer growth and stability.

Carrollton Bancorp enters 2005 well positioned to move forward. Our goals for 2005 are clear:

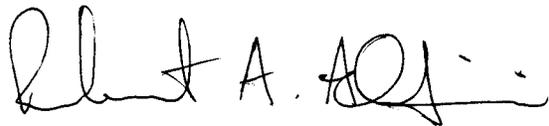
- Improve net interest income while increasing loans and deposits.
- Diversify and increase fee-based income.
- Create an expense structure and discipline that will improve our efficiency ratio in line with industry standards.

The Board of Directors and all Associates of Carrollton Bancorp, the Bank, and its subsidiaries are committed to building shareholder value for the future. As always, we are grateful for your continued support.

Sincerely,



Albert R. Counselman  
Chairman of the Board



Robert A. Altieri  
President and Chief Executive Officer

**SELECTED FINANCIAL DATA**

	2004	2003	2002	2001	2000
<b>CONSOLIDATED INCOME STATEMENT DATA:</b>					
Interest income	\$ 15,500,323	\$ 15,935,691	\$ 18,985,364	\$ 23,832,624	\$ 26,726,048
Interest expense	5,321,622	6,639,734	8,692,320	12,872,355	15,921,684
Net interest income	10,178,701	9,295,957	10,293,044	10,960,269	10,804,364
Provision for loan losses	—	243,000	526,000	550,000	448,000
Net interest income after provision for loan losses	10,178,701	9,052,957	9,767,044	10,410,269	10,356,364
Noninterest income	8,781,151	8,268,612	7,534,802	7,156,444	7,913,046
Noninterest expense	17,751,000	16,058,355	14,536,958	14,817,504	15,945,347
Income before income taxes	1,208,852	1,263,214	2,764,888	2,749,209	2,324,063
Income taxes	320,488	338,500	847,630	816,132	576,531
Net income	\$ 888,364	\$ 924,714	\$ 1,917,258	\$ 1,933,077	\$ 1,747,532
<b>CONSOLIDATED BALANCE SHEET DATA, AT YEAR END</b>					
Assets	\$319,123,132	\$302,409,975	\$324,221,615	\$356,907,181	\$387,658,811
Gross loans	219,726,294	199,296,561	205,220,126	220,177,983	276,367,035
Deposits	225,846,145	207,056,100	230,264,108	265,528,720	292,024,141
Shareholders' equity	34,215,280	34,124,882	33,691,079	32,458,383	30,292,083
<b>PER SHARE DATA: (a)</b>					
Number of shares of Common Stock outstanding, at year-end	2,834,823	2,828,078	2,821,757	2,836,317	2,843,120
Net income:					
Basic	\$ 0.31	\$ 0.33	\$ 0.68	\$ 0.68	\$ 0.61
Diluted	0.31	0.32	0.68	0.68	0.61
Cash dividends declared	0.38	0.36	0.34	0.34	0.34
Book value, at year end	12.07	12.07	11.94	11.44	10.65
<b>Performance and Capital Ratios:</b>					
Return on average assets	0.29%	0.29%	0.57%	0.52%	0.46%
Return on average shareholders' equity	2.61%	2.71%	5.70%	6.05%	5.91%
Net yield on interest earning assets (b)	3.81%	3.36%	3.47%	3.32%	3.22%
Average shareholders' equity to average total assets	11.11%	10.83%	9.99%	8.52%	7.81%
Year-end capital to year-end risk-weighted assets:					
Tier 1	11.52%	13.75%	13.57%	12.88%	10.99%
Total	12.74%	15.51%	15.07%	14.26%	12.13%
Year-end Tier 1 leverage ratio	9.41%	10.35%	9.54%	8.61%	7.74%
Cash dividend declared to net income	121.17%	109.96%	50.80%	50.43%	55.58%
<b>ASSETS QUALITY RATIOS:</b>					
Allowance for loan losses, at year-end to:					
Gross loans	1.59%	1.83%	1.74%	1.52%	1.09%
Nonperforming, restructured and past-due loans	132.05%	151.37%	111.68%	276.13%	119.19%
Net charge-offs to average gross loans	0.08%	0.09%	0.13%	0.10%	0.09%
Nonperforming assets as a percent of period-end gross loans and foreclosed real estate	1.20%	1.26%	1.67%	0.55%	0.92%

(a) Per share amounts and common shares outstanding have been adjusted to retroactively reflect the effect of a 5% stock dividend declared by the Board of Directors on October 24, 2002.

(b) This ratio is presented on a fully taxable equivalent basis (a non-GAAP financial measure), using regular income tax rates.

**CARROLLTON BANCORP**  
**344 North Charles Street, Suite 300**  
**Baltimore, Maryland 21201**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**TO BE HELD ON APRIL 19, 2005**

**TO THE SHAREHOLDERS OF CARROLLTON BANCORP:**

The Annual Meeting of Shareholders of Carrollton Bancorp, a Maryland corporation (the "Company"), will be held at 344 North Charles Street, Baltimore, Maryland on April 19, 2005 at 10:00 a.m., prevailing local time, for the following purposes:

1. To elect three directors for a three-year term ending in 2008, and until their respective successors are duly elected and qualify.
2. To ratify the appointment of Rowles & Company, LLP as independent public accountants to audit the financial statements of the Company for the fiscal year ending December 31, 2005.
3. To act upon any other matter which may properly come before the meeting or any adjournment thereof.

The close of business on March 1, 2005, has been fixed by the Board of Directors as the date for determining shareholders of record entitled to receive notice of and to vote at the Annual Meeting.

Your attention is directed to the enclosed Proxy Statement and annual report of the Company for the fiscal year ended December 31, 2004.

Please sign, date and mail the accompanying proxy in the enclosed, self-addressed, stamped envelope, whether or not you expect to attend the meeting in person. You may withdraw your proxy at the meeting should you be present and desire to vote your shares in person. Your cooperation is respectfully requested.

By Order of the Board of Directors



Allyson Cwiek  
Secretary

Baltimore, Maryland  
March 18, 2005

**WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AND VOTED. ACCORDINGLY, PLEASE DATE, SIGN AND RETURN THE ENCLOSED PROXY PROMPTLY.**

(This Page Intentionally Left Blank)

**CARROLLTON BANCORP**  
**344 North Charles Street, Suite 300**  
**Baltimore, Maryland 21201**

**PROXY STATEMENT**  
**ANNUAL MEETING OF SHAREHOLDERS**

**APRIL 19, 2005**

**SOLICITATION AND REVOCATION OF PROXIES**

This Proxy Statement (the "Proxy Statement") is being furnished to the shareholders of Carrollton Bancorp (the "Company") in connection with the solicitation of proxies by the Board of Directors of the Company for use at the Annual Meeting of Shareholders, and any adjournments thereof, to be held at 344 North Charles Street, Baltimore, Maryland at 10:00 a.m. prevailing local time, on Tuesday, April 19, 2005. Our principal executive offices are located at 344 North Charles Street, Baltimore, Maryland 21201. This Proxy Statement is being sent to the shareholders of the Company on or about March 18, 2005.

The Board of Directors has selected David P. Hessler, Ben F. Mason, and Charles E. Moore, Jr. and each of them, to act as proxies with full power of substitution. A proxy may be revoked at any time prior to its exercise by giving written notice of revocation to the Company, by executing and delivering a substitute proxy to the Company, or by attending the Annual Meeting and voting in person. If no instructions are specified in the proxy, it is the intention of the persons named therein to vote **FOR** the election of the nominees named herein as directors of the Company, and **FOR** the ratification of Rowles and Company, LLP as independent public accountants to audit the financial statements of the Company for 2005.

Shareholders of the Company are requested to complete, date and sign the accompanying form of proxy and return it promptly to the Company in the enclosed envelope. If a proxy is properly executed and returned in time for voting, it will be voted as indicated thereon.

The Company does not know of any matter to be presented at the Annual Meeting except as described herein. If any other matters are properly brought before the Annual Meeting, the persons named in the enclosed proxy intend to vote the proxy according to their best judgment.

The Company will bear the costs of the solicitation of proxies, including the reimbursement of banks, brokers and other fiduciaries for expenses in forwarding proxy solicitation materials to beneficial owners. Such expenses are estimated not to exceed \$5,000. Solicitations may be made by mail, telegraph or personally by directors, officers or employees of the Company, none of whom will receive additional compensation for performing such services.

**VOTING PROCEDURES**

Generally, each proposal submitted to the Company shareholders for a vote is deemed approved if a majority of the shareholders present, in person or by proxy, at a meeting at which a quorum is present, votes in favor of the proposal. The presence of a majority, in person or by proxy, of shareholders entitled to cast votes at the meeting constitutes a quorum. A shareholder is entitled to one vote for each share owned.

Shareholder votes are tabulated by the Company's Registrar and Transfer Agent. Proxies received by the Company, if such proxy is properly executed and delivered, will be voted in accordance with the voting specifications made on such proxy. Proxies received by the Company on which no voting specification has been made by the shareholder will be voted "for" all items discussed in the Proxy Statement, in the manner stated on the proxy card. Shareholders who execute and deliver proxies retain the right to revoke them by notice delivered to the Company Secretary at any time before such proxies are voted.

The vote of a plurality of all of the votes cast at a meeting at which a quorum is present is necessary for the election of a director. For purposes of the election of directors, abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will count toward the presence of a quorum. For purposes of the Annual Meeting, however, there should not be any broker "non-votes" because a broker who holds shares for a beneficial owner and does not receive voting instructions from the beneficial owner has discretionary authority to vote on each of the proposals to be considered at the Annual Meeting.

**SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS**

There have been no matters submitted to a vote of the Company's shareholders since its 2004 Annual Shareholders' Meeting held on April 20, 2004.

**VOTING SECURITIES**

On March 1, 2005, the Company had outstanding 2,849,773 shares of Common Stock, \$1.00 par value per share. Each share of Common Stock entitles the holder thereof to one vote on each matter to be voted upon at the Annual Meeting. Neither the Company's Charter nor its Bylaws provides for cumulative voting rights.

The close of business on March 1, 2005 has been fixed by the Board of Directors as the record date for determining the shareholders of the Company entitled to receive notice of and to vote at the Annual Meeting.

**PROPOSAL 1: ELECTION OF DIRECTORS**

The Company's Board of Directors is divided into three classes. Each year the directors in one class are elected to serve for a term of three years, and until their respective successors are duly elected and qualify. The Shareholders will vote at this Annual Meeting for the election of three directors for the three-year term expiring at the Annual Meeting of Shareholders in 2008.

The proxies solicited hereby, unless directed to the contrary, will be voted FOR the election as directors of all three nominees listed in the following tables. In order to be elected, a plurality of the shares voted at a meeting at which a quorum is present is necessary for the election of a director. Each nominee has consented to serve as a director, if elected.

Your Company's Board of Directors unanimously recommends a vote FOR the election of each of the nominees named below as directors of the Company.

In the event that any of the nominees should be unable to serve, the persons named in the proxy will vote for such substitute nominee or nominees as they, in their sole discretion, shall determine. The Board of Directors has no reason to believe that any nominee named herein will be unable to serve.

The following material contains information concerning the nominees for election and those directors whose terms continue beyond the date of the Annual Meeting.

**NOMINEES FOR DIRECTOR FOR TERM EXPIRING IN 2008**

**Steven K. Breeden** – Mr. Breeden, age 46, has served as a director of the Bank, since June 1994, and of the Company since October 1995. Mr. Breeden is currently a managing member of Security Development LLC and related real estate and development companies, a position he has held since 1980. (2)(3)(4)

**Harold I. Hackerman** – Mr. Hackerman, age 53, has served as a director of the Bank since February 2002 and of the Company since February 2002. Since 1984, Mr. Hackerman has been Vice President of Ellin & Tucker, a certified public accounting firm, and has provided audit, accounting and consulting services since 1973. (1)(2)(4)(5)

**Howard S. Klein** – Mr. Klein, age 46, has served as a director of the Bank since March 1999 and of the Company since April 1999. Mr. Klein has been Vice President and General Counsel for Klein's Super Markets, a family-operated chain of seven full serve supermarkets and related development and operating companies since 1987. (1)(4)

**DIRECTORS CONTINUING IN OFFICE****DIRECTORS WHOSE TERMS EXPIRE IN 2006**

**Albert R. Counselman** – Mr. Counselman, age 56, has served as a director of the Bank since April 1985 and of the Company since its inception in 1990. Mr. Counselman was elected Chairman of the Board of the Company in January 2002. He has been President of Riggs, Counselman, Michaels & Downes, Inc., an insurance brokerage firm, since September 1987, and served in various executive positions with that firm from 1972 to September 1987.

**John P. Hauswald** – Mr. Hauswald, age 82, has served as a director of the Bank since 1964 and of the Company since its inception in 1990. He was, until his retirement in October 1989, President of The Hauswald Bakery. (4)

- 
- (1) Member of the Audit Committee
  - (2) Member of the Compensation Committee
  - (3) Member of the Nominating Committee
  - (4) Independent Director
  - (5) Financial expert for Audit Committee

**David P. Hessler** – Mr. Hessler, age 48, has served as a director of the Bank since March 1999, and the Company since May 1999. He has been President and CEO of Eastern Sales & Engineering, an electrical contracting and service maintenance firm, since 1987 and was Vice President from 1986 to 1987. Mr. Hessler has been Vice President of Advanced Petroleum Equipment, a distributorship, since its inception in 1998. (1)(3)(4)

**William C. Rogers, Jr.** – Mr. Rogers, age 78, has served as a director of the Bank since 1955 and of the Company since its inception in 1990. He has been a partner in the law firm of Rogers, Moore and Rogers, counsel to the Bank, since 1950. He has been Chairman of the Board of The Security Title Guarantee Corporation of Baltimore since 1989 and a director since 1952, and was President from 1970 until March 1989. Mr. Rogers is President of Maryland Mortgage Company where he has been a director since 1953. He is also President of Moreland Memorial Park Cemetery, Inc. where he has been a director since 1959. He is the brother of John Paul Rogers, a director of the Bank and the Company.

#### **DIRECTORS WHOSE TERMS EXPIRE IN 2007**

**Robert J. Aumiller** – Mr. Aumiller, age 56, currently is serving as a director of Carrollton Bank (“the Bank”), the principal subsidiary of the Company, and the Company beginning with his appointment in 2001. He has been the Executive Vice President and General Counsel of MacKenzie Commercial Real Estate Services, LLC involved in brokerage and real estate development of various commercial real estate projects, since 1983. (2)

**Ben F. Mason** – Mr. Mason, age 67, currently is serving as a director of the Bank and the Company beginning with his appointment in 2001. He is the Executive Vice President of the Plexus Corporation, a network engineering corporation, since August 2004. Prior to August 2004, Mr. Mason served as the Executive Director of the Baltimore City Chamber of Commerce, a member business association that promotes business development within Baltimore City, since 1993. (2)(4)

**Charles E. Moore, Jr.** – Mr. Moore, age 55, currently is serving as a director of the Bank and the Company beginning with his appointment in 2001. He has been the Co-Founder, Director, President and CFO of TelAtlantic, a consolidation of rural telephone companies across the United States, since 1999. (1)(2)(3)(4)

**John Paul Rogers** – Mr. Rogers, age 69, has served as director of the Bank since 1970 and of the Company since its inception in 1990. Mr. Rogers has been Chairman of the Bank since February 1994. He was a partner of the law firm of Rogers, Moore and Rogers, counsel of the Bank, from 1970 until 1992. Mr. Rogers was senior title officer of The Security Title Guarantee Corporation of Baltimore from May 1991 until December 1992, having served as President from March 1989 until May 1991, and as Executive Vice President from March 1970 until March 1989. He is the brother of William C. Rogers, Jr., a director of the Bank and the Company.

#### **FAMILY RELATIONSHIPS**

Mr. John Paul Rogers and Mr. William C. Rogers are brothers. Mr. Howard S. Klein is married to Messrs. Rogers' niece.

#### **COMMITTEES OF THE BOARD OF DIRECTORS**

The Board of Directors has an Audit Committee, Nominating Committee, Compensation Committee, Loan Committee, Strategic Plan Committee, Facilities Committee, Policy Committee and an Asset/Liability Committee. The Audit Committee, The Compensation Committee, and The Nominating Committee are discussed below.

The Audit Committee held sixteen meetings during 2004. Its current members are Messrs. Hackerman, Hessler, Klein, and Moore. Only non-employee independent directors are eligible to serve on the Audit Committee. The Audit Committee is established pursuant to Section 3(a) (58) (A) of the Exchange Act and is responsible for reviewing the quarterly and annual financial statements and regulatory filings of the Company and Bank and the scope of the independent annual audit and internal audits. It also reviews the independent accountant's letter to management concerning the effectiveness of the Company's internal financial and accounting controls and management's response to that letter. In addition, the Committee reviews and recommends to the Board the firm to be engaged as the Company's independent accountants. The Committee also approves all insider loans. The Committee may also examine and consider other matters relating to the financial affairs of the Company as it determines appropriate.

- 
- (1) Member of the Audit Committee
  - (2) Member of the Compensation Committee
  - (3) Member of the Nominating Committee
  - (4) Independent Director
  - (5) Financial expert for Audit Committee

The Compensation Committee met five times during 2004. Its current members are Messrs. Aumiller, Breeden, Hackerman, Mason and Moore. The purpose of the Compensation Committee is to review and approve major compensation and benefit policies of the Company and the Bank. In addition, the committee recommends to the Board the compensation to be paid to all officers, Senior Vice President and above, of the Bank.

The Nominating Committee held no meetings during 2004. Its members are Messrs. Breeden, Hessler and Moore. The purposes of the Nominating Committee are (a) to assist the Board by identifying individuals qualified to become Board members and to recommend to the Board nominees for the next annual meeting of shareholders, (b) to recommend to the Board the corporate governance principles applicable to us, (c) to lead the Board in its annual review of its performance, and (d) to recommend to the Board members and chairpersons of each committee.

#### **DIRECTOR COMPENSATION**

Directors who are not employees of the Bank receive a monthly fee of \$1,000 for Board meetings, and between \$200 and \$250 per committee meeting attended. The Chairman of the Board of the Bank receives a monthly fee of \$1,250. Directors do not receive additional fees for their service as directors of the Company.

#### **ATTENDANCE AT BOARD MEETINGS**

The Board of Directors of the Company met five times and the Board of Directors of the Bank met fourteen times during the year ended December 31, 2004. The Board of Directors of the Bank meets regularly twelve times each year. No director attended fewer than 75% of the total number of meetings of both Boards and committees to which they were assigned during the year ended December 31, 2004.

#### **SHAREHOLDER COMMUNICATIONS WITH THE BOARD**

Shareholders may send communications to the Board by mailing the same addressed to: Board of Directors, Carrollton Bancorp, Suite 300, 344 North Charles Street, Baltimore, Maryland 21201.

#### **DIRECTOR NOMINATION PROCESS**

In recommending director nominees, the Nominating Committee will consider candidates recommended by the Bank's stockholders. Notice of Nominees to the Board recommended by shareholders must be timely delivered in writing to the Secretary of the Company prior to the meeting. To be timely, the notice must be delivered within the time permitted for nomination of directors in Article I, Section VII of the Bylaws of the Company. The notice must include:

- information regarding the shareholder making the nomination, including name, address, and the number of shares of our stock beneficially owned by the shareholder; and
- the name and address of the person(s) being nominated and such other information regarding each nominee that would be required in a proxy statement filed pursuant to the proxy rules adopted by the Securities and Exchange Commission if the person had been nominated for election by or at the direction of the Board of Directors;

The Nominating Committee will evaluate nominees recommended by shareholders against the same criteria that it uses to evaluate other nominees. Whether recommended by a stockholder or chosen independently by the Nominating Committee, a candidate will be recommended for nomination based on his or her talents in relation to the talents of the existing Board members and the needs of the Board. It is the goal of the Nominating Committee in recommending director nominees to foster relationships among directors that are complimentary and that will make the Board most effective. A candidate, whether recommended by a Company stockholder or otherwise, will not be considered for nomination unless he or she (i) is of good character, (ii) is a citizen of the United States, (iii) owns shares of Company common stock the aggregate value of which is not less than \$500, as determined in accordance with the Financial Institutions Article of the Annotated Code of Maryland, and (iv) satisfies all other requirements imposed under applicable law. Additionally, the Nominating Committee believes that it is important for candidates recommended for nomination to have the ability to attract business to the Company, live or work within the communities in which the Company operates, and possess the skills and expertise necessary to provide leadership to the Company. Certain Board positions, such as Audit Committee membership, may require other special skills or expertise. To identify potential nominees for the Board, the Nominating Committee first evaluates the current members of the Board willing to continue in service. Current members of the Board are considered for re-nomination, balancing the value of their continued service with that of obtaining new perspectives and in view of our developing needs. If necessary, the Nominating Committee then solicits ideas for possible candidates from a number of sources, which can include other Board members, senior management, individuals personally known to members of the Board and research. The Nominating Committee may also retain a third party to assist it in identifying potential nominees, however, the committee has not done so in the past.

The Nominating Committee is responsible for assembling and maintaining a list of qualified candidates to fill vacancies on the Board. The Nominating Committee periodically reviews this list and researches the talent, skills, expertise, and general background of these candidates.

**AUDIT COMMITTEE REPORT**

The Audit Committee has adopted a written charter which is included in this document. The members of the Audit Committee are independent as such term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards. The Audit Committee has (1) reviewed and discussed the Company's audited financial statements with Company management and representatives of Rowles & Company, LLP, the Company's independent auditors; (2) discussed with Rowles & Company, LLP all matters required to be discussed by SAS No. 61, as modified or supplemented; and (3) has received the written disclosures and the letter from Rowles & Company, LLP required by Independence Standards Board Standard No. 1, as modified or supplemented and has discussed with Rowles & Company, LLP the independence of Rowles & Company, LLP. Based on its review and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements for the year ended December 31, 2004 be included in the Company's Annual Report on Form 10-K for the last fiscal year.

Audit Committee:

By: Harold I. Hackerman  
David P. Hessler  
Howard S. Klein  
Charles E. Moore, Jr.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Company's Board of Directors has selected the firm of Rowles & Company, LLP, certified public accounts, as independent auditors for the Company for 2005 and seeks ratification of such selection by the shareholders of the Company. Rowles & Company, LLP has served as independent auditors for the Company since 1955. No qualified opinions have been issued during such engagement. A representative of Rowles & Company, LLP will be present at the 2005 Annual Shareholders' Meeting.

A majority of votes cast at the meeting is required at this meeting for approval of this proposal. Abstentions and broker non-votes will have no effect on the vote for this proposal.

Your Company's Board of Directors unanimously recommends a vote **FOR** the ratification of the appointment of Rowles & Company, LLP as independent public accountants for 2005.

**AUDIT FEES AND SERVICES**

	2004	2003
Audit Fees	\$72,762	\$70,379
Audit – Related Fees	12,662	11,379
Tax Fees	9,292	9,260
All Other Fees	—	—
<b>Total</b>	<b>\$94,716</b>	<b>\$91,018</b>

Audit services of Rowles & Company, LLP for 2004 consisted of professional services rendered for the audit of the Company's annual consolidated financial statements included in the Company's Form 10-K and the review of the consolidated financial statements included in the Company's Forms 10-Q. "Audit-Related Fees" incurred in 2004 include charges related to Federal Home Loan Bank Mortgage Collateral Verification audit and the Company's retirement plan audit. "Tax Fees" in 2004 represent income tax return preparation and advice.

Audit services of Rowles & Company, LLP for the 2003 consisted of professional services rendered for the audit of the Company's annual consolidated financial statements included in the Company's Form 10-K and the review of the consolidated financial statements included in the Company's Forms 10-Q. "Audit-Related Fees" incurred in 2003 include charges related to Federal Home Loan Bank Mortgage Collateral Verification audit and the Company's retirement plan audit. "Tax Fees" in 2003 represent income tax return preparation and advice.

The Audit Committee's policy is to pre-approve all audit and permitted non-audit services other than *de minimis* non-audit services as defined in Section 10A(i)(1) of the Exchange Act, which will be approved prior to the completion of the independent auditor's report. The Audit Committee has reviewed summaries of the services provided and the related fees and has determined that the provision of non-audit services is compatible with maintaining the independence of Rowles & Company, LLP.

**FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES**

During the year ended December 31, 2004, Rowles & Company, LLP did not render to the Company any professional services with regard to financial information systems design and implementation described in paragraph (c)(4)(ii) of Rule 2-01 of Regulation S-X.

**EXECUTIVE OFFICERS**

Certain information regarding significant employees of the Bank other than those previously mentioned is set forth below.

**Robert A. Altieri** – Mr. Altieri, age 43, has been President and Chief Executive Officer since his appointment in February 2001. Mr. Altieri previously was the Senior Vice President—Lending of the Bank since June 1994, and Vice President—Commercial Lending since September 1991.

**Edward R. Bootey** – Mr. Bootey, age 58, has been Senior Vice President—Automation & Technology since October, 1995, and was Senior Vice President—Operations of the Bank from June 1994 to October 1995. Mr. Bootey previously served as Vice President—Operations from January 1991. He served as Assistant Vice President—Operations from December 1987 until January 1991.

**Barbara M. Broczkowski (1)** – Mrs. Broczkowski, age 48, has been the Senior Vice President and Chief Financial Officer since September 2004. Mrs. Broczkowski previously was the Chief Financial Officer of Farmers and Merchants Bank from April 2000 until August 2004. Prior to April 2000, Mrs. Broczkowski served as Vice President and Chief Financial Officer of Patapsco Valley Bancshares, Inc. and Commercial and Farmers Bank from September 1998 through 2000, and as a partner of Anderson Associates, LLP from January 1996 through September 1998.

**John A. Giovanazi** – Mr. Giovanazi, age 47, has been Senior Vice President and Chief Lending Officer since his appointment in February 2001. Mr. Giovanazi previously was Vice President of Commercial Lending since August 1996. Prior to joining Carrollton Bank, he was a Vice President, Commercial Lending, with Citizens Bank of Maryland, from 1992 to 1996.

**Robert F. Hickey** – Mr. Hickey, age 43, has been Senior Vice President—Branch Administration since December 2003. Prior to joining Carrollton Bank, Mr. Hickey was an Account Executive for Chase Manhattan Mortgage from 2000 to 2003. He served as President of Carrollton Mortgage Services, Inc. from 1997 to 2000.

**Gary M. Jewell** – Mr. Jewell, age 58, has been Senior Vice President—Electronic Banking since March 1996. Prior to joining the Bank, Mr. Jewell was Director of Product Management and Point of Sale Services for the MOST EFT network in Reston, Virginia from March 1995 to March 1996 and prior to that Director/Manager of Merchant Services for the Farmers and Mechanics National Bank from 1993 to March 1995.

---

(1) Effective September 7, 2004, Barbara M. Broczkowski replaced Randall M. Robey as Senior Vice President and Chief Financial Officer of the Bank. See Part IV, Item 15 (b) of the Company's 2004 Form 10K for the applicable Form 8K filing.

## EXECUTIVE COMPENSATION

The following table sets forth the compensation paid or allocated for services rendered to the Company in all capacities during the years ended December 31, 2004, 2003, and 2002 to the chief executive officer of the Company, as well the next four most highly compensated members of Executive Management whose compensation also exceeded \$100,000 in 2004.

## SUMMARY COMPENSATION TABLE

Name and principal position	Year	Annual Compensation			Long Term Compensation Awards		Payouts		All Other Compensation
		Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options/SARs	LTIP payouts		
Robert A. Altieri	2004	\$191,879	\$ 0	\$0	\$0	0	\$0	\$4,873(2)	
President and Chief	2003	\$180,600	\$ 0	\$0	\$0	0	\$0	\$3,653(2)	
Executive Officer	2002	\$184,515	\$ 0	\$0	\$0	8,400	\$0	\$3,144(2)	
Gary M. Jewell	2004	\$104,931	\$26,736	\$0	\$0	5,000	\$0	\$3,295(3)	
Senior Vice President	2003	\$ 99,757	\$20,566	\$0	\$0	0	\$0	\$2,633(3)	
	2002	\$ 97,757	\$14,524	\$0	\$0	3,150	\$0	\$3,120(3)	
Randall M. Robey (1)									
Former Executive Vice	2004	\$125,486	\$ 0	\$0	\$0	0	\$0	\$1,092(4)	
President and Chief	2003	\$127,109	\$ 0	\$0	\$0	0	\$0	\$2,299(4)	
Financial Officer	2002	\$119,682	\$ 0	\$0	\$0	5,250	\$0	\$2,812(4)	
John A. Giovanazi	2004	\$115,825	\$ 5,500	\$0	\$0	5,000	\$0	\$2,975(5)	
Senior Vice President	2003	\$109,865	\$ 0	\$0	\$0	0	\$0	\$2,359(5)	
	2002	\$106,933	\$ 0	\$0	\$0	3,150	\$0	\$2,943(5)	
Robert F. Hickey	2004	\$113,089	\$ 0	\$0	\$0	5,000	\$0	\$ 180(6)	
Senior Vice President	2003	\$ 8,461	\$ 0	\$0	\$0	3,000	\$0	\$ 0	
Edward R. Bootey	2004	\$104,941	\$ 0	\$0	\$0	3,000	\$0	\$3,098(7)	
Senior Vice President	2003	\$100,286	\$ 0	\$0	\$0	0	\$0	\$2,682(7)	
	2002	\$ 96,908	\$ 0	\$0	\$0	3,150	\$0	\$2,695(7)	

- (1) Mr. Robey left the Company's employment effective August 31, 2004. In connection with his separation from the Company, Mr. Robey is receiving severance of \$62,500 payable in thirteen equal bi-weekly installments.
- (2) For 2004, amount includes \$4,693 as a matching contribution to the Bank's 401(K) plan and \$180 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000. For 2003, amount includes \$3,473 as a matching contribution to the Bank's 401(K) plan and \$180 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000. For 2002, amount includes \$2,964 as a matching contribution to the Bank's 401(K) plan and \$180 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000.
- (3) For 2004, amount includes \$2,521 as a matching contribution to the Bank's 401(K) plan and \$774 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000. For 2003, amount includes \$1,859 as a matching contribution to the Bank's 401(K) plan and \$774 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000. For 2002, amount includes \$2,346 as a matching contribution to the Bank's 401(K) plan and \$774 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000.
- (4) For 2004, amount includes \$822 as a matching contribution to the Bank's 401(K) plan and \$270 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000. For 2003, amount includes \$2,029 as a matching contribution to the Bank's 401(K) plan and \$270 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000. For 2002, amount includes \$2,542 as a matching contribution to the Bank's 401(K) plan and \$270 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000.
- (5) For 2004, amount includes \$2,705 as a matching contribution to the Bank's 401(K) plan and \$270 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000. For 2003, amount includes \$2,089 as a matching contribution to the Bank's 401(K) plan and \$270 attributed to the portion

of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000. For 2002, amount includes \$2,673 as a matching contribution to the Bank’s 401(K) plan and \$270 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000.

- (6) For 2004, amount includes \$180 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000.
- (7) For 2004, amount includes \$2,324 as a matching contribution to the Bank’s 401(K) plan and \$774 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000. For 2003, amount includes \$1,908 as a matching contribution to the Bank’s 401(K) plan and \$774 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000. For 2002, amount includes \$1,952 as a matching contribution to the Bank’s 401(K) plan and \$743 attributed to the portion of the premium paid by the Bank for a group term life insurance policy for coverage in excess of \$50,000.

**RETIREMENT PLANS**

The Company has a defined benefit pension plan covering substantially all of the employees. Benefits are based on years of service and the employee’s highest average rate of earnings for the three consecutive years during the last five full years before retirement. Assets of the plan are held in a trust fund managed by an insurance company. Plan benefits and coverage were frozen as of December 31, 2004 and the Company incurred a curtailment charge of \$23,644.

The following table shows the estimated annual retirement benefits payable under the Carrollton Bank Retirement Income Plan to persons in specified average compensation and credited service classifications, assuming retirement at age 65.

<i>Final three-year Average Compensation</i>	<i>Years of Service</i>		
	<i>10</i>	<i>15</i>	<i>20</i>
\$125,000	\$21,500	\$32,250	\$43,000
\$150,000	26,250	39,375	52,500
\$175,000	31,000	46,500	62,000
\$200,000	35,750	53,625	71,500

Compensation covered by the Retirement Income Plan is W-2 earnings up to the current compensation limit in effect for the plan year. Benefits are payable on a ten-year certain and life annuity basis.

As of December 31, 2004, for purposes of computing benefits under the Retirement Plan, age and years of credited service of the Company’s Named Executives are as follows:

<i>Name</i>	<i>Age</i>	<i>Years of Service</i>
Robert A. Altieri	43	14
Gary M. Jewell	58	8
Randall M. Robey	47	4
John A. Giovanazi	47	8
Robert F. Hickey	43	1
Edward R. Bootey	58	30

The Company has a contributory thrift plan qualifying under Section 401(k) of the Internal Revenue Code. Employees with one year of service are eligible for participation in the plan. In conjunction with the curtailment of the pension plan, the Company expanded the thrift plan to make it a Safe Harbor Plan. Once an employee has been at the Company for one year, the Company then contributes 6% of the employee’s salary quarterly to the plan for the employee’s benefit. The Company’s contributions to this plan, included in employee benefit expenses, were \$92,485, \$70,678, and \$88,866 for 2004, 2003, and 2002, respectively.

**LONG-TERM INCENTIVE PLAN**

The 1998 Long-Term Incentive Plan, as amended, (the “Plan”) which was approved at the 1998 Annual Meeting of Shareholders and amended as of December 2, 2004, authorizes the granting of awards in the form of options, stock appreciation rights, restricted stock, performance awards, phantom shares, bonus shares or cash awards. Any executive or other employee of the Company, its subsidiaries, affiliated entities and non-employee Directors of the Company shall be eligible to receive awards under the Plan. Non-employee Directors of subsidiaries or affiliated entities of the Company will not be eligible to participate in the Plan.

The Plan provides for 300,000 shares of the Company's Common Stock to be issued as awards under the Plan, either directly or upon exercise of an option. The Plan provides for appropriate adjustments in the number of shares subject to the Plan in the event of a stock dividend, stock split, reverse stock split or other similar changes in the Company's common stock or in the event of a merger, consolidation or certain other types of recapitalizations affecting the Company.

#### OPTION GRANTS IN 2004

The following table contains information concerning the grant of stock options under the Long-Term Incentive Plan to the Chief Executive Officer and other members of Executive Management whose compensation exceeded \$100,000.

Name	Options Granted (Number of Shares)	% of Total Options Granted to Employees in year	Exercise or Base Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for Option Term	
					5%	10%
Edward R. Bootey	3,000	11.76%	\$16.02	2014	\$ 78,285	\$124,655
John A. Giovanazi	5,000	19.61%	\$16.02	2014	\$130,474	\$207,759
Robert F. Hickey	5,000	19.61%	\$16.02	2014	\$130,474	\$207,759
Gary M. Jewell	5,000	19.61%	\$16.02	2014	\$130,474	\$207,759

A total of 32,430 incentive stock options were granted in 2004 under the 1998 Long-Term Incentive Plan, as amended, to directors and employees. Of that total, 6,930 incentive stock options were granted to directors at an exercise price of \$16.22. The options granted to directors vest over a three-year period and expire, if not exercised, in 2014. There were no grants in 2004 for restricted stock, stock appreciation rights, performance grants, phantom shares, bonus shares or cash awards.

#### AGGREGATED OPTIONS EXERCISES IN THE LAST FISCAL YEAR AND FY-END OPTION VALUES

The following table provides information concerning options for Common Stock exercised by the Company's Named Executives in 2004 and the value of options held by each at December 31, 2004

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at FY-End		Value of Unexercised In-the-Money Options at FY-End (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert A. Altieri	—	—	31,850	2,800	\$ 128,673	\$ 4,900
Gary M. Jewell	—	—	16,800	6,050	\$ 46,298	\$ 14,108
Randall M. Robey	—	—	14,950	1,750	\$ 83,427	\$ 8,930
John A. Giovanazi	—	—	6,615	6,050	\$ 36,463	\$ 14,108
Robert F. Hickey	—	—	1,000	7,000	\$ 20	\$ 38,190
Edward R. Bootey	—	—	21,000	4,050	\$ 60,634	\$ 10,608

(1) Value represents the difference between the option price and the market value of the common stock on December 31, 2004, rounded to the nearest dollar.

#### EMPLOYMENT AGREEMENTS

During 2004, the Company entered into an employment agreement with Mr. Robert A. Altieri, President and Chief Executive Officer. The term of the agreement begins on June 1, 2004 and is effective for three years. As part of the agreement, the Bank will pay Mr. Altieri a minimum annual base salary of \$200,000. At the end of each calendar year, Mr. Altieri may receive a cash bonus not to exceed 40% of his base salary. The amount of the bonus will be determined by the Compensation Committee based on defined goals and objectives established by the foresaid committee and the Board of Directors. In addition, Mr. Altieri is entitled to participate in all employee benefit plans and arrangements as offered by the Bank to all employees and officers. In the event that the Bank terminates Mr. Altieri without cause, he will be entitled to receive his then current monthly salary for up to twenty-four (24) months and two years of medical/disability insurance. In the case of termination as a result of Sale of Bank and Mr. Altieri is not offered similar employment with the acquiring institution, Mr. Altieri would be entitled to: (i) three years of his current salary payable in 36 monthly installments (ii) three years of medical/disability insurance (iii) at Mr. Altieri's option, he can purchase the Bank-owned car assigned to him at no cost to him except for transfer costs.

In addition, during 2004, the Company entered into an employment contract with Gary M. Jewell, Senior Vice President, Electronic Banking Department. The term of the agreement begins on June 8, 2004 and is effective for three years. As part of the agreement, the Bank will pay Mr. Jewell a minimum annual base salary of \$102,831. At the end of each calendar year, Mr. Jewell shall receive a cash bonus of 25% of his base salary and option grants to purchase five thousand (5,000) shares of Bank common stock, provided the annual Point of Sale revenue received by the Bank during the calendar year exceeds One Million Dollars (\$1,000,000). In addition, Mr. Jewell is entitled to participate in all employee benefit plans and arrangements as offered by the Bank to all employees and officers and is entitled to a Bank-owned car. In the event that the Bank terminates Mr. Jewell without cause, he will be entitled to receive his then current monthly salary for up to twenty-four (24) months. In the case of termination as a result of Sale of Bank and Mr. Jewell will receive a severance package to include: (i) three years of his current salary payable in 36 monthly installments and (ii) three years of medical/disability insurance. After the three year term, Mr. Jewell is entitled to an additional three (3) years to receive 65% of his salary and medical/disability insurance. Additional provisions include a Non-Compete cause which for one year following the termination of employment, prohibits Mr. Jewell from soliciting, servicing, or assisting in Point of Sale transactions for any other company. Mr. Jewell is also required to train other persons designated by the Bank in all aspects of Electronic Banking.

#### **CODE OF ETHICS**

A Code of Ethics is in existence for the Chief Executive Officer, Chief Financial Officer and Bank Controller positions. There have been no exceptions to the Code of Ethics; any exceptions are required to be reported to the Audit Committee.

#### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

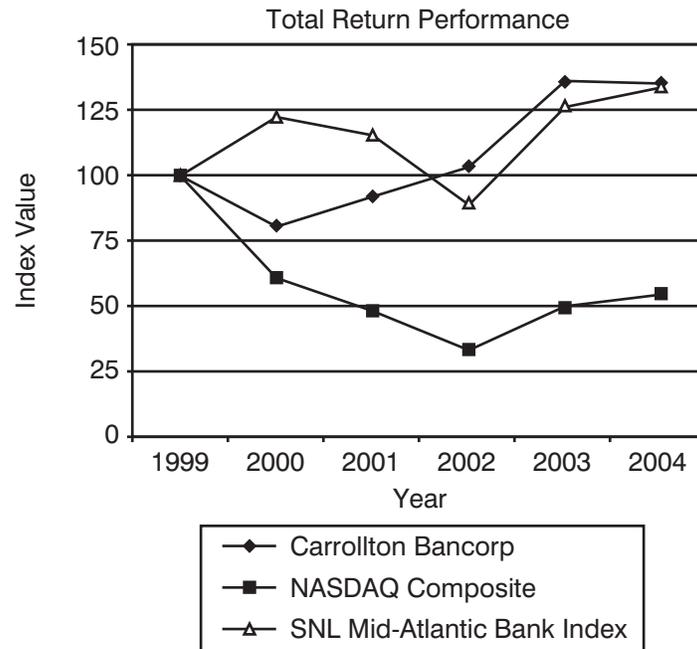
Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities ("10% Holders"), to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Directors, executive officers and 10% Holders are required by regulations under the Exchange Act to furnish the Company with copies of all of the Section 16(a) reports which they file. Based solely upon a review of copies of Forms 3 and 4 furnished with respect to the Company during its fiscal year 2004 and copies of Form 5 furnished to the Company with respect to its fiscal year 2004, and any written representation made by the reporting persons to the Company, the Company believes that its directors, executive officers and 10% Holders complied with the filing requirements under Section 16(a) of the Exchange Act, except that Mrs. Broczkowski did not file on a timely basis a Form 3 — Initial Statement of Beneficial Ownership of Securities. Mrs. Broczkowski does not own any of the Company's stock.

### STOCK PERFORMANCE TABLE

The Company is required by the SEC to provide a five-year comparison of the cumulative total Shareholder return on our Common Stock compared with that of a broad equity market index, and either a published industry index or a constructed peer group index of the Company.

The following chart compares the cumulative Shareholder return on the Company's Common Stock from December 31, 1999 to December 31, 2004 with the cumulative total of the NASDAQ Composite (U.S.), the NASDAQ Bank and SNL Mid-Atlantic Indices. The comparison assumes \$100 was invested on December 31, 1999 in the Company's Common Stock and in each of the foregoing indices. It also assumes reinvestment of any dividends.

The Company does not make, nor does it endorse, any predictions as to future stock performance.



<i>Index</i>	<i>Period Ending</i>					
	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Carrollton Bancorp . . . . .	100.00	80.40	92.04	103.38	136.37	135.24
NASDAQ Composite . . . . .	100.00	60.82	48.16	33.11	49.93	54.49
SNL Mid-Atlantic Bank Index . . . . .	100.00	122.55	115.49	88.82	126.29	133.75

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 1, 2005, certain information concerning shares of the Common Stock of the Company beneficially owned by (i) the executive officers of the Company and Bank; (ii) all directors and nominees for directors of the Company and the Bank; (iii) all directors and executive officers of the Company and the Bank as a group; and (iv) other significant shareholders.

<i>Beneficial Owner(1)(21)</i>	<i>Amount and Nature of Beneficial Ownership</i>	<i>Percent of Class</i>
<b>EXECUTIVE OFFICERS:</b>		
Chief Executive Officer: Robert A. Altieri	33,073(2)	1.16%
Senior Vice President—Bank: Edward R. Bootey	23,425(3)	*
Senior Vice President—Bank: John A. Giovanazi	6,615(4)	*
Senior Vice President—Bank: Robert F. Hickey	1,390(5)	*
Senior Vice President—Bank: Gary M. Jewell	16,800(6)	*
<b>DIRECTORS:</b>		
Robert J. Aumiller	3,150(7)	*
Steven K. Breeden	12,716(8)	*
Albert R. Counselman	37,827(9)	1.33%
Harold I. Hackerman	2,835(10)	*
John P. Hauswald	16,072(11)	*
David P. Hessler	3,990(12)	*
Howard S. Klein	9,567(13)	*
Ben F. Mason	69,619(14)	2.46%
Charles E. Moore, Jr.	4,668(15)	*
John Paul Rogers	206,362(16)	7.27%
William C. Rogers, Jr.	273,395(17)(18)(19)	9.64%
All Directors and Executive Officers of the Company as a Group (18 persons)	721,504(21)	25.32%
<b>OTHER SIGNIFICANT SHAREHOLDER:</b>		
Patricia A. Rogers	188,062(20)	6.63%

\* Less than 1%

- (1) Unless otherwise indicated, the named person has sole voting and investment power with respect to all shares.
- (2) Includes 1,050 shares owned jointly by Mr. Altieri and his wife, 173 shares Mr. Altieri holds as trustee for minor children under the Maryland Uniform Gifts to Minors Act, and 31,850 fully vested options to purchase shares at an exercise price of between \$10.94 and \$17.79 per share.
- (3) Includes 2,425 shares owned jointly by Mr. Bootey and his wife and 21,000 fully vested options to purchase shares at an exercise price of between \$10.94 and \$17.79 per share.
- (4) Includes 6,615 fully vested options to purchase shares at an exercise price of between \$10.94 and \$15.42 per share.
- (5) Includes 1,000 fully vested options to purchase shares at an exercise price \$17.75 per share.
- (6) Includes 16,800 fully vested options to purchase shares at an exercise price of between \$10.94 and \$17.79 per share.
- (7) Includes 2,205 shares owned jointly by Mr. Aumiller and his wife and 840 fully vested options to purchase shares at an exercise price of between \$9.71 and \$14.50 per share.
- (8) Includes 3,777 shares owned jointly by Mr. Breeden and his wife and 3,780 fully vested options to purchase shares at an exercise price of between \$9.71 and \$18.10 per share.
- (9) Includes 1,260 fully vested options to purchase shares at an exercise price of between \$9.71 and \$18.10 per share, but excludes 11,702 shares owned by Mr. Counselman's wife.
- (10) Includes 1,470 shares owned jointly by Mr. Hackerman and his wife, and 1,260 fully vested options to purchase shares at an exercise price of between \$12.11 and \$14.50 per share.
- (11) Includes 210 shares owned jointly by Mr. Hauswald and his wife and 3,570 fully vested options to purchase shares at an exercise price of between \$9.71 and \$18.10 per share. The reporting person no longer has a reportable beneficial interest in 10,530 shares of Carrollton Bancorp common stock owned by the reporting person's late wife. These shares were devised by will to the reporting person's adult children, and the reporting person expressly disclaims beneficial ownership.

- (12) Includes 1,470 shares owned jointly by Mr. Hessler and his wife and 2,520 fully vested options to purchase shares at an exercise price of between \$9.71 and \$15.42 per share.
- (13) Includes 1,680 shares owned by Colgate Investments, LLP, of which Mr. Klein is partner and 2,079 shares Mr. Klein holds as trustee for minor children under the Maryland Uniform Gifts to Minors Act. Also includes 2,520 fully vested options to purchase shares at an exercise price of between \$9.71 and \$15.36 per share.
- (14) Includes 1,890 fully vested options to purchase shares at an exercise price of between \$9.71 and \$14.50 per share. Also includes 67,099 shares owned by The Security Title Guarantee Corporation of Baltimore of which Mr. Mason is a Director.
- (15) Excludes 17,320 shares owned by Mr. Moore's wife.
- (16) Includes 3,150 fully vested options to purchase shares at an exercise price of between \$12.11 and \$18.10 per share. Also includes 67,099 shares owned by The Security Title Guarantee Corporation of Baltimore and 9,981 shares owned by Maryland Mortgage Company of which Mr. Rogers is a principal shareholder.
- (17) Includes 67,099 shares owned by The Security Title Guarantee Corporation of Baltimore of which William C. Rogers, Jr. is Chairman, as well as a Director. Also includes 2,530 fully vested options to purchase shares at an exercise price of between \$12.11 and \$18.10 per share.
- (18) Includes 6,818 shares owned by the Moreland Memorial Park Cemetery Bronze Perpetual Care Trust Agreement, Inc., 6,168 shares owned by Moreland Memorial Park Perpetual Care, 34,034 shares owned by Moreland Memorial Park Perpetual Care Trust, 3,597 shares owned by Moreland Memorial Park, Inc. Bronze Marker Perpetual Care Trust Fund, 6,168 shares owned by Moreland Memorial Park Cemetery, Inc. Perpetual Care Trust Agreement, and 9,981 shares owned by Maryland Mortgage Company of which William C. Rogers, Jr., is President as well as a Director.
- (19) Includes 137,000 shares owned jointly by Mr. Rogers and his wife. Excludes 12,251 shares owned by Mr. Roger's wife.
- (20) Includes 67,099 shares owned by The Security Title Guarantee Corporation of Baltimore and 9,981 shares owned by Maryland Mortgage Company of which Mrs. Rogers is a principal shareholder.
- (21) All directors, executive officers and other significant shareholders may be contacted at the Company's corporate offices by addressing correspondence to the appropriate person, care of Carrollton Bancorp, 344 North Charles Street, Suite 300, Baltimore, Maryland 21201.

**PRINCIPAL HOLDERS OF VOTING SECURITIES**

The following table sets forth information with respect to the ownership of shares of Common Stock of the Company by the only persons believed by management to be the beneficial owners of more than five percent of the Company's outstanding Common Stock. The information is based on the most recent Schedule 13-G filed by such persons with the Securities and Exchange Commission.

<i>Name and Address of Beneficial Owner</i>	<i>Amount and Nature of Beneficial Ownership</i>	<i>Percentage of Common Stock Outstanding</i>
John Paul Rogers 46 C Queen Anne Way Chester, MD 21619	206,362(a)	7.3%
William C. Rogers, Jr. 6 South Calvert Street Baltimore, MD 21201	273,395(b)	9.7%
Patricia A. Rogers P.O. Box 246 Gibson Island, MD 21056	188,062(c)	6.6%

- (a) A Schedule 13-G filed on February 14, 2005, states that John Paul Rogers has sole voting and dispositive power over 129,282 shares and shared voting and dispositive power over 206,362 shares. Also includes 67,099 shares owned by The Security Title Guarantee Corporation of Baltimore, and 9,981 shares owned by Maryland Mortgage Company of which Mr. Rogers is a principal shareholder.
- (b) A Schedule 13-G dated February 14, 2005 states that William C. Rogers, Jr. has sole voting and dispositive power over 4,504 shares, and shared voting and dispositive power over 268,891 shares. This includes 67,099 shares owned by the Security Title Guarantee Corporation of Baltimore of which Mr. Rogers is chairman, as well as a director; 9,981 shares owned by Maryland Mortgage Company of which Mr. Rogers is president as well as a director; and 56,785 shares owned by Moreland Memorial Park Cemetery, Inc. of which Mr. Rogers is a trustee.
- (c) A Schedule 13-G dated February 14, 2005 states that Patricia A. Rogers has sole voting and dispositive power over 110,982 shares. Also includes 67,099 shares owned by The Security Title Guarantee Corporation of Baltimore, and 9,981 shares owned by Maryland Mortgage Company of which Mrs. Rogers is a principal shareholder.

**REPORT OF THE COMPENSATION COMMITTEE****OVERALL POLICY**

The Board of Directors of the Company establishes the overall goals and objectives of, and the policies to be followed in pursuing these goals and objectives, including the selection of necessary key management personnel, and the evaluating of the performance of those personnel. The major responsibility for assisting in satisfying the compensatory aspect of the overall supervisory duty of the Board rests with the Compensation Committee. The membership of the Compensation Committees (collectively the "Committee") of the Company and the Bank is identical, composed of independent nonemployee Directors of both institutions who do not participate in any executive compensation plan.

In order to achieve the overall goals and objectives of the Company, and recognizing the interest of the shareholders in that achievement, the Committee has developed and maintains an executive compensation plan based on a philosophy that links executive compensation to individual and corporate performance, and return to shareholders. This philosophy is intended to enable the Company to attract and retain highly motivated executive personnel of outstanding ability and initiative, and to create an identity of interests between executives and the Company's shareholders. The Company's executive compensation plan consists of basic cash compensation, the opportunity for annual incentive compensation based on corporate performance, and continuing stock based compensation.

The Committee administers the provisions of the Company's incentive cash compensation plan and its stock based plans. In addition, the Committee is authorized to make recommendations to the Boards of the Company and the Bank with respect to basic salaries, supplemental pension, deferred compensation, employment and similar agreements affecting their executive officers, and performs such other functions as may be delegated to it by the Boards.

The Committee takes various factors into consideration when establishing and reviewing executive compensation. There follows an explanation of general principles governing basic cash compensation, annual incentive compensation based on corporate earnings performance, stock based compensation, and the factors considered in establishing basic cash compensation for 2004.

## BASIC CASH COMPENSATION

The Committee, in determining basic cash compensation of the executive officers of the Company, considers corporate profitability, financial condition, capital adequacy, return on assets and other factors. The Committee also considers the performance and compensation levels of other banking institutions as more fully set forth under the caption "2004 Compensation." The Committee does not consider these factors by any formula and does not assign specific weight to any given factor. Instead, the Committee applies its collective business judgment to reach a consensus on compensation fair to the Company, its shareholders and its executive officers.

## STOCK BASED COMPENSATION

The 1998 Long-Term Incentive Plan, as amended, was designed to create a common interest between key employees, non-employee board members and shareholders on a long-term basis, encouraging participants to maintain and increase their proprietary interests as shareholders in the Company with the opportunity to benefit from the long-term performance of the Company.

From 1998 through 2004, the Committee granted, under the 1998 Long-Term Incentive Plan, options for a total of 220,860 shares of Common Stock to directors and key employees of the Company and the Bank. The exercise price of the stock options equals the market price of the Common Stock on the date of grant and the options have a ten year life. Options are not performance-based and become exercisable in equal annual installments over three years.

## 2004 COMPENSATION

The Committee, in determining the 2004 basic cash compensation of the executive officers of the Company, considered the factors described in this Report.

Robert A. Altieri serves as President and Chief Executive Officer of the Company and President and Chief Executive Officer of the Bank and, as such, had the ultimate management responsibility for the strategic direction, performance, operating results and financial condition of the Company and its subsidiaries, and the carrying out of corporate policies and procedures. Edward R. Bootey is Senior Vice President—Operations of the Bank; Barbara M. Broczkowski is Senior Vice President and Chief Financial Officer of the Bank; Robert F. Hickey is Senior Vice President—Branch Administration of the Bank; John A. Giovanazi is Senior Vice President—Lending of the Bank; Gary M. Jewell is Senior Vice President—Electronic Banking of the Bank; Randall M. Robey is the former Executive Vice President and Chief Financial officer of the Bank.

The Committee was aware of 2004 earnings of the Company. The Committee further reviewed profitability and capital strength ratios (return on assets, net interest margin, efficiency ratio, equity to assets and return on equity) and loan loss performance ratios (period-end non-performing assets to loans and foreclosed real estate, net charge-offs to average loans and period-end allowance for loan losses to non-performing loans) as compared to comparable information for peer banking companies with assets from \$250 to \$500 million, considered by an independent analyst as the Company's peer group. The Committee compared similar ratios showing profitability, capital adequacy, reserve strength, and asset quality with those of the peer institutions as prepared by that financial analyst. The Committee was aware of the strategic plan of improving profitability and the factors that influence management's ability to accomplish strategic goals under the plan in the current economic environment in its assessment of management's performance.

The Committee compared the proposed compensation of Mr. Altieri with independent studies published reflecting compensation information of the peer group commercial banking institutions participating in the study and with the compensation of executive officers of banking institutions, based on proxy information covering institutions comparable to the Company in terms of criteria including the nature and quality of operations, or geographic proximity. This group included financial institutions having high returns on assets, capital significantly in excess of that required by current federal regulations, and located within a 100 mile radius of Baltimore so as to include companies operating in a comparable economic climate. No target was established in the comparison with this group of institutions.

The Committee concluded that the Company's profitability is below comparisons while capital strength ratios continued to be strong, and that loan loss ratios were favorable, both standing alone and in comparison to the banking companies constituting the peer group. Based on the Committee's review and its evaluation of the qualifications, experience and responsibilities of Mr. Altieri and the other members of executive management, and of the importance of the continued services for transitional and other purposes, the Committee approved the compensation and other arrangements with Mr. Altieri, Mr. Bootey, Mr. Hickey, Mr. Giovanazi, Mr. Jewell, and former executive officer Randall M. Robey as described in the Summary Compensation Table in this Proxy Statement.

Section 162(m) of the Internal Revenue Code provides for non-deductibility, in certain cases, of compensation paid to certain executives in excess of \$1 million per year. The Company does not have a policy limiting compensation to amounts deductible under Section 162(m). The annual incentive plan and the Omnibus Stock Plans have been approved by the shareholders and are designed to be qualified performance-based plans so that Section 162(m) limits would not apply to plan benefits. Section 162(m) limits would apply to salary, bonuses in excess of bonuses

under the annual incentive compensation plan and certain amounts included under “Other Annual Compensation” and “All Other Compensation” in the Summary Compensation Table.

The Compensation Committee

Ben F. Mason, Chair  
 Robert J. Aumiller  
 Steven K. Breeden  
 Harold I. Hackerman  
 Charles E. Moore, Jr.

Note: Albert R. Counselman served as a member of the Compensation Committee until November 2003. Steven K. Breeden and Robert J. Aumiller were appointed to the Compensation Committee in January 2004.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

In 2004, the Company and the Bank had banking and other relationships, in the ordinary course of business, with a number of its Directors and companies associated with them. The Company purchased insurance from Riggs, Counselman, Michaels & Downes, Inc. of which Mr. Counselman is President. The insurance coverage purchased was made on substantially the same terms, as those prevailing at the time, for comparable transactions with others. Management believes the terms of the insurance coverage obtained through Riggs, Counselman, Michaels & Downes, Inc. were at least as favorable to the Company as could have been obtained elsewhere.

Outstanding loans exist to Mr. Breeden, Mr. Moore and their related companies which were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others not considered outsiders, and did not involve more than the normal risk of collectibility or present other unfavorable features.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the past year the Company has had banking transactions in the ordinary course of its business with: (i) its directors and nominees for directors; (ii) its executive officers; (iii) its 5% or greater shareholders; (iv) members of the immediate family of its directors, nominees for directors or executive officers and 5% shareholders; and (v) the associates of such persons on substantially the same terms, including interest rates, collateral, and repayment terms on loans, as those prevailing at the same time for comparable transactions with others. The extensions of credit by the Company to these persons have not had and do not currently involve more than the normal risk of collectibility or present other unfavorable features. At December 31, 2004, the balance of loans outstanding to directors, executive officers, owners of 5% or more of the outstanding Common Stock, and their associates, including loans guaranteed by such persons, aggregated \$1,820,717 which represented approximately 5.32% of the Company’s equity capital accounts.

William C. Rogers, Jr., a director of both the Company and the Bank, is a partner of the law firm of Rogers, Moore and Rogers, which performs legal services for the Company, the Bank, and Bank subsidiaries (Carrollton Financial Services, Inc., Carrollton Mortgage Services, Inc., and Carrollton Community Development Corporation). Management believes that the terms of these transactions, which totaled \$249,341 in 2004, were at least as favorable to the Company as could have been obtained elsewhere.

Albert R. Counselman, a director of both the Company and the Bank, is President and Chief Executive Officer of Riggs, Counselman, Michaels & Downes, Inc., an insurance brokerage firm through which the Company, the Bank, and Bank subsidiaries place various insurance policies. The Company and the Bank paid total premiums for insurance policies placed by Riggs, Counselman, Michaels & Downes, Inc in 2004 of \$192,234. Related commissions on these policies amounted to \$25,077 in 2004. We also paid \$3,583 in commissions for benefits. Management believes that the terms of these transactions were at least as favorable to the Company as could have been obtained elsewhere.

Robert J. Aumiller, a director of both the Company and the Bank is Executive Vice President of MacKenzie Real Estate Services, a brokerage and real estate development firm, through which the Company and the Bank paid for appraisal, construction, brokerage and management services of \$739,712 in 2004 for appraisal and property management services provided by MacKenzie Commercial Real Estate Services. Management believes these terms were as favorable as could have been obtained elsewhere.

#### SHAREHOLDER PROPOSALS FOR THE 2006 ANNUAL MEETING

Proposals of shareholders to be presented at the 2006 Annual Meeting of the Company must be received at the Company’s principal executive offices prior to November 17, 2005 in order to be included in the proxy statement for such meeting. In order to curtail controversy as to compliance with this requirement, shareholders are urged to submit proposals to the Secretary of the Company by Certified Mail—Return Receipt Requested.

If a shareholder intends to submit a proposal at the 2006 Annual Meeting of the Company that is not eligible for inclusion in the proxy statement and proxy, the shareholder must do so no later than February 3, 2006.

## NOMINATING/CORPORATE GOVERNANCE COMMITTEE CHARTER

### PURPOSE

The Nominating/Corporate Governance Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Carrollton Bancorp (the “Company”) (1) to assist the Board, on an annual basis, by identifying individuals qualified to become Board members, and to recommend to the Board the director nominees for the next annual meeting of shareholders; (2) to assist the Board in the event of any vacancy on the Board by identifying individuals qualified to become Board members, and to recommend to the Board qualified individuals to fill any such vacancy; (3) develop and recommend to the Board a set of corporate governance guidelines applicable to the Company; and (4) take a leadership role in shaping the corporate governance of the Company.

### COMMITTEE MEMBERSHIP

The Committee shall consist of no fewer than three members, each of whom shall be a non-employee director of the Company. Each member of the Committee shall meet the independence definition standards of NASDAQ and all other applicable legal requirements. The Committee will also consider the absence or presence of material relationships with the Company that might impact independence. The Committee shall report to the Board. Members shall be appointed and removed by the Board. A majority of the members of the Committee shall constitute a quorum.

### COMMITTEE AUTHORITY AND RESPONSIBILITIES

1. The Committee shall have the responsibility to develop and recommend criteria for the selection of new directors to the Board, including, but not limited to, diversity, age, skills, experience, time availability (including the number of other boards he or she sits on) in the context of the needs of the Board and the Company and such other criteria as the Committee shall determine to be relevant at the time. The Committee shall have the power to apply such criteria in connection with the identification of individuals to be board members, as well as to apply the standards for independence imposed by the Company’s listing agreement with NASDAQ and all applicable federal laws in connection with such identification process.
2. When vacancies occur or otherwise at the direction of the Board, the Committee shall actively seek individuals whom the Committee determines meet such criteria and standards for recommendation to the Board.
3. The Committee shall have the sole authority to retain and terminate any search firm to be used to identify director candidates and shall have sole authority to approve the search firm’s fees and other retention terms, at the Company’s expense.
4. The Committee shall recommend to the Board, on an annual basis, nominees for elections of directors for the next annual meeting of shareholders.
5. The Committee may form and delegate authority to subcommittees or members when appropriate.
6. The Committee shall review the function of the Board and management and shall make recommendations to the Board from time to time as to changes that the Committee believes to be desirable to the size of the Board or to the manner in which the board directs the management of the business and affairs of the Company.
7. The Committee shall approve and recommend to the Board a set of corporate governance guidelines applicable to the Company prepared by management or counsel to the Company and, at least once a year, shall review and reevaluate the adequacy of those corporate governance guidelines and recommend any proposed changes to the Board for approval.
8. The Committee shall approve and recommend to the Board a code of ethics and business principles (the “Code of Ethics”) applicable to the Company prepared by management or counsel to the Company and, at least once a year shall review and reevaluate the adequacy of the Code of Ethics and recommend any proposed changes to the Board for approval.
9. The Committee shall make regular reports to the Board, including copies of the minutes of its meetings.
10. The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee shall annually review its own performance and present such review to the Board.
11. The Committee, and each member of the Committee in his or her capacities as such, shall be entitled to rely, in good faith, on information, opinions, reports or statements, or other information prepared or presented to them by (i) officers and other employees of the Company or Carrollton Bank, whom such member believes to be reliable and competent in the matters presented, (ii) counsel, public accountants or other persons as to matters which the member believes to be within the professional competence of such person.
12. Review conflicts of interest or potential conflicts of interest of Directors, senior executives and consider waivers or other action related thereto. Any waiver granted must be reported to the shareholders.

13. Review breaches of the Company's Code of Ethics for Directors and executive officers and consider waivers or other action related thereto. Any waiver granted must be reported to the shareholders.
14. Make provision to assure that the independent Directors meet at regularly scheduled executive sessions without management or non-independent Directors being present.
15. Make provisions for the annual continuing education of the Company directors.
16. If requested by the Compensation Committee, to participate in the oversight of the annual evaluation process for the Board and management.
17. The Committee shall perform such other duties and responsibilities and shall have such other authority as may be assigned or delegated to it from time to time by the Board.

The Nominating Committee

David P. Hessler  
 Steven K. Breeden  
 Charles E. Moore, Jr.

The Nominating Committee Charter can be found on the Carrollton Bank website at [www.carrolltonbank.com](http://www.carrolltonbank.com).

**THE AUDIT COMMITTEE CHARTER**

**PURPOSE**

The Audit Committee (the "Committee") is appointed by the Board of Directors (the "Board") to assist the Board in monitoring (1) the integrity of the financial statements of Carrollton Bancorp (the "Company"), (2) the independent auditor's qualifications and independence, and (3) the performance of the Company's internal audit function and independent auditors, and (4) the compliance by the Company with legal and regulatory requirements.

Management of the Company is responsible for the preparation, presentation and integrity of the financial statements of the Company. The Company's independent external auditor is responsible for rendering an opinion on the Company's financial statements based on their audit. The Bank shall provide to the Federal Deposit Insurance Corporation and any other appropriate federal and state banking agency, a copy of each audit report and any qualification to such report, any management letter, and any other report within fifteen days of receipt of such report, qualification, or letter from the Bank's independent external auditor. The Company's independent external auditor is responsible for planning and carrying out, in accordance with generally accepted auditing standards, an audit of the Company's financial statement.

The primary responsibility of the Committee is to oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company on behalf of the Board and report the results of its activities to the Board. Management is responsible for preparing the Company's financial statements and related disclosures and the Company's independent auditors are responsible for auditing those financial statements. It is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles ("GAAP"). It shall be the duty of the Committee to assist the Board in the oversight of the Company's legal and regulatory requirements.

**COMMITTEE MEMBERSHIP**

The Committee shall consist of no fewer than three and no more than five members, each of whom shall be a non-employee director of the Company. Each member of the Committee shall meet the independence and experience requirements of the listing standards of NASDAQ, Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations of the Securities and Exchange Commission ("SEC"), and all other applicable legal requirements, including the requirement that at least one member of the Committee be a "financial expert" within the meaning of rules promulgated by the SEC under the Sarbanes-Oxley Act of 2002. In addition to the independence and experience requirements of NASDAQ, Section 10A (m) (3) of the Exchange Act and the SEC, the Board has also adopted a policy that neither the Company nor any of its subsidiaries will extend unsecured credit to the independent auditor or individuals employed by the independent auditor and members of the independent auditor must not hold stock in the Company or its affiliates. Each member of the Committee must be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement. A majority of the members of the Committee shall constitute a quorum.

Committee members shall be appointed and may be replaced by the Board.

The Committee may request that any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee without the consent of management or the Board. The Committee shall meet, in separate executive sessions, quarterly with the independent auditor and semi-annually with management and the internal auditors. The Committee shall make regular reports to the Board. The Committee shall review and reassess the adequacy of this

Charter annually and recommend any proposed changes to the Policy Committee and to the Board for approval. The Committee shall annually review the Committee's own performance and present such review to the Board.

#### STATEMENT OF POLICY

The Committee shall provide assistance to the Board in fulfilling its responsibility to the shareholders, potential shareholders, depositors, the investment community and others relating to the Company's corporate accounting and financial reporting processes, the systems of internal accounting and financial controls, the internal audit function, and the annual independent audit of the Company's financial statements.

In carrying out its responsibilities, the Committee believes its policies and procedures should remain flexible, in order to best react to changing circumstances and conditions.

The Committee, and each member of the Committee in his or her capacity as such, shall be entitled to rely, in good faith, on information, opinions, reports or statements, or other information prepared or presented to them by (i) officers and other employees of the Company or Carrollton Bank, a wholly-owned subsidiary of the Company, whom such member believes to be reliable and competent in the matters presented, (ii) counsel, public accountants or other persons as to matters which the member believes to be within the professional competence of such person.

#### COMMITTEE AUTHORITY AND RESPONSIBILITIES

- Responsibilities Relating to Retention of Public Accounting Firms—The Committee shall have the sole authority and be directly responsible for the appointment, compensation, oversight of the work, evaluation and termination of any registered public accounting firm employed by the Company (including resolving disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report and related work. The accounting firm shall report directly to the Committee.
- Pre-approval of Services – All auditing services (which may entail providing “comfort letters” in connection with securities underwritings) and all non-audit services, provided to the Company by the Company's auditors, subject to exception set forth below, shall be pre-approved by the Committee pursuant to such processes as are determined to be advisable. Pre-approved shall include blanket pre-approval of non-prohibited services for limited dollar amounts which the Committee, in its business judgment, does not believe possess the potential for abuse or conflict.
- Exception – The pre-approval requirement set forth above, shall not be applicable with respect to the provision of non-audit services, if:
  - i. the aggregate amount of all such non-audit services provided to the Company constitutes not more than five percent (5%) of the total amount of revenues paid by the Company to its auditor during the fiscal year in which the non-audit services are provided;
  - ii. such services were not recognized by the Company at the time of the engagement to be non-audit services; and
  - iii. such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board of Directors to whom authority to grant such approvals has been delegated by the Committee.
- Delegation – The Committee may delegate to one or more designated members of the Committee the authority to grant required pre-approvals. The decisions of any member, to whom authority is delegated under this paragraph, to pre-approve an activity under this subsection shall be presented to the full Committee at its next scheduled meeting and, be noted in the Committee's minutes.
- Complaints – The Committee shall establish procedures for:
  - i. the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
  - ii. the confidential, anonymous submission by employees of the Company or others of concerns regarding questionable accounting or auditing matters.

#### FINANCIAL STATEMENT AND DISCLOSURE MATTERS

The Committee, to the extent it deems necessary or appropriate, shall:

- Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis of financial condition and results of operation, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.

- Review and discuss with management and the independent auditor the Company's quarterly financial statements, including the disclosures made in management's discussion and analysis of financial condition and results of operations prior to the filing of the Company's Form 10-Q, including the results of the independent auditors' reviews of the quarterly financial statements.
- Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including (i) any significant changes in the Company's selection or application of accounting principles, (ii) any major issues as to the adequacy of the Company's internal controls, (iii) the development, selection and disclosure of critical accounting estimates, (iv) analyses of the effect of alternative assumptions, estimates or GAAP methods on the Company's financial statements, (v) analyses and disclosure of financial trends, and (vi) presentation of the financial statements and notes thereto.
- Review and discuss reports from the independent auditors on (i) all critical accounting policies and practices to be used; (ii) all alternative treatments of financial information within GAAP that have been discussed with management officials of the Company, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and (iii) other material written communications between the independent auditors and management of the Company, such as any management letter or schedule of unadjusted differences.
- Discuss with management the Company's earnings press releases, including the use of "pro forma", "adjusted" or other non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies.
- Discuss with management and the independent auditor the effect of accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
- Discuss with management, the internal auditors and the legal/compliance department the effect of regulatory initiatives on the Company's financial statements.
- Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
- Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit including:
  - i. The adoption of, or changes to, the Company's significant auditing and accounting principles and practices.
  - ii. The management letter provided by the independent auditor and the Company's response to that letter.
  - iii. Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, or personnel and any significant disagreements with management.
- Review disclosures made to the Committee by the Company's chief executive officer and chief financial officer during the certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
- Review and sign the call report prior to its filing.

#### OVERSIGHT OF THE COMPANY'S RELATIONSHIP WITH THE INDEPENDENT AUDITOR

- Review the experience and qualifications of the senior members of the independent auditor team.
- Obtain and review a written report from the independent auditor at least annually regarding (i) the independent auditor's internal quality-control procedures, (ii) any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years concerning one or more independent audits carried out by the firm, (iii) any steps taken to deal with any such issues, and (iv) all relationships, both direct and indirect, between the independent auditor and the Company. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and the internal auditor. The Committee shall present its

conclusions to the Board and, if so determined by the Committee, recommend that the Board take additional action to satisfy itself of the qualifications, performance and independence of the auditor.

- Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the lead audit partner or even the independent auditing firm itself on a regular basis.
- Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor who were engaged on the Company's account.
- Discuss with the independent auditor issues on which the independent auditor communicated with its national office, if any, regarding auditing or accounting issues.
- Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.

#### OVERSIGHT OF THE COMPANY'S INTERNAL AUDIT FUNCTION

- Review the appointment and replacement of the senior internal auditing executive.
- Review the significant reports to management prepared by the internal auditing department and management's responses.
- Discuss with the independent auditor and management the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

#### COMPLIANCE OVERSIGHT

- Obtain from the independent auditor such assurance as it deems adequate that such auditor has fulfilled its responsibilities under Section 10A (b) of the Exchange Act.
- Obtain reports from management, the Company's senior internal auditing executive and the regulatory compliance and legal/compliance department relating to the Company's conformity with applicable legal and regulatory requirements. Review reports and disclosures of insider and affiliated party transactions.
- Review with management, the Company's internal auditors and the Company's legal/compliance department compliance with laws and regulations. Advise the Board with respect to the Company's compliance with applicable laws and regulations.
- Review with the appropriate officers and/or the Company's legal counsel, pending material litigation and compliance matters.
- The Committee will address and take action, as it deems necessary or appropriate, with respect to any issues regarding the provisions of the Company's Code of Ethics to the extent the issue relates to accounting and disclosure and regulations of the SEC, the NASDAQ or other bank regulatory authority, and to the extent such misrepresentation or omission relates to financial statements or related financial information.
- The Committee will address and take any action, as it deems necessary or appropriate, with respect to any issues relating to inquiries or investigations regarding the quality of financial reports filed by the Company with the SEC or otherwise distributed to the public.

#### MISCELLANEOUS POWERS AND RESPONSIBILITIES

- The Committee shall have the power to investigate any matter brought to its attention within the scope of its duties, with the power to retain outside counsel, without approval by management, the cost thereof to be paid by the Company for this purpose if, in its judgment, that is appropriate.
- The Committee shall have the responsibility to submit the minutes of all meetings of the Committee to the Board of Directors.
- The Committee shall have the responsibility of reviewing and assessing the adequacy of this Charter at least annually.
- The Committee shall have the responsibility to prepare the report required to be included in the Company's annual proxy statement by the rules of the Securities and Exchange Commission.
- The Committee shall have the power to access the Company's counsel without the approval of management, as it determines necessary to carry out its duties.
- The Committee shall also have the authority without the consent of management or the Board, to the extent it deems necessary or appropriate, to retain special independent legal, accounting or other advisors to advise the Committee in connection with fulfilling its obligations hereunder. The Company shall provide for

appropriate funding, as determined by the Committee, to permit the Committee to perform its duties under this Charter, for payment of compensation to the independent auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company and to any advisors employed by the Committee.

- The Committee shall have the responsibility of discussing with management and the independent auditor any significant or material correspondence with regulators or governmental agencies, including all examination reports received from the various supervisory authorities, and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies and review management's replies to such correspondence, complaints, or reports.
- The Committee shall have the responsibility to discuss with the Company's General Counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.
- The Committee shall make provision to examine all dealings between the Company or Bank and members of the Committee and to examine or have examined all dealings between the Company or Bank and any company by whom a Committee member may be employed.
- The Committee will monitor management's oversight of the controls required to ensure accurate financial reporting.
- The Committee will monitor management and auditors' assessment of internal control functions.

#### COMPENSATION

Committee members are prohibited from receiving, directly or indirectly, any consulting, advisory or compensatory fee from the Company or any of the Company's subsidiaries, other than in the member's capacity as a member of the Board or Committee.

#### MEETINGS

The Committee shall meet as often as it determines, but not less frequently than quarterly. The Committee may form and delegate authority to Committee members when appropriate, including specifically the pre-approval of non-audit services and the review of earnings releases, and earnings guidance.

Minutes of each meeting will be maintained by the Committee.

#### ANNUAL REPORT

The Annual Report of the Company for the year 2004 is included herein. Copies of the report will also be available at the Annual Meeting on April 19, 2005.

A COPY OF THE COMPANY'S ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION ON FORM 10-K FOR THE PERIOD ENDED DECEMBER 31, 2004, INCLUDING FINANCIAL STATEMENTS AND THE SCHEDULES THERETO WILL BE FURNISHED BY MANAGEMENT TO ANY BENEFICIAL OWNER OF ITS SECURITIES WITHOUT CHARGE UPON RECEIPT OF A WRITTEN REQUEST FROM SUCH PERSON. REQUESTS IN WRITING SHOULD BE DIRECTED TO BARBARA M. BROCKOWSKI, CHIEF FINANCIAL OFFICER, CARROLLTON BANCORP, 344 NORTH CHARLES STREET, SUITE 200, BALTIMORE, MARYLAND 21201-4301. EACH REQUEST MUST SET FORTH A GOOD FAITH REPRESENTATION THAT, AS OF MARCH 1, 2005, THE RECORD DATE FOR THE ANNUAL MEETING, THE PERSON MAKING THE REQUEST WAS A BENEFICIAL OWNER OF SECURITIES ENTITLED TO VOTE AT SUCH MEETING.

#### OTHER MATTERS

The management of the Company knows of no matters to be presented for action at the meeting other than those mentioned above; however, if any other matters properly come before the meeting, it is intended that the persons named in the accompanying proxy will vote on such other matters in accordance with their judgment of the best interest of the Company.

By Order of the Board of Directors



Allyson Cwiek  
Secretary

Baltimore, Maryland  
March 18, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-K

Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934 (Fee required)

For the fiscal year ended December 31, 2004

Commission file number: 0-23090

Carrollton Bancorp

(Name of Issuer in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

52-1660951

(I.R.S. Employer Identification No.)

344 North Charles Street, Suite 300
Baltimore, Maryland

(Address of Principal Executive Offices)

21201-4301

(Zip Code)

(410) 536-4600

(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class
None

Name of Each Exchange
on Which Registered
None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock

(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days.

Yes [X] No [ ]

Indicate by checkmark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of February 28, 2005, the aggregate market value of the voting stock held by non-directors and executive officers: \$32,239,682.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 2,849,773 shares as of March 4, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to shareholders in connection with the 2005 Annual Meeting of Shareholders scheduled to be held on April 19, 2005 are incorporated by reference into Part III.

## PART I

---

### ITEM 1: DESCRIPTION OF BUSINESS

**General.** – Carrollton Bancorp (the “Company”), a bank holding company registered under the Bank Holding Company Act of 1956, as amended, was organized on January 11, 1990, and is headquartered in Baltimore, Maryland. Carrollton Bank (the “Bank”) is a commercial bank and the principal subsidiary of the Company. The Bank was chartered by an act of the General Assembly of Maryland (Chapter 727) approved April 10, 1900. The Bank is engaged in a general commercial and retail banking business and, as of December 31, 2004, had a total of ten branch locations in Maryland with two branch locations in Baltimore City; three branch locations in Anne Arundel County; and five branches in Baltimore County. The Company’s eleventh branch opened in Harford County in January 2005. The Bank’s wholly owned subsidiaries are Carrollton Mortgage Services, Inc. (“CMSI”), which is used primarily to originate and sell residential mortgage loans and Carrollton Financial Services, Inc. (“CFS”), which provides brokerage services. Carrollton Community Development Corporation (“CCDC”) is a 96.4% owned subsidiary of the Bank which promotes, develops and improves the housing and economic conditions of people in Maryland, particularly the Metropolitan Baltimore area.

The Bank also operates a network of ATMs in Maryland, Virginia, and West Virginia and sponsors national retailers who accept ATM cards for purchases in various electronic networks.

**Description of Services.** – The Bank provides a broad range of consumer and commercial banking products and services to individuals, businesses, professionals and governments. The services and products have been designed in such a manner as to appeal to consumers and business principals.

The following is a partial listing of the types of services and products that the Bank offers:

- Commercial loans for businesses, including those for working capital purposes, equipment purchases and accounts receivable and inventory financing.
- Commercial and residential real estate loans for acquisition, refinancing and construction.
- Consumer loans including automobile loans, home equity loans and lines of credit.
- Loans guaranteed by the United States Small Business Administration.
- Money market deposits, demand deposits, NOW accounts and certificates of deposit.
- Letters of credit and remittance services.
- Credit and debit card services.
- Merchant credit card deposit servicing.
- Brokerage services for stocks, bonds, mutual funds and annuities.
- A 24-hour ATM network.
- After-hours depository services.
- Safe deposit boxes.
- Point of Sale (POS) services.
- Other services, such as direct deposit, traveler’s checks and IRAs.

Customer service hours for the Bank are competitive with other institutions in the market area. The Bank also acts as a reseller of services purchased from third party vendors for customers requiring services not offered directly by the Bank.

**Lending Activities.** – The Bank makes various types of loans to borrowers based on, among other things, an evaluation of the borrowers’ net asset value, cash flow, security and ability to repay. Loans to consumers include home equity lines of credit, home improvement loans, overdraft lines of credit, and installment loans for automobiles, boats and recreational vehicles. The Bank also makes loans secured by deposit accounts and common stocks. The Bank’s commercial loan product line includes first mortgage loans, time and demand loans, lines and letters of credit, and asset based financing. The Notes to the Consolidated Financial Statements contained in Part II, Item 8 report the classification by type of loan for the whole portfolio.

First and second residential mortgage loans, made principally through the Bank's subsidiary, CMSI, enable customers to purchase or refinance residential properties. These loans are secured by liens on the residential property. All first mortgage loans with a loan to value greater than 80% have private mortgage insurance coverage equal to or greater than the amount required under the Federal National Mortgage Association guidelines. Residential loans are considered low risk based on the type of collateral (residential property) and the underwriting standards used. The Bank experienced \$746 in losses in 2004 and \$8,087 in recoveries on residential mortgage loans in 2004. The Bank experienced losses of \$8,709 and recoveries of \$0 in 2003. The Bank experienced no losses or recoveries in 2002. There were \$312,563 of residential mortgage loans delinquent more than 90 days at December 31, 2004. There are no discernible delinquency or loss trends relating to residential mortgage loans known to management.

Home equity lines of credit are typically second mortgage loans (sometimes first mortgages) secured by the borrower's primary residence structured as a revolving borrowing line with a maximum loan amount. Customers write checks to access the line. Generally, the Bank has a second lien on the property behind the first mortgage lien holder. The Bank has a number of different equity loan products that it offers. Borrowers can choose between fixed rate loans or loans tied to the prime rate with margins ranging from 0% to 1.5%. The Bank will finance up to 90% of the value of the home in combination with the first mortgage loan balance, depending on the rate and program. The Bank maintains in its portfolio loans financed under a program that financed up to 125% of the value of the home, subject to stricter income and debt ratios, with a maximum loan amount of \$25,000. Home equity loans carry a higher level of risk than first mortgage residential loans because of the second lien position on the property, and because a higher loan to value ratio is used in the underwriting of the loan. However, the overall risk of loss on home equity loans is also considered low due to the underlying values of the collateral. The Bank experienced losses on home equity loans of \$7,000 and recoveries of \$0 during 2004. The Bank experienced losses on home equity loans during 2003 of \$8,189 and recoveries of \$0. The Bank experienced losses on home equity loans during 2002 of \$160,591 and recoveries of \$67,705. There were \$323,955 of home equity loans delinquent more than 90 days at December 31, 2004. There are no discernible delinquency or loss trends relating to home equity loans known to management.

Commercial and investment mortgage loans are first mortgage loans made to individuals or to businesses to finance acquisitions of plant or earning assets, such as rental property. These loans are secured by a first mortgage lien on the commercial property, and may be further secured by other property or other assets depending on the value of the mortgaged property. In most instances, these loans are guaranteed personally by the principals. The Bank typically looks for cash flow from the business at least equal to 100% coverage of the business debt service, and to income-producing property to be self-supporting, generally, with a minimum debt service coverage ratio of 120% to 125%. Commercial mortgage loans carry more risk than residential real estate loans. Commercial mortgage loans tend to be larger in size, and the properties tend to exhibit more fluctuation in value. The repayment of the loan is primarily dependent on the success of the business itself, or the tenants in the case of income producing property. Economic cycles can affect the success of a business. The Bank experienced net losses of \$0, \$0, and \$112,718 on commercial mortgage loans during 2004, 2003, and 2002, respectively. There were \$325,094 of commercial mortgage loans past due more than 90 days at December 31, 2004. There are no known discernible delinquency or loss trends relating to commercial mortgage loans.

Construction and land development loans are loans to finance the acquisition and development of parcels of land and to construct residential housing or commercial property. The Bank typically will finance 70% to 75% of the discounted future value of these projects, or 80% of value or 90% of cost, whichever is less, on a single-family detached home. The loan is collateralized by the project or real estate itself, and other assets or guarantees of the principals in most cases. Repayment to the Bank is anticipated from the proceeds of sale of the final units, or permanent mortgage financing on a residential construction loan for a single borrower. These types of loans carry a higher degree of risk than a commercial mortgage loan. Interest rates, buyer preferences, and desired locations are all subject to change during the period from the time of the loan commitment to final delivery of the final unit, all of which can change the economics of the project. In addition, real estate developers to whom these loans are typically made are subject to the business risk of operating a business in a competitive environment. The Bank did not experience any losses or recoveries on construction and land development loans during 2004, 2003, or 2002. There were no construction and land development loans past due more than 90 days at December 31, 2004. There are no discernible delinquency or loss trends relating to construction and land development loans known to management.

Time and demand loans and lines of credit are loans to businesses for relatively short periods of time, usually not more than one year. These loans are made for any valid business purpose. These loans may be secured by assets of the borrower or guarantor, but may be unsecured based on the personal guarantee of the principal. If secured, loans may be made for up to 100% of the value of the collateral. Time and demand loans and lines of credit are more risky than commercial real estate lending transactions. The businesses to which these loans are made are subject to normal business risk, and cash flows of the business may be subject to economic cycles. In addition, the value of the collateral may fluctuate, or the collateral may be used for other purposes if not subject to Uniform Commercial Code filings. If guaranteed by the principal, the net worth and assets of the principal may be dissipated by demands of the business,

or due to other factors. The Bank had losses of \$192,440 and recoveries of \$67,111 on time and demand loans in 2004. The Bank had losses of \$200,173 and recoveries of \$58,034 on time and demand loans in 2003. The Bank had losses of \$21,904 and recoveries of \$2,475 on time and demand loans in 2002. There were \$1,038,830 of time and demand and line of credit loans delinquent more than 90 days at December 31, 2004. There are no discernible delinquency or loss trends relating to time and demand loans or lines of credit known to management.

Home improvement loans are loans made to borrowers to complete improvements to their homes including such projects as room additions, swimming pool installations or new roofs. Home improvement loans include those made directly to customers and those made indirectly or originated through an approved home improvement dealer. The Bank makes unsecured home improvement loans to a maximum amount of \$15,000. Any loan above that limit is secured by a deed of trust. Borrowers are required to own their home, and to meet certain income and debt ratio requirements. The Bank also reviews the credit history of all applicants. Because they are unsecured or secured by a deed of trust, these loans are more risky than first mortgage residential lending. This risk is mitigated somewhat based on the fact that the loans are used to improve the borrower's home, typically a borrower's most significant asset. In addition, the income-to-debt-ratio requirement helps determine the borrower's current ability to repay the loan. The Bank had charge-offs of home improvement loans of \$10,020, \$3,170, and \$24,472 in 2004, 2003 and 2002, respectively. There were recoveries of \$14,898, \$21,922, and \$10,912 in 2004, 2003, and 2002, respectively. There were no home improvement loans delinquent more than 90 days at December 31, 2004. There are no discernible loss or delinquency trends relating to home improvement loans known to management.

The remainder of the consumer loan portfolio is comprised of installment loans for automobiles, boats and recreational vehicles ("RV"), overdraft protection lines, and loans secured by deposit accounts or stocks. The largest portion of this group is installment loans for automobiles and other vehicles. The Bank will finance 90% of the cost of a new car purchase, or the maximum loan amount as determined by the National Automobile Dealers Association (NADA) publication for used cars. The Bank will finance 85% of the cost of a new boat or RV, or the maximum loan amount determined by the NADA Boat/RV Guide for used Boats and RVs. These loans are secured by the vehicle purchased. Borrowers must meet certain income and debt ratio requirements, and a credit review is performed on each applicant. These types of loans are subject to the risk that the value of the vehicle will decline faster than the amount due on the loan. However, the income-to-debt ratio requirement helps determine the borrower's current ability to repay. The Bank had no losses on automobile loans in 2004, 2003, or 2002, and recoveries of \$0, \$369, and \$1,400 in 2004, 2003 and 2002, respectively. There were no automobile or other vehicle loans past due more than 90 days at December 31, 2004. There are no discernible delinquency or loss trends relating to automobile or other vehicle loans known to management.

Overdraft lines and other personal loans are unsecured lending arrangements. These loans or lines of credit are made to allow customers to easily make purchases of consumer goods. If the lines are handled as agreed, they will typically be automatically renewed each year. Because they are unsecured, these loans carry a higher level of risk than secured lending transactions. The Bank attempts to mitigate significant risk by establishing fairly low credit limits. Net charge-offs in 2004, 2003, and 2002 were \$43,470, \$34,000, and \$59,000, respectively. There were \$801 of overdraft loans and other personal loans past due more than 90 days at December 31, 2004. There are no discernible delinquency or loss trends relating to overdraft lines and other personal loans known to management.

Loans secured by savings accounts and stock and bond certificates are secured lending arrangements. The Bank will advance funds for up to 95% of balances in savings or certificate of deposit accounts. The Bank will advance funds up to 60% of the market value of actively traded stock certificates and bonds or 50% of the market value of listed but not actively traded stocks and bonds. Loans secured by stocks and bonds are subject to margin calls to maintain the loan to value ratio. Collateral is not released until the loan is repaid, and the borrower is generally required to pay interest monthly. There were no losses on loans secured by savings accounts or stock and bond certificates during 2004, 2003, or 2002. Recoveries on loans secured by stocks and bonds were \$411, \$0, and \$0 in 2004, 2003, and 2002, respectively. There were no loans secured by savings accounts or stock and bond certificates past due more than 90 days at December 31, 2004. There are no discernible delinquency or loss trends relating to loans secured by savings accounts or stock and bond certificates known to management.

The Bank is the principal originator of the loans it makes, at this time. In prior periods, residential mortgage loans and home equity loans and lines of credit were predominantly purchased from a network of brokers or other types of originators with whom the Bank does business. The Bank has sold some loans in the secondary market and therefore derives a small amount of noninterest income from serviced loans. These income amounts are not significant to the amounts of noninterest income derived from other sources.

CMSI originates adjustable and fixed-rate residential mortgage loans at terms and conditions and with documentation that permit their sale in the secondary mortgage market. CMSI's practice is to immediately sell substantially all residential mortgage loans in the secondary market with servicing released.

CCDC was established in 1995 for the purpose of promoting, developing, and improving the housing and economic conditions of people in Maryland with particular emphasis in the Metropolitan Baltimore area. CCDC

promotes through loans, investments, and other transactions, efforts to increase housing for low and moderate-income individuals.

**Investment Activities.** – The Company maintains a portfolio of investment securities to provide liquidity and income. The current portfolio amounts to about 13% of total assets, and is invested primarily in U.S. government agency securities, state and municipal bonds, corporate bonds, and mortgage-backed securities with maturities varying from 2005 to 2013, as well as equity securities.

**Deposit Services.** – The Bank offers a wide range of both personal and commercial types of deposit accounts and services as a means of gathering funds. Deposit accounts available include noninterest-bearing demand checking, interest-bearing checking (NOW accounts), savings, money market, certificates of deposit, and individual retirement accounts. Deposit accounts carry varying fee structures depending on the level of services desired by the customer. Interest rates vary depending on the balance in the account maintained by the customer. Commercial deposit customers may also choose an overnight investment account which automatically invests excess balances available in demand accounts on a daily basis in repurchase agreements. The Bank's customer base for deposits is primarily retail in nature. The Bank also offers certificates of deposit over \$100,000 to its retail and commercial customers. The Bank has used deposit brokers in the past and may do so in the future to meet liquidity needs. The balance of accounts over \$100,000 is not significant, and these accounts are offered principally as accommodations to existing customers.

The Company offers Certificate of Deposit Registry Service ("CDARS") deposits to its customers. This is a program which allows for customers that wish to invest more than the amounts that would normally be covered by FDIC insurance with the Bank. The program is a nationwide one that allows participating banks to "swap" customer deposits so that no customer has greater than the insurable maximum in one bank, but the customer only deals with his/her own bank.

In addition to traditional deposit services, the Bank offers telephone banking services, internet banking services and internet bill paying services to its customers.

**Brokerage Activities.** – CFS provides full service brokerage services for stocks, bonds, mutual funds and annuities. For 2004, commission income totaled \$624,000 and net income was \$95,000.

**Market.** – The Company considers its core markets to be the communities within the Baltimore Metropolitan Statistical Area ("Baltimore MSA"), particularly Baltimore City and the counties of Baltimore, Anne Arundel and Harford. Lending activities are more broad and include areas outside of the Baltimore MSA. CMSI operates in Delaware, Pennsylvania, Virginia and West Virginia in addition to its core Maryland operations.

**Competition.** – The Bank faces strong competition in all areas of its operations. This competition comes from entities operating in Baltimore City, Baltimore County, Anne Arundel County, Harford County, and Carroll County, and includes branches of some of the largest banks in Maryland. Its most direct competition for deposits historically has come from other commercial banks, savings banks, savings and loan associations and credit unions. The Bank also competes for deposits with money market funds, mutual funds and corporate and government securities. The Bank competes with the same banking entities for loans, as well as mortgage banking companies and other institutional lenders. The competition for loans varies from time to time depending on certain factors, including, among others, the general availability of lendable funds and credit, general and local economic conditions, current interest rate levels, conditions in the mortgage market and other factors which are not readily predictable. Some of the Bank's competitors have greater assets and operating capacity than the Bank.

Current federal law allows the acquisition of banks by bank holding companies nationwide. Further, federal and Maryland law permit interstate banking. Recent legislation has broadened the extent to which financial services companies, such as investment banks and insurance companies, may control commercial banks. As a consequence of these developments, competition in the Bank's principal market may increase, and a further consolidation of financial institutions in Maryland may occur.

**Asset Management.** – The Bank makes available several types of loan services to its customers as described above, depending on customer needs. Recent emphasis has been made on originating short-term (one year or less), variable rate commercial loans and variable rate home equity lines of credit, with the balance of its funds invested in consumer/installment loans and real estate loans, both commercial and residential. In addition, a portion of the Bank's assets is invested in high-grade securities and other investments in order to provide income, liquidity and safety. Such investments include U.S. government agency securities, corporate bonds, mortgage-backed securities and collateralized mortgage obligations, as well as advances of federal funds to other member banks of the Federal Reserve System. Subject to the effects of taxes, the Bank also invests in tax-exempt state and municipal securities with a minimum rating of "A" by a recognized ratings agency. The Bank's primary source of funds is customer deposits. The risk of non-repayment (or deferred payment) of loans is inherent in the business of commercial banking, regardless of the type of loan or borrower. The Bank's efforts to expand its loan portfolio to small and medium-sized businesses may result in the Bank undertaking certain lending risks which are somewhat different from those involved in loans made to larger businesses. The Bank's management evaluates all loan applications and seeks to minimize the exposure to credit risks through the use of thorough loan application, approval and monitoring procedures. However, there can be no assurance that such procedures significantly reduce all risks.

**Employees.** – As of December 31, 2004, the Bank and its subsidiaries had 165 full time equivalent employees, 48 of whom were officers. Each officer generally has responsibility for one or more loan, banking, customer contact, operations, or subsidiary functions. Non-officer employees are employed in a variety of administrative capacities. Management does not anticipate any inordinate difficulty in recruiting and training such additional officers and employees as it may need in the future. Management believes that relations with its employees are good.

#### CRITICAL ACCOUNTING POLICIES

The Company's financial condition and results of operations are sensitive to accounting measurements and estimates of matters that are inherently uncertain. When applying accounting policies in areas that are subjective in nature, management must use its best judgment to arrive at the carrying value of certain assets. One of the most critical accounting policies applied is related to the valuation of the loan portfolio.

A variety of estimates impact carrying value of the loan portfolio including the calculation of the allowance for loan losses, valuation of underlying collateral and the timing of loan charge-offs.

The allowance for loan losses is one of the most difficult and subjective judgments. The allowance is established and maintained at a level that management believes is adequate to cover losses resulting from the inability of borrowers to make required payments on loans. Estimates for loan losses are arrived at by analyzing risks associated with specific loans and the loan portfolio. Current trends in delinquencies and charge-offs, the views of Bank regulators, changes in the size and composition of the loan portfolio and peer comparisons are also factors. The analysis also requires consideration of the economic climate and direction and change in the interest rate environment, which may impact a borrower's ability to pay, legislation impacting the banking industry and economic conditions specific to the Bank's service area. Because the calculation of the allowance for loan losses relies on estimates and judgments relating to inherently uncertain events, results may differ from our estimates.

Another critical accounting policy is related to securities. Securities are evaluated periodically to determine whether a decline in their value is other than temporary. The term "other than temporary" is not intended to indicate a permanent decline in value. Rather, it means that the prospects for near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Management reviews criteria such as the magnitude and duration of the decline, as well as the reasons for the decline, to predict whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

#### SUPERVISION AND REGULATION

**General.** – The Company and Bank are extensively regulated under federal and state law. Generally, these laws and regulations are intended to protect depositors, not stockholders. The following is a summary description of certain provisions of certain laws, which affect the regulation of banks and holding companies. The discussion is qualified in its entirety by reference to applicable laws and regulations. Changes in these laws and regulations may have a material effect on the business and prospects of the Company and the Bank.

As a bank holding company, the Company is subject to the Bank Holding Company Act of 1956, as amended (the "BHCA"). The BHCA is administered by the Board of Governors of the Federal Reserve System (the "Board of Governors"), and the Company is required to file with the Board of Governors such reports and information as may be required pursuant to the BHCA. The Board of Governors also may examine the Company and any of its nonbank subsidiaries. The BHCA requires every bank holding company to obtain the prior approval of the Board of Governors before: (i) it or any of its subsidiaries (other than a bank) acquires substantially all of the assets of any bank; (ii) it acquires ownership or control of any voting shares of any bank if after such acquisition it would own or control, directly or indirectly, more than five percent of the voting shares of such bank; or (iii) it merges or consolidates with any other bank holding company.

Under the BHCA, a bank holding company is generally prohibited from engaging in, or acquiring direct or indirect control of more than five percent (5%) of the voting shares of any company engaged in non-banking activities. A major exception to this prohibition is for activities the Board of Governors finds, by order or regulation, to be so closely related to banking or managing or controlling banks. Some of the activities that the Board of Governors has determined by regulation to be properly incident to the business of a bank holding company are: making or servicing loans and certain types of leases; engaging in certain investment advisory and discount brokerage activities; performing certain data processing services; acting in certain circumstances as a fiduciary or as an investment or financial advisor; ownership of certain types of savings associations; engaging in certain insurance activities; and making investments in certain corporations or projects designed primarily to promote community welfare.

**Federal and State Bank Regulation.** The Bank is a Maryland state-chartered bank, with all the powers of a commercial bank, regulated and examined by the Office of the Maryland Commissioner of Financial Regulation (the "Commissioner") and the Federal Deposit Insurance Corporation ("FDIC"). The Commissioner and the FDIC have extensive enforcement authority over the institutions they regulate to prohibit or correct activities which violate law,

regulations or written agreements with the regulator, or which are deemed to constitute unsafe or unsound practices. Enforcement actions may include the appointment of a conservator or receiver, the issuance of a cease and desist order, the termination of deposit insurance, the imposition of civil money penalties on the institution, its directors, officers, employees and institution-affiliated parties, and the enforcement of any such mechanisms through restraining orders or other court actions.

In its lending activities, the maximum legal rate of interest, fees and charges which a financial institution may charge on a particular loan depends on a variety of factors such as the type of borrower, the purpose of the loan, the amount of the loan and the date the loan is made. Other laws tie the maximum amount, which may be loaned to any one customer and its related interests to capital levels. The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, principal stockholders or any related interest of such persons which generally require that such credit extensions be made on substantially the same terms as are available to third persons dealing with the Bank and not involve more than the normal risk of repayment.

The Community Reinvestment Act ("CRA") requires that in connection with the examination of financial institutions within their jurisdictions, the FDIC evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of these banks. The factors are also considered by all regulatory agencies in evaluating mergers, acquisitions and applications to open a branch or facility. As of the date of its most recent examination report, the Bank has a CRA rating of "Satisfactory."

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), each federal banking agency is required to prescribe, by regulation, non-capital safety and soundness standards for institutions under its authority. The federal banking agencies, including the FDIC, have adopted standards covering internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. An institution that fails to meet those standards may be required by the agency to develop a plan acceptable to the agency, which specifies the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. The Bank believes that it meets substantially all standards which have been adopted. FDICIA also imposed new capital standards on insured depository institutions described under the caption, "Capital Requirements."

Before establishing new branch offices, the Bank must meet certain minimum capital stock and surplus requirements. Prior to establishment of the branch, the Bank must obtain Commissioner and FDIC approval. If establishment of the branch involves the purchase of a bank building or furnishings, the total investment in bank buildings and furnishings cannot exceed, with certain exceptions, 75% of the Bank's unimpaired capital and surplus.

**Deposit Insurance.** As an FDIC insured institution, deposits of the Bank are currently insured to a maximum of \$100,000 per depositor through the Bank Insurance Fund ("BIF"). The FDIC is required to establish the semi-annual assessments for BIF-insured depository institutions at a rate determined to be appropriate to maintain or increase the reserve ratio of the respective deposit insurance funds at or above 1.25 percent of estimated insured deposits or at such higher percentage that the FDIC determines to be justified for that year by circumstances raising significant risk of substantial future losses to the fund. The Bank currently pays a *de minimus* semi-annual assessment.

**Limits on Dividends and Other Payment.** Both federal and state laws impose restrictions on the ability of the Bank to pay dividends. The Federal Reserve Board ("FRB") has issued a policy statement, which provides that, as a general matter, insured banks may pay dividends only out of prior operating earnings. For a Maryland state-chartered bank, dividends may be paid out of undivided profits or, with the prior approval of the Commissioner, from surplus in excess of 100% of required capital stock. If, however, the surplus of a Maryland bank is less than 100% of its required capital stock, cash dividends may not be paid in excess of 90% of the net earnings. In addition to these specific restrictions, bank regulatory agencies, in general, also have the ability to prohibit proposed dividends by a financial institution, which would otherwise be permitted under applicable regulations if the regulatory body determines that such distribution would constitute an unsafe or unsound practice.

**Capital Requirements.** The FDIC adopted certain risk-based capital guidelines to assist in the assessment of the capital adequacy of a banking organization's operations for both transactions reported as assets on the balance sheet and transactions, such as letters of credit and recourse arrangements, which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. Treasury securities, to 100% for assets with relatively high credit risk, such as business loans.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk adjusted assets. The regulators measure risk-adjusted assets, which include off balance sheet items, against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. "Tier 1," or core capital, includes common equity, perpetual preferred stock (excluding auction rate issues) and minority interest in equity accounts of consolidated subsidiaries, less goodwill and other intangibles, subject to certain exceptions. "Tier 2," or supplementary capital, includes, among other things, limited-life preferred stock, hybrid capital instruments, mandatory convertible securities, qualifying subordinated debt, and the allowance for loan losses, subject to certain

limitations and less required deductions. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies. Banks subject to the risk-based capital guidelines are required to maintain a ratio of Tier 1 capital to risk-weighted assets of at least 4% and a ratio to total capital to risk-weighted assets of at least 8%. The appropriate regulatory authority may set higher capital requirements when particular circumstances warrant.

In August 1995 and May 1996, the federal banking agencies adopted final regulations specifying that the agencies will include, in their evaluations of a bank's capital adequacy, an assessment of the bank's interest rate risk ("IRR") exposure. The standards for measuring the adequacy and effectiveness of a banking organization's interest rate risk management include a measurement of board of director and senior management oversight, and a determination of whether a banking organization's procedures for comprehensive risk management are appropriate to the circumstances of the specific banking organization. The Bank has internal IRR models that are used to measure and monitor IRR. Additionally, the regulatory agencies have been assessing IRR on an informal basis for several years. For these reasons the addition of IRR evaluation to the agencies' capital guidelines does not result in significant changes in capital requirements for the Bank.

Failure to meet applicable capital guidelines could subject a banking organization to a variety of enforcement actions, including limitations on its ability to pay dividends, the issuance by the applicable regulatory authority of a capital directive to increase capital and, in the case of depository institutions, the termination of deposit insurance by the FDIC, as well as to the measures described under the caption, "Federal Deposit Insurance Corporation Improvement Act of 1991" below, as applicable to undercapitalized institutions. In addition, future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such a change could affect the ability of the Bank to grow and could restrict the amount of profits, if any, available for the payment of dividends to the stockholders.

**Federal Deposit Insurance Corporation Improvement Act of 1991.** In December 1991, Congress enacted FDICIA, which substantially revised the bank regulatory and funding provisions of the Federal Deposit Insurance Act and made significant revisions to several other federal banking statutes. FDICIA provides for, among other things, (i) publicly available annual financial condition and management reports for financial institutions, including audits by independent accountants, (ii) the establishment of uniform accounting standards by federal banking agencies, (iii) the establishment of a "prompt corrective action" system of regulatory supervision and intervention, based on capitalization levels, with more scrutiny and restrictions placed on depository institutions with lower levels of capital, (iv) additional grounds for the appointment of a conservator or receiver, and (v) restrictions or prohibitions on accepting brokered deposits, except for institutions which significantly exceed minimum capital requirements. FDICIA also provides for increased funding of the FDIC insurance funds and the implementation of risk-based premiums, described further under the caption "Deposit Insurance."

A central feature of FDICIA is the requirement that the federal banking agencies take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements. Pursuant to FDICIA, the federal bank regulatory authorities have adopted regulations setting forth a five-tiered system for measuring the capital adequacy of the depository institutions that they supervise. Under these regulations, a depository institution is classified in one of the following capital categories: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." An institution may be deemed by the regulators to be in a capitalization category that is lower than is indicated by its actual capital position if, among other things, it receives an unsatisfactory examination rating with respect to asset quality, management, earnings or liquidity. The Bank is currently "well capitalized."

FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a cash dividend) if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized depository institutions may be subject to a number of other requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and stop accepting deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator; generally within 90 days of the date such institution is determined to be critically undercapitalized.

FDICIA provides the federal banking agencies with significantly expanded powers to take enforcement action against institutions, which fail to comply with capital or other standards. Such action may include the termination of deposit insurance by the FDIC or the appointment of a receiver or conservator for the institution. FDICIA also limits the circumstances under which the FDIC is permitted to provide financial assistance to an insured institution before appointment of a conservator or receiver.

**Interstate Banking Legislation.** The Riegle-Neal Banking and Branching Efficiency Act of 1994 was enacted into law on September 29, 1994. The law eliminated, among other things, substantially all state law barriers to the acquisition of banks by out-of-state bank holding companies, effective September 29, 1995. The law also permits

interstate branching by banks effective as of June 1, 1999, subject to the ability of states to opt-out completely or to set an earlier effective date. Maryland generally established an earlier effective date of September 29, 1995. A supervisory pact signed by Maryland and states that border Maryland establish uniform rules for the supervision of state-chartered banks and trust companies that operate branches across state lines. Under the agreement, home-state regulators have primary responsibility for banks chartered in the home state, including those that branch into other jurisdictions, although such branches may be subject to the other jurisdiction's regulatory authorities in certain circumstances. The effect of this new law and the supervisory compact increases competition within the markets in which the Bank operates because it permits out-of-state banks to branch or operate in the Bank's market area.

**Financial Modernization.** In November 1999, the Gramm-Leach-Bliley Act ("GLBA") was signed into law. Effective in pertinent part on March 11, 2000, GLBA revises the Bank Holding Company Act of 1956 and repeals the affiliation provisions for the Glass-Steagall Act of 1933, which, taken together, limited the securities, insurance and other non-banking activities of any company that controls a FDIC insured institution. Under GLBA, bank holding companies can elect, subject to certain qualifications, to become a "financial holding company." GLBA provides that a financial holding company may engage in a full range of financial activities, including, insurance and securities sales and underwriting activities, and real estate development, with the expedited notice procedures.

Maryland law generally permits Maryland state-chartered banks, including the Bank, to engage in the same activities, directly or through an affiliate, as national banks. GLBA permits certain qualified national banks to form financial subsidiaries, which have broad authority to engage in all financial activities except insurance underwriting, insurance investments, real estate investment or development, or merchant banking. Thus, GLBA has the effect of broadening the permitted activities of Maryland state-chartered banks.

#### **GOVERNMENTAL MONETARY POLICIES AND ECONOMIC CONTROLS**

The Company is affected by monetary policies of regulatory agencies, including the Federal Reserve Board, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. Among the techniques available to the Federal Reserve Board are: engaging in open market transactions in U.S. Government securities, changing the discount rate on bank borrowings, changing reserve requirements against bank deposits, prohibiting the payment of interest on demand deposits, and imposing conditions on time and savings deposits. These techniques are used in varying combinations to influence the overall growth of bank loans, investments and deposits. Their use may also affect interest rates charged on loans or paid on deposits. The effect of governmental policies on the earnings of the Company cannot be predicted. However, the Company's earnings will be impacted by movement in interest rates, as discussed in Part II Item 7a. "Quantitative and Qualitative Disclosure About Market Risk."

#### **ITEM 2: DESCRIPTION OF PROPERTY**

Both the Bank's main branch and certain of the Company's executive and administrative offices are located in the Bank's headquarters building which it owns in downtown Baltimore, Maryland. The Bank owns buildings for three of its other branch office locations as well as for the new branch opened in 2005. The Bank leases space for the remaining six branches, five of its CMSI locations, and for its operations center which primarily houses support functions. The land on which the new branch is located is also leased. As a result of the sale of one of the Bank's branches in 2002, it remains responsible for a lease of the facility, currently subleased by the acquiring bank, which expires in 2005. Current lease terms expire in 2005 through 2024 and contain renewal options ranging from 3 to 23 years.

The Bank has purchased the furniture and fixtures required for its headquarters, operations center, branch network and subsidiary locations. The Bank has purchased the computer/teller equipment in its branch network and the equipment used for administrative functions.

#### **ITEM 3: LEGAL PROCEEDINGS**

The Company is involved in various legal actions arising from normal business activities. In management's opinion, the outcome of these matters, individually or in the aggregate, will not have a material adverse impact on the results of operation or financial position of the Company.

#### **ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS**

None.

## PART II

## ITEM 5: MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

## TRADING AND DIVIDENDS

As of December 31, 2004, there were 428 shareholders of record of the Company. Since May 1994, the Company's Common Stock has traded on the NASDAQ National Market Tier of The NASDAQ Stock Market under the symbol "CRRB." Currently, there are two broker-dealers who make a market in the Common Stock.

The table below sets forth the high and low sales price for each quarter in the last two years, and cash dividends paid per share.

Period	Price per Share				Cash Dividends Paid per Share	
	2004		2003		2004	2003
	High	Low	High	Low		
1st Quarter	\$18.21	\$17.80	\$15.55	\$12.82	\$0.09	\$ 0.09
2nd Quarter	18.13	15.65	17.99	14.15	0.09	0.09
3rd Quarter	17.20	14.80	18.10	16.03	0.10	0.09
4th Quarter	17.80	15.70	18.40	17.49	0.10	0.09

The ability of the Company to pay dividends in the future will be dependent on the earnings, if any, financial condition and business of the Company, as well as other relevant factors, such as regulatory requirements. No assurance can be given either that the Company's future earnings, if any, will be sufficient to enable it to pay dividends, or that if such earnings are sufficient, that the Company will not decide to retain such earnings for general working capital and other funding needs. In addition, the Company is highly dependent on dividends received from the Bank to enable it to pay dividends to shareholders. No assurance can be given that the Bank will continue to generate sufficient earnings to enable it to pay dividends to the Company, or that it will continue to meet regulatory capital requirements which, if not met, could prohibit payment of dividends to the Company. The following table provides information about the Company's outstanding options, warrants and rights under equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	193,470	\$14.28	106,530
Equity compensation plans not approved by security holders	—	—	—
Total	193,470	\$14.28	106,530

## ITEM 6: SELECTED FINANCIAL DATA

	2004	2003	2002	2001	2000
<b>CONSOLIDATED INCOME STATEMENT DATA:</b>					
Interest income	\$ 15,500,323	\$ 15,935,691	\$ 18,985,364	\$ 23,832,624	\$ 26,726,048
Interest expense	5,321,622	6,639,734	8,692,320	12,872,355	15,921,684
Net interest income	10,178,701	9,295,957	10,293,044	10,960,269	10,804,364
Provision for loan losses	—	243,000	526,000	550,000	448,000
Net interest income after provision for loan losses	10,178,701	9,052,957	9,767,044	10,410,269	10,356,364
Noninterest income	8,781,151	8,268,612	7,534,802	7,156,444	7,913,046
Noninterest expense	17,751,000	16,058,355	14,536,958	14,817,504	15,945,347
Income before income taxes	1,208,852	1,263,214	2,764,888	2,749,209	2,324,063
Income taxes	320,488	338,500	847,630	816,132	576,531
Net income	\$ 888,364	\$ 924,714	\$ 1,917,258	\$ 1,933,077	\$ 1,747,532
<b>CONSOLIDATED BALANCE SHEET DATA, AT YEAR END</b>					
Assets	\$319,123,132	\$302,409,975	\$324,221,615	\$356,907,181	\$387,658,811
Gross loans	219,726,294	199,296,561	205,220,126	220,177,983	276,367,035
Deposits	225,846,145	207,056,100	230,264,108	265,528,720	292,024,141
Shareholders' equity	34,215,280	34,124,882	33,691,079	32,458,383	30,292,083
<b>PER SHARE DATA: (a)</b>					
Number of shares of Common Stock outstanding, at year-end	2,834,823	2,828,078	2,821,757	2,836,317	2,843,120
Net income:					
Basic	\$ 0.31	\$ 0.33	\$ 0.68	\$ 0.68	\$ 0.61
Diluted	0.31	0.32	0.68	0.68	0.61
Cash dividends declared	0.38	0.36	0.34	0.34	0.34
Book value, at year end	12.07	12.07	11.94	11.44	10.65
<b>Performance and Capital Ratios:</b>					
Return on average assets	0.29%	0.29%	0.57%	0.52%	0.46%
Return on average shareholders' equity	2.61%	2.71%	5.70%	6.05%	5.91%
Net yield on interest earning assets (b)	3.81%	3.36%	3.47%	3.32%	3.22%
Average shareholders' equity to average total assets	11.11%	10.83%	9.99%	8.52%	7.81%
Year-end capital to year-end risk-weighted assets:					
Tier 1	11.52%	13.75%	13.57%	12.88%	10.99%
Total	12.74%	15.51%	15.07%	14.26%	12.13%
Year-end Tier 1 leverage ratio	9.41%	10.35%	9.54%	8.61%	7.74%
Cash dividend declared to net income	121.17%	109.96%	50.80%	50.43%	55.58%
<b>ASSETS QUALITY RATIOS:</b>					
Allowance for loan losses, at year-end to:					
Gross loans	1.59%	1.83%	1.74%	1.52%	1.09%
Nonperforming, restructured and past-due loans	132.05%	151.37%	111.68%	276.13%	119.19%
Net charge-offs to average gross loans	0.08%	0.09%	0.13%	0.10%	0.09%
Nonperforming assets as a percent of period-end gross loans and foreclosed real estate	1.20%	1.26%	1.67%	0.55%	0.92%

(a) Per share amounts and common shares outstanding have been adjusted to retroactively reflect the effect of a 5% stock dividend declared by the Board of Directors on October 24, 2002.

(b) This ratio is presented on a fully taxable equivalent basis (a non-GAAP financial measure), using regular income tax rates.

**ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included or incorporated by reference in this Annual Report on Form 10-K, other than statements that are purely historical, are forward-looking statements. Statements that include the use of terminology such as "anticipates," "expects," "intends," "plans," "believes," "estimates" and similar expressions also identify forward-looking statements. The forward-looking statements are based on the Company's current intent, belief and expectations. Forward-looking statements in this Annual Report on Form 10-K include, but are not limited to statements of the Company's plans, strategies, objectives, intentions, including, among other statements, statements involving the Company's projected loan and deposit growth, loan collateral values, collectability of loans, anticipated changes in other operating income, payroll and branching expenses, branch, office and product expansion of the Company and its subsidiary, and liquidity and capital levels.

These statements are not guarantees of future performance and are subject to certain risks and uncertainties that are difficult to predict. Actual results may differ materially from these forward-looking statements because of interest rate fluctuations, a deterioration of economic conditions in the Baltimore-Washington metropolitan area, a downturn in the real estate market, losses from impaired loans, an increase in nonperforming assets, potential exposure to environmental laws, changes in federal and state bank laws and regulations, the highly competitive nature of the banking industry, a loss of key personnel, changes in accounting standards and other risks described in the Company's filings with the Securities and Exchange Commission. Existing and prospective investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of today's date. The Company undertakes no obligation to update or revise the information contained in this Annual Report whether as a result of new information, future events or circumstances or otherwise. Past results of operations may not be indicative of future results. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by the Company in 2005.

**BUSINESS AND OVERVIEW**

The Company is a bank holding company headquartered in Baltimore, Maryland with one wholly-owned subsidiary, Carrollton Bank. The Bank has three subsidiaries, CMSI, and CFS, which are wholly owned, and CCDC, which is 96.4% owned.

The Bank is engaged in general commercial and retail banking business with eleven branch locations. CMSI is in the business of originating residential mortgage loans and has four branch locations. CFS provides brokerage services to customers and CCDC promotes, develops and improves the housing and economic conditions of people in Maryland.

The Bank also operates a network of ATMs in Maryland, Virginia, and West Virginia and sponsors national retailers who accept ATM cards for purchases in various electronic networks.

During 2004, the Company experienced growth in its balance sheet, primarily due to loan growth. The Company's strategy to increase its commercial loan portfolio was successful in 2004, increasing its gross loan portfolio 10.2% over 2003. The Company's loans held for sale portfolio, which consists of residential mortgage loans originated by CMSI and held for sale, usually within 30 days of origination, increased over 350%.

Net income decreased 4.0% from 2003 to 2004, but core earnings (earnings before the effect of investment security transactions—a non-GAAP financial measure) increased 79.4%. The Company is asset sensitive and as a result, in the increasing interest rate environment of 2004, net interest income increased 9.5%. The Company recognized gains on sales of securities during 2004 of \$116,000 and increased its mortgage-banking revenues by over 100%. During 2004, the CMSI opened three mortgage-banking "net branches," which provide management fee income to the Bank.

During 2004, the Company made preparations to open its newest retail branch in Bel Air, Maryland. The branch opened in January of 2005.

Based upon 2004's stable earnings and encouraging prospects for future earnings, the Company paid dividends of \$.38 per share to shareholders during 2004.

## RESULTS OF OPERATION

### SUMMARY

The Company reported net income for 2004 of \$888,000 or \$0.31 per share, representing a 4.0% decrease from 2003 net income of \$925,000, or \$0.33 per share. Core earnings (earnings before the effect of investment security transactions) for the year were \$1,123,000, a 79.4% increase over 2003 core earnings of \$626,000.

The loan portfolio increased 10.2% to \$219,726,000, a result of the Company's continuing efforts to re-align the loan portfolio to be more in line with typical commercial banks. Interest income decreased 2.7% due to the repricing of loans to a lower rate.

The deposit portfolio increased 9.1% to \$225,846,000, a result of the Company's efforts to increase the noninterest-bearing deposit portfolio. In addition, the Company began offering new deposit products in 2004. Despite the increase in the deposit portfolio, interest expense decreased during 2004, due primarily to increased noninterest-bearing deposits.

Noninterest income increased 6.2% in 2004 compared to 2003, due primarily to an increase in the revenue generated by the Company's mortgage-banking division. Included in the 2004 results was a \$116,000 gain on the sale of securities. Included in the 2003 results was a \$486,000 gain on the sale of securities.

Noninterest expense increased 10.5% in 2004 compared to 2003, primarily in the salaries and employee benefits areas. The Company increased its number of employees, during the year, most significantly in the mortgage-banking area. In addition, included in noninterest expense in 2004 is the recognition of a \$497,000 other-than-temporary impairment of the Company's investment in FHLMC preferred stock.

The Company reported net income for 2003 of \$925,000, or \$0.33 per share, representing a 51.7% decrease from 2002 net income of \$1,917,000, or \$0.68 per share. Included in the 2003 results was a \$486,000 gain on the sale of securities. The loan portfolio decreased 2.9% to \$199,297,000 as a result of loan payoffs and refinancing in 2003. The loan portfolio contraction, as well as the lower interest rates, contributed to a decrease in interest income from 2002. Noninterest income from fees increased by 14.1% compared to 2002. Fees generated by the ATM network of 155 machines and income from national point of sale sponsorships grew during 2003. Commissions from brokerage operations of \$597,000 were an 11.0% decrease compared to \$671,000 in 2002. In 2003, the Company reactivated CMSI and as a result, generated mortgage banking revenue of \$666,000.

### NET INTEREST INCOME

Net interest income, the amount by which interest income on interest-earning assets exceeds interest expense on interest-bearing liabilities, is the most significant component of the Company's earnings. Net interest income is a function of several factors, including changes in the volume and mix of interest-earning assets and funding sources, and market interest rates. While management policies influence these factors, external forces, including customer needs and demands, competition, the economic policies of the federal government and the monetary policies of the Federal Reserve Board, are also important.

The following table sets forth, for the periods indicated, information regarding the average balances of interest-earning assets and interest-bearing liabilities, the amount of interest income and interest expense and the resulting yields on average interest-earning assets and rates paid on average interest-bearing liabilities. Average balances are also provided for noninterest-earning assets and noninterest-bearing liabilities.

AVERAGE BALANCES, INTEREST, AND YIELDS

	2004			2003			2002		
	<i>Average balance</i>	<i>Interest</i>	<i>Yield</i>	<i>Average Balance</i>	<i>Interest</i>	<i>Yield</i>	<i>Average Balance</i>	<i>Interest</i>	<i>Yield</i>
<b>ASSETS</b>									
Federal funds sold and Federal Home Loan Bank deposit	\$ 8,606,166	\$ 116,899	1.36%	\$ 18,044,257	\$ 198,427	1.10%	\$ 10,563,830	\$ 166,183	1.57%
Federal Home Loan Bank stock	2,261,207	80,737	3.57	2,352,030	90,075	3.83	3,060,959	163,132	5.33
Investment securities:									
U. S. Treasury	—	—	—	—	—	—	700,723	12,587	1.80
U.S. government agency	28,566,496	674,774	2.36	39,007,166	1,170,484	3.00	43,244,998	1,993,200	4.61
State and municipal	4,549,377	287,890	6.33	5,064,139	323,561	6.39	5,577,528	362,950	6.51
Mortgage-backed securities	8,747,456	479,546	5.48	12,605,968	676,216	5.36	19,122,373	1,068,841	5.59
Corporate bonds	4,592,680	274,845	5.98	7,504,350	453,741	6.05	7,682,596	466,665	6.07
Other	3,732,303	175,442	4.70	3,765,420	248,647	6.60	4,111,271	285,749	6.95
	<u>50,188,312</u>	<u>1,892,497</u>	<u>3.77</u>	<u>67,947,043</u>	<u>2,872,649</u>	<u>4.23</u>	<u>80,439,489</u>	<u>4,189,992</u>	<u>5.21</u>
Loans:									
Demand and time	49,920,788	2,783,558	5.58	36,937,606	2,362,358	6.40	35,702,734	2,408,240	6.75
Residential mortgage	68,431,096	4,090,660	5.98	66,966,298	4,373,550	6.53	98,056,690	6,460,935	6.59
Commercial mortgage and construction	86,429,102	6,193,969	7.17	85,645,620	5,687,390	6.64	75,290,582	5,428,237	7.21
Installment	2,414,072	209,275	8.67	2,745,494	271,251	9.88	3,737,614	367,749	9.84
Lease financing	4,024,469	320,885	7.97	4,201,261	356,616	8.49	2,985,485	261,238	8.75
	<u>211,219,527</u>	<u>13,598,347</u>	<u>6.44</u>	<u>196,496,279</u>	<u>13,051,165</u>	<u>6.64</u>	<u>215,773,105</u>	<u>14,926,399</u>	<u>6.92</u>
Total interest-earning assets	272,275,212	15,688,480	5.76	284,839,609	16,212,316	5.69	309,837,383	19,445,706	6.28
Noninterest-bearing cash	21,682,244			19,662,376			17,385,072		
Premises and equipment	4,959,453			5,173,405			6,394,921		
Other assets	7,858,307			6,062,058			4,058,345		
Allowance for loan losses	(3,616,474)			(3,692,349)			(3,530,286)		
Unrealized gains on available for sale securities, net	3,174,905			3,306,853			2,551,816		
	<u>\$306,333,647</u>	<u>\$15,688,480</u>		<u>\$315,351,952</u>	<u>\$ 16,212,316</u>		<u>\$336,697,251</u>	<u>\$19,445,706</u>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>									
Interest-bearing deposits:									
Savings and NOW	\$ 71,404,510	\$ 180,741	0.25%	\$ 72,624,598	\$ 231,024	0.32%	\$ 76,375,342	\$ 422,165	0.55%
Money market	29,186,544	322,785	1.11	28,266,591	267,744	0.95	31,474,273	461,295	1.47
Other time	61,370,913	1,627,239	2.65	77,496,371	2,970,271	3.83	93,558,972	4,612,897	4.93
	<u>161,961,967</u>	<u>2,130,765</u>	<u>1.32</u>	<u>178,387,560</u>	<u>3,469,039</u>	<u>1.94</u>	<u>201,408,587</u>	<u>5,496,357</u>	<u>2.73</u>
Borrowed funds	56,153,768	3,190,857	5.68	58,234,600	3,170,695	5.44	57,578,163	3,195,963	5.55
Total interest-bearing liabilities	218,115,735	5,321,622	2.44	236,622,160	6,639,734	2.81	258,986,750	8,692,320	3.36
Noninterest-bearing deposits	51,501,352			42,449,945			42,139,426		
Other liabilities	2,674,734			2,132,959			1,919,529		
Shareholders' equity	34,041,826			34,146,888			33,651,546		
Total liabilities and shareholders' equity	<u>\$306,333,647</u>	<u>\$ 5,321,622</u>		<u>\$315,351,952</u>	<u>\$ 6,639,734</u>		<u>\$336,697,251</u>	<u>\$ 8,692,320</u>	
<b>NET YIELD ON INTEREST-EARNING ASSETS</b>									
	<u>\$272,275,212</u>	<u>\$10,366,858</u>	<u>3.81%</u>	<u>\$284,839,609</u>	<u>\$ 9,572,582</u>	<u>3.36%</u>	<u>\$309,837,383</u>	<u>\$10,753,386</u>	<u>3.47%</u>

Interest on investments and loans is presented on a fully taxable equivalent basis (a non-GAAP financial measure), using regular income tax rates. Loans held for sale are included in residential mortgage loans.

In 2004, net interest income on a taxable basis increased by \$794,000 to \$10.4 million. On average, the loan portfolio increased 7.5% from 2003 while the investment portfolio decreased by 26.1%. The yield on the loan portfolio decreased from 6.64% in 2003 to 6.44% in 2004. The yield on investment securities also decreased to 3.77% in 2004 from 4.23% in 2003. The decrease in the investment portfolio and decreased yields caused total interest income on a tax equivalent basis to decrease from \$16.2 million in 2003 to \$15.7 million in 2004. The Company intends to continue its expansion of its commercial loan portfolio as part of its long-term strategic plan.

Interest expense decreased \$1.3 million to \$5.3 million in 2004 from \$6.6 million in 2003. Interest expense decreased primarily due to a change in the deposit mix, with an increase in the amount of noninterest-bearing deposits. In addition, the cost of interest-bearing deposits decreased from 1.94% in 2003 to 1.32% in 2004.

In 2003, net interest income on a taxable equivalent basis decreased by \$1.2 million to \$9.6 million as a result of decreases in both the volume and yields on earning assets. On average, the loan portfolio decreased 8.9% from 2002 while the investment portfolio decreased by 15.5%. The yield on the loan portfolio decreased from 6.92% in 2002 to 6.64% in 2003. Changes in loan portfolio mix, the prime rate changes, and a very competitive loan market caused the loan yield to decline. The yield on investment securities also declined to 4.23% in 2003 from 5.21% in 2002. The reduction in the loan and investment portfolios and decreased yields, caused total interest income on a tax equivalent basis to fall from \$19.5 million in 2002 to \$16.2 million in 2003.

Interest expense decreased \$2.1 million to \$6.6 million in 2003 from \$8.7 million in 2002. Interest expense decreased due to a decrease in both interest bearing liabilities and rates. Interest expense on deposits decreased in 2003 from 2002 due to decreased cost of interest-bearing deposits, from 2.73% in 2002 to 1.94% in 2003.

The following table and the related discussions of interest income and interest expense provide further analysis of the changes in net interest income during 2004 and 2003:

	2004 Compared to 2003			2003 Compared to 2002		
	<i>Change Due to Rates</i>	<i>Variance In Volume</i>	<i>Total</i>	<i>Change Due to Rates</i>	<i>Variance In Volume</i>	<i>Total</i>
<b>INTEREST INCOME</b>						
Federal funds sold and Federal Home Loan Bank deposit	\$ 22,291	\$(103,819)	\$(81,528)	\$(85,433)	\$ 117,677	\$ 32,244
Federal Home Loan Bank stock	(5,859)	(3,479)	(9,338)	(35,275)	(37,782)	(73,057)
<b>INVESTMENT SECURITIES:</b>						
U.S. Treasury	—	—	—	—	(12,587)	(12,587)
U.S. government agency	(182,490)	(313,220)	(495,710)	(627,391)	(195,325)	(822,716)
State and municipal	(2,778)	(32,893)	(35,671)	(5,981)	(33,408)	(39,389)
Mortgage-backed securities	10,146	(206,816)	(196,670)	(28,392)	(364,233)	(392,625)
Corporate bonds	(2,740)	(176,156)	(178,896)	(2,097)	(10,827)	(12,924)
Other	(71,019)	(2,186)	(73,205)	(13,064)	(24,038)	(37,102)
	<u>(248,881)</u>	<u>(731,271)</u>	<u>(980,152)</u>	<u>(676,925)</u>	<u>(640,418)</u>	<u>(1,317,343)</u>
<b>LOANS:</b>						
Demand and time	(409,724)	830,924	421,200	(129,177)	83,295	(45,882)
Residential mortgage	(378,541)	95,651	(282,890)	(38,846)	(2,048,539)	(2,087,385)
Commercial mortgage and construction	454,556	52,023	506,579	(487,415)	746,568	259,153
Installment	(29,232)	(32,744)	(61,976)	1,118	(97,616)	(96,498)
Lease financing	(20,721)	(15,010)	(35,731)	(11,006)	106,384	95,378
	<u>(383,662)</u>	<u>930,844</u>	<u>547,182</u>	<u>(665,326)</u>	<u>(1,209,908)</u>	<u>(1,875,234)</u>
<b>TOTAL INTEREST EARNED</b>	<u>(616,111)</u>	<u>92,275</u>	<u>(523,836)</u>	<u>(1,462,959)</u>	<u>(1,770,431)</u>	<u>(3,233,390)</u>
<b>INTEREST EXPENSE</b>						
Savings and NOW	(46,379)	(3,904)	(50,283)	(170,409)	(20,732)	(191,141)
Money market	46,301	8,740	55,041	(146,538)	(47,013)	(193,551)
Other time	(725,427)	(617,605)	(1,343,032)	(850,664)	(791,962)	(1,642,626)
Borrowed funds	133,359	(113,197)	20,162	(61,705)	36,437	(25,268)
<b>TOTAL INTEREST EXPENSE</b>	<u>(592,146)</u>	<u>(725,966)</u>	<u>(1,318,112)</u>	<u>(1,229,316)</u>	<u>(823,270)</u>	<u>(2,052,586)</u>
<b>NET INTEREST INCOME</b>	<u>\$ (23,965)</u>	<u>\$ 818,241</u>	<u>\$ 794,276</u>	<u>\$ (233,643)</u>	<u>\$ (947,161)</u>	<u>\$ (1,180,804)</u>

Interest on investments and loans is presented on a fully taxable equivalent basis (a non-GAAP financial measure), using regular income tax rates. The change in interest income and expense due to variance in both rate and volume has been allocated to the change due to variance in rate.

#### PROVISION FOR LOAN LOSSES

On a monthly basis, management of the Company reviews all loan portfolios to determine trends and monitor asset quality. For consumer loan portfolios, this review generally consists of reviewing delinquency levels on an aggregate basis with timely follow-up on accounts that become delinquent. In commercial loan portfolios, delinquency information is monitored and periodic reviews of business and property leasing operations are performed on an individual loan basis to determine potential collection and repayment problems.

The Company did not provide for any loan losses in 2004 as compared to a provision of \$243,000 in 2003. Nonaccrual, restructured and delinquent loans over 90 days to total loans remained relatively stable at 1.20% at the end of 2004 compared to 1.21% in 2003. The ratio of loan losses to average loans decreased in 2004 to 0.08% compared to 0.09% for 2003.

The provision for loan losses was \$243,000 for 2003 compared to \$526,000 for 2002. Nonaccrual, restructured, and delinquent loans over 90 days to total loans decreased to 1.21% at the end of 2003 compared to 1.56% in 2002. This decrease was due to the 2003 change in status of certain loans that were on nonaccrual in 2002, but had performed for a sufficient amount of time in 2003 to warrant their change in status to performing. The ratio of loan losses to average loans decreased in 2003 to 0.09% compared to 0.13% for 2002.

#### NONINTEREST INCOME

Noninterest income increased 6.0% to \$8.8 million in 2004 compared to \$8.3 million in 2003. Included in noninterest income were \$116,000 in security gains realized in 2004 compared to \$486,000 in 2003. It is the Company's intention to realign its investment portfolio during 2005 so that the portfolio will better assist the Company's earnings and liquidity as outlined in the Company's strategic plan.

Brokerage commissions increased 4.5% to \$624,000 in 2004 compared to \$597,000 in 2003 due to improved market conditions. Management believes that brokerage commissions are a good source of noninterest income for the Company and intends to continue focusing on increasing this source of income.

Electronic banking fee income remained relatively stable at \$4.7 million in 2004 and 2003. Electronic banking income is comprised of three sources: national point of sale, ("POS") sponsorships, ATM fees and check card fees. The Company maintains ATMs in Wal-Mart stores in Maryland, Virginia and West Virginia, as well as at its branches. The fees from these ATMs represent approximately 46% of total electronic banking revenue. The Company sponsors merchants who accept ATM cards for purchases within various networks (i.e. STAR, PULSE, NYCE). This national POS sponsorship income represents approximately 31% of total electronic banking revenue. Fees from check cards comprise the remaining 23% of electronic banking revenue.

Mortgage-banking revenue increased \$676,000 to \$1,342,000 in 2004 from \$666,000 in 2003. During 2004, the Company opened three mortgage-banking "net branches." The employees of these net branches earn as salaries all revenues earned on the sale of mortgage loans less operating expenses. In addition, each net branch pays management fees to CMSI for use of its processing and underwriting staff. The net branch expenses are included in the Company's income statement, as they are divisions of CMSI, but the net effect of the operations of the net branches on the Company's net income is limited to the management fees paid to CMSI. The inclusion of the expenses in the financial statements has the effect of showing significant expenses related to mortgage-banking and increases the Company's efficiency ratio.

For 2003, noninterest income excluding securities gains, gains on branch divestitures, and gains or losses on loan sales increased by 7.2% compared to 2002. Brokerage commissions decreased \$74,000 or 11.0% in 2003 due to the economic slowdown and investor concerns over the stock market. Electronic Banking fee income increased \$456,000 primarily due to the growth of national point of sale sponsorships and increased ATM traffic. The Company reactivated its mortgage banking subsidiary in 2003. Noninterest income for 2003 includes \$666,000 in mortgage banking revenue.

Net securities gains in 2003 were \$486,000 compared to \$210,000 in 2002.

#### NONINTEREST EXPENSES

During 2004, noninterest expenses increased by \$1.7 million, or 10.5% to \$17.8 million compared to \$16.1 million in 2003.

Salaries and benefits increased by \$1.2 million or 16.0% as the Company added staff for a total of 165 full time equivalent positions in 2004 from a total of 136 full time equivalent positions in 2003. The increased staff was mostly in the mortgage-banking subsidiary of CMSI and in the commercial lending area. A portion of the salaries of mortgage division personnel that consist of commissions are not included in salary expense, but are deferred and netted against mortgage-banking fees and gains.

Occupancy expenses increased by \$149,000 from \$1.5 million in 2003 to \$1.6 million in 2004. The additional expenses were due primarily to new facilities for mortgage-banking operations. In addition, the Company incurred additional expenses related to its new branch facility in Harford County, Maryland, which opened in January of 2005.

Furniture and equipment expense decreased by \$194,000 from \$1.8 million in 2003, to \$1.6 million in 2004, mostly due to decreased depreciation expense. The Company's 158 ATMs all became fully depreciated during the fourth quarter of 2004.

Included in 2004 noninterest expenses is the recognition of a \$497,000 other-than-temporary impairment of the Company's investment in FMLMC preferred stock. Management sold these securities during the first quarter of 2005 and realized a gain net of tax of approximately \$45,000.

Other operating expenses remained relatively stable at \$5.3 million in 2004 and 2003.

In 2003, noninterest expenses increased by \$1.5 million or 10.5%. Salaries and benefits increased by \$1.2 million, or 19.7%. Full time equivalent staff increased from 116 positions at the end of 2002 to 136 positions at December 31, 2003 mostly due to increased personnel at the Company's mortgage banking subsidiary. Occupancy expenses increased \$21,000 to \$1,453,000 in 2003, due to additional locations for the Company's mortgage-banking operations. This increase was slightly offset by reimbursement from the Company's insurance carrier in excess of costs to repair flood damage at the Company's main headquarters. Furniture and equipment expense decreased by \$275,000, mostly due to decreased depreciation in 2003. Other operating expenses increased \$539,000, or 11.3%. A significant portion of this increase is due to increased operations at the mortgage-banking subsidiary. In addition, the Bank incurred significant costs in the 2003 conversion of its main processing systems.

### INCOME TAX PROVISION

For 2004, the effective tax rate for the Company decreased to 26.5% compared to 26.8% for 2003.

For 2003, the effective tax rate for the Company decreased to 26.8% compared to 30.7% for 2002.

The effective tax rates fluctuate from year to year due to changes in the mix of tax-exempt loans and investments as a percentage of total loans and investments.

### FINANCIAL CONDITION

#### SUMMARY

Total assets of the Company increased by 5.5% to \$319.1 million at December 31, 2004 from \$302.4 million at December 31, 2003. Investment securities decreased 32.0% to \$42.5 million at December 31, 2004. Gross loans, excluding loans held for sale, increased by 10.2% to \$219.7 million at December 31, 2004 compared to \$199.3 million at the end of 2003. Interest-earning assets increased \$16.6 million to \$285.4 million and were 89.4% of total assets at December 31, 2004.

#### INVESTMENT SECURITIES

The investment portfolio consists of investment securities held to maturity and securities available for sale. Investment securities held to maturity are those securities that the Company has the positive intent and ability to hold to maturity and are carried at amortized cost. Securities available for sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily until maturity. These securities are carried at fair value and may be sold as part of an asset/liability management strategy, liquidity management, interest rate risk management, regulatory capital management or other similar factors.

The components of the investment portfolio were as follows at December 31:

	2004	2003	2002	2001	2000
<b>AVAILABLE FOR SALE</b>					
U.S. Treasury	\$ —	\$ —	\$ —	\$ —	\$ 799,959
U.S. Government agency	19,913,790	34,566,285	44,866,333	64,711,849	55,414,430
Mortgage-backed securities	8,447,886	9,628,267	17,008,728	19,758,761	5,242,307
State and municipal bonds	4,137,433	5,197,716	5,446,260	5,891,946	6,206,170
Corporate bonds	3,036,920	6,820,340	7,962,805	7,739,978	—
	<u>35,536,029</u>	<u>56,212,608</u>	<u>75,284,126</u>	<u>98,102,534</u>	<u>67,662,866</u>
Equity securities	6,952,463	6,246,349	3,502,021	4,299,478	2,481,021
	<u>\$42,488,492</u>	<u>\$62,458,957</u>	<u>\$78,786,147</u>	<u>\$102,402,012</u>	<u>\$70,143,887</u>
<b>HELD TO MATURITY</b>					
Foreign bonds	\$ —	\$ 25,000	\$ 25,000	\$ 25,000	\$ 50,000

Note: Investments classified as available for sale are carried at fair value whereas investments classified as held to maturity are carried at amortized cost.

The following table shows the maturity of the investment portfolio at December 31, 2004:

	Available for Sale		
	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Yield</i>
Within 1 year	\$18,466,830	\$18,361,490	2.55%
Over 1 to 5 years	5,840,388	5,860,698	3.04
Over 5 to 10 years	2,782,693	2,865,955	4.40
	27,089,911	27,088,143	
Mortgage-backed securities	8,287,646	8,447,886	5.73
Equity securities	3,255,196	6,952,463	4.79
	<u>\$38,632,753</u>	<u>\$42,488,492</u>	

The investment portfolio consists primarily of U. S. Government agency securities, mortgage-backed securities, corporate bonds, state and municipal obligations, and equity securities. The income from state and municipal obligations is exempt from federal income tax. Certain agency securities are exempt from state income taxes. The Company uses its investment portfolio as a source of both liquidity and earnings.

Investment securities decreased \$20.0 million to \$42.5 million at December 31, 2004 compared to \$62.5 million at December 31, 2003. The decrease was due to maturities of securities as well as the sale of approximately \$2.4 million of securities in 2004. In addition, in 2004, the Company recognized a \$497,000 other-than-temporary impairment of the Company's investment in FMLMC preferred stock.

In 2005, the Company anticipates significant activity in its investment portfolio in order to realign the portfolio so that it will better assist the Company's earnings and liquidity as outlined in the Company's strategic plan.

## LOANS

The following table represents a breakdown of loan balances at December 31:

	2004	2003	2002	2001	2000
Real Estate:					
Residential	\$ 55,242,018	\$ 57,586,028	\$ 79,520,154	\$117,617,158	\$188,658,857
Commercial	94,858,597	82,856,038	78,500,418	52,675,033	45,963,998
Construction and land development	17,774,874	16,275,828	7,664,367	10,116,583	4,958,938
Demand and time	46,168,587	35,978,633	32,444,790	33,982,346	28,981,256
Lease financing	3,598,003	4,449,408	4,343,539	1,328,828	2,242,679
Installment	2,084,215	2,150,626	2,746,858	4,458,035	5,561,307
	219,726,294	199,296,561	205,220,126	220,177,983	276,367,035
Allowance for loan losses	3,485,076	3,648,245	3,578,762	3,338,807	3,024,290
Loans, net	<u>\$216,241,218</u>	<u>\$195,648,316</u>	<u>\$201,641,364</u>	<u>\$216,839,176</u>	<u>\$273,342,745</u>

Gross loans, excluding loans held for sale, increased \$20.4 million or 10.2% from \$199.3 million as of December 31, 2003 to \$219.7 million as of December 31, 2004. The increase was primarily in commercial real estate, which increased 14.5%. Commercial loans amounted to \$162.4 million at December 31, 2004 and were 74% of total loans. Consumer loans amounted to \$57.3 million and were 26% of total loans.

The following table shows the contractual maturities and interest rate sensitivities of the Company's loans at December 31, 2004. Some loans may include contractual installment payments that are not reflected in the table until final maturity. In addition, the Company's experience indicates that a significant number of loans will be extended or repaid prior to contractual maturity. Consequently, the table is not intended to be a forecast of future cash repayments.

	Maturing							Total
	In one year or less		After 1 through 5 years		After 5 years			
	Fixed	Variable	Fixed	Variable	Fixed	Variable		
Real Estate:								
Residential	\$ 316,083	\$17,507,312	\$ 1,387,188	\$461,982	\$35,076,218	\$493,235	\$ 55,242,018	
Commercial	2,811,523	9,171,652	70,650,599	—	12,224,823	—	94,858,597	
Construction and land development	8,341,486	—	8,846,424	—	586,964	—	17,774,874	
	11,469,092	26,678,964	80,884,211	461,982	47,888,005	493,235	167,875,489	
Demand and time	1,558,522	31,766,921	12,692,082	—	151,062	—	46,168,587	
Lease financing	122,796	850	3,474,357	—	—	—	3,598,003	
Installment	464,610	153,505	585,418	144,002	698,367	38,313	2,084,215	
	<u>\$13,615,020</u>	<u>\$58,600,240</u>	<u>\$97,636,068</u>	<u>\$605,984</u>	<u>\$48,737,434</u>	<u>\$531,548</u>	<u>\$219,726,294</u>	

The following table provides information concerning nonperforming assets and past due loans at December 31, 2004:

	2004	2003	2002	2001	2000
Nonaccrual loans (a)	\$ 615,394	\$ 712,116	\$ 734,879	\$ 387,037	\$ 622,392
Restructured loans	455,864	661,974	568,969	598,644	633,302
Foreclosed real estate	—	100,000	218,654	—	—
	<u>\$1,071,258</u>	<u>\$1,474,090</u>	<u>\$1,522,502</u>	<u>\$ 985,681</u>	<u>\$1,255,694</u>
Accruing loans past-due 90 days or more	<u>\$1,567,919</u>	<u>\$1,036,018</u>	<u>\$1,900,663</u>	<u>\$ 223,459</u>	<u>\$1,281,706</u>

a) Loans are placed in nonaccrual status when they are past-due 90 days as to either principal or interest or when, in the opinion of management, the collection of all interest and/or principal is in doubt. A loan remains in nonaccrual status until the loan is current as to payment of both principal and interest and the borrower demonstrated the ability to pay and remain current. Management may grant a waiver from nonaccrual status for a 90-day past-due loan that is both well secured and in the process of collection.

#### ALLOWANCE FOR LOAN LOSSES

An allowance for loan losses is maintained to absorb losses in the existing loan portfolio. The allowance is a function of specific loan allowances, general loan allowances based on historical loan loss experience and current trends, and allowances based on general economic conditions that affect the collectibility of the loan portfolio. These can include, but are not limited to exposure to an industry experiencing problems, changes in the nature or volume of the portfolio and delinquency and nonaccrual trends. The portfolio review and calculation of the allowance is performed by management on a continuing basis.

The specific allowance is based on regular analysis of the loan portfolio and is determined by analysis of collateral value, cash flow and guarantor capacity, as applicable. The specific allowance was \$143,374, \$134,190 and \$1,312,020 as of December 31, 2004, 2003 and 2002, respectively.

The general allowance is calculated using internal loan grading results and appropriate allowance factors on approximately ten classes of loans. This process is reviewed on a regular basis. The allowance factors may be revised whenever necessary to address current credit quality trends or risks associated with particular loan types. Historic trend analysis is utilized to obtain the factors to be applied. The general allowance was \$2,796,664, \$3,099,129 and \$1,146,924 as of December 31, 2004, 2003 and 2002, respectively.

Allocation of a portion of the allowance does not preclude its availability to absorb losses in other categories. An unallocated reserve is maintained to recognize the imprecision in estimating and measuring loss when evaluating the allowance for individual loans or pools of loans.

During the years ended December 31, 2000 through 2004, the unallocated portion of the allowance for loan losses has fluctuated with the specific and general allowances so that the total allowance for loan losses would be at a level that management believes is the best estimate of probable future loan losses at the balance sheet date. The specific allowance may fluctuate from period to period if the balance of what management considers problem loans changes. The general allowance will fluctuate with changes in the mix of the Company's loan portfolio, economic conditions, or specific industry conditions. The requirements of the Company's federal regulators are a consideration in determining the required total allowance.

Management believes that it has adequately assessed the risk of loss in the loan portfolios based on a subjective evaluation and has provided an allowance which is appropriate based on that assessment. Because the allowance is an estimate based on current conditions, any change in the economic conditions of the Company's market area or change within a borrower's business could result in a revised evaluation, which could alter the Company's earnings.

The following charts show the level of loan losses recorded by the Company for the past five years, management's allocation of the allowance for loan losses by type of loan as of the end of each year, and other statistical information. The allocation of the allowance reflects management's analysis of economic risk potential by type of loan, and is not intended as a forecast of loan losses.

<i>Description</i>	Years ended December 31				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Balance at beginning of year	\$3,648,245	\$3,578,762	\$3,338,807	\$3,024,290	\$2,836,291
Charge-offs:					
Commercial	192,440	200,173	21,904	—	30,015
Lease financing	—	—	—	—	—
Real estate:					
Residential	7,746	16,898	160,591	117,582	201,187
Commercial	—	—	112,718	—	—
Construction	—	—	—	—	—
Installment	76,936	47,957	85,393	184,559	153,197
	<u>277,122</u>	<u>265,028</u>	<u>380,606</u>	<u>302,141</u>	<u>384,399</u>
Recoveries:					
Commercial	67,111	58,034	2,475	17,269	51,115
Lease financing	—	—	—	—	—
Real estate:					
Residential	8,087	—	67,705	22,802	30,317
Commercial	—	—	—	—	—
Construction	—	—	—	—	—
Installment	38,755	33,477	24,381	26,587	42,966
	<u>113,953</u>	<u>91,511</u>	<u>94,561</u>	<u>66,658</u>	<u>124,398</u>
Net charge-offs	<u>163,169</u>	<u>173,517</u>	<u>286,045</u>	<u>235,483</u>	<u>260,001</u>
Provision charged to operations	—	243,000	526,000	550,000	448,000
Balance at end of the year	<u>\$3,485,076</u>	<u>\$3,648,245</u>	<u>\$3,578,762</u>	<u>\$3,338,807</u>	<u>\$3,024,290</u>
Ratio of net charge-offs to average loans outstanding	<u>.08%</u>	<u>.09%</u>	<u>.13%</u>	<u>.10%</u>	<u>.09%</u>

A breakdown of the allowance for loan losses is provided in the table below; however, management does not believe that the allowance can be segregated by category with precision. The breakdown of the allowance is based primarily on those factors discussed previously in evaluating the allowance as a whole. Since all of those factors are subject to change, the breakdown is not necessarily indicative of the category of actual or realized credit losses.

The following table presents the allocation of the allowance for loan losses among the various loan categories at December 31:

<i>Portfolio</i>	2004	2003	2002	2001	2000
Commercial and lease financing	\$ 589,053	\$1,226,447	\$ 733,560	\$ 607,323	\$ 910,445
Real estate:					
Residential	587,292	831,173	754,979	707,061	763,017
Commercial	1,034,546	1,041,834	876,243	775,321	349,594
Construction	342,114	—	—	—	—
Installment	149,271	133,865	94,162	173,166	207,061
Unallocated	782,800	414,926	1,119,818	1,075,936	794,173
	<u>\$3,485,076</u>	<u>\$3,648,245</u>	<u>\$3,578,762</u>	<u>\$3,338,807</u>	<u>\$3,024,290</u>

The table below provides a percentage breakdown of the loan portfolio by category to total loans at December 31:

<i>Portfolio</i>	2004	2003	2002	2001	2000
Commercial and lease financing	22.7%	20.2%	17.9%	16.0%	10.5%
Real estate:					
Residential	25.1	28.9	38.8	53.5	70.0
Commercial	43.2	41.6	38.2	23.9	17.0
Construction	8.1	8.2	3.8	4.6	0.3
Installment	0.9	1.1	1.3	2.0	2.2
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

All loan reserves are subject to regulatory examinations and determinations as to the appropriateness of the methodology and adequacy on an annual basis.

At December 31, 2004, the allowance for loan losses was \$3.5 million, a 4.5% decrease from the end of 2003. The ratio of the allowance to total loans was 1.59% at December 31, 2004 and 1.83% at December 31, 2003. The ratio of net loan losses to average loans outstanding for 2004 was 0.08% compared to 0.09% for 2003. The ratio of nonaccrual loans, restructured loans and loans delinquent more than 90 days to total loans decreased to 1.20% at December 31, 2004 from 1.21% at the end of 2003. The ratio of real estate loans to total loans decreased to 76.4% at the end of 2004 from 78.6% at the end of 2003.

## FUNDING SOURCES

### DEPOSITS

The following table sets forth the average deposit balances and average rates paid on deposits during the years ended December 31:

	2004		2003		2002	
	<i>Average Balance</i>	<i>Average Rate</i>	<i>Average Balance</i>	<i>Average Rate</i>	<i>Average Balance</i>	<i>Average Rate</i>
Noninterest-bearing deposits	\$ 51,501,352	—%	\$ 42,449,945	—%	\$ 42,139,426	—%
Interest-bearing deposits:						
NOW accounts	35,016,262	0.21	37,515,591	0.31	39,453,108	0.53
Savings accounts	36,388,248	0.29	35,109,007	0.33	36,922,234	0.58
Money market accounts	29,186,544	1.11	28,266,591	0.95	31,474,273	1.47
Certificates of deposit	61,370,913	2.65	77,496,371	3.83	93,558,972	4.93
	<u>\$213,463,319</u>	<u>1.00</u>	<u>\$220,837,505</u>	<u>1.57</u>	<u>\$243,548,013</u>	<u>2.26</u>

The following table provides the maturities of certificates of deposit of the Company in amounts of \$100,000 or more at December 31, 2004:

Maturing in:	
3 months or less	\$3,644,821
Over 3 months through 6 months	1,672,750
Over 6 months through 12 months	1,417,009
Over 12 months	2,587,410
	<u>\$9,321,990</u>

Total deposits at December 31, 2004 increased by \$18.8 million to \$225.8 million from the end of 2003. Interest bearing accounts increased by \$7.5 million and noninterest-bearing deposits increased by \$11.3 million. During 2004, the Company made a concerted effort to continue the reduction of the level of high-yield deposits. Additionally, the Company's efforts in attracting more noninterest-bearing deposits was successful.

The Company began offering CDARS deposits to its customers during 2004. This program allows for customers that wish to invest more than the amounts that would normally be covered by FDIC insurance with the Bank. The program is a nationwide one that allows participating banks to "swap" customer deposits so that no customer has greater than the insurable maximum in one bank, but the customer only deals with his/her own bank. As on December 31, 2004, the Bank had approximately \$11.4 million in CDARS deposits.

#### BORROWINGS

Other short-term borrowings, consisting of Notes Payable-U.S. Treasury, are as follows:

<i>Other short-term borrowings:</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Total outstanding at period-end	\$1,984,714	\$2,025,339	\$2,045,237
Average amount outstanding during period	1,051,267	910,061	838,491
Maximum amount outstanding at any period-end	2,008,989	2,032,502	2,119,117
Weighted average interest rate at period-end	1.97%	0.73%	1.21%
Weighted average interest rate for the period	1.10%	1.04%	1.40%

Advances from the Federal Home Loan Bank remained at the same level of \$45 million at the end of 2004, 2003, and 2002. Borrowings for federal funds purchased, securities sold under agreements to repurchase and notes payable to the US Treasury decreased by \$1.8 million from December 31, 2003 to 2004.

#### CAPITAL

Bank holding companies and banks are required by the Federal Reserve and FDIC to maintain minimum levels of Tier 1 (or Core) and Tier 2 capital measured as a percentage of assets on a risk-weighted basis. Capital is primarily represented by shareholders' equity, adjusted for the allowance for loan losses and certain issues of preferred stock, convertible securities, and subordinated debt, depending on the capital level being measured. Assets and certain off-balance sheet transactions are assigned to one of five different risk-weighting factors for purposes of determining the risk-adjusted asset base. The minimum levels of Tier 1 and Tier 2 capital to risk-adjusted assets are 4% and 8%, respectively, under the regulations.

In addition, the Federal Reserve and the FDIC require that bank holding companies and banks maintain a minimum level of Tier 1 (or Core) capital to average total assets excluding intangibles for the current quarter. This measure is known as the leverage ratio. The current regulatory minimum for the leverage ratio for institutions to be considered adequately capitalized is 4%, but could be required to be maintained at a higher level based on the regulator's assessment of an institution's risk profile. The following chart shows the regulatory capital levels for the Company and Bank at December 31, 2004 and 2003. The Company's subsidiary bank also exceeded the FDIC required minimum capital levels at those dates by a substantial margin. Based on the levels of capital, the Company and the Bank are well capitalized.

The following table shows the Company's and the Bank's capital ratios as of December 31:

	<i>Minimum</i>	Carrollton Bancorp		Carrollton Bank	
		<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
Leverage ratio	4%	9.41%	10.35%	9.49%	9.75%
Risk-based capital:					
Tier 1 (Core)	4%	11.52%	13.75%	11.71%	12.86%
Tier 2 (Total)	8%	12.74%	15.51%	12.96%	14.12%

Total shareholders' equity increased 0.2% to \$34.2 million at December 31, 2004. Earnings of the Company of \$888,000 for the year ended December 31, 2004 were offset by dividends of \$1.1 million and an increase in capital of \$180,000 from unrealized gains on securities available for sale.

## LIQUIDITY AND CAPITAL EXPENDITURES

### CAPITAL EXPENDITURES

Capital expenditures were approximately \$1.9 million in 2004, \$923,000 in 2003 and \$367,000 in 2002. The capital expenditures in 2004 were principally due to the expenditures required to open the Company's new branch in January 2005. The capital expenditures in 2003 were principally due to the opening of the Company's mortgage-banking branches and to the system conversion that took place in 2004. The expenditures in 2002 were related to normal business activity.

Capital expenditures are projected to be approximately \$500,000 for fiscal year 2005 for renovations at five of the Company's branch locations.

### LIQUIDITY

Liquidity describes the ability of the Company to meet financial obligations, including lending commitments and contingencies, that arise during the normal course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of the customers of the Company, as well as to meet current and planned expenditures.

The Company's liquidity is derived primarily from its deposit base and equity capital. Liquidity is provided through the Company's portfolios of cash and interest-bearing deposits in other banks, federal funds sold, loans held for sale, investment securities due within one year, and securities available for sale. Such assets totaled \$86.9 million or 27.2% of total assets at December 31, 2004.

The borrowing requirements of customers include commitments to extend credit and the unused portion of lines of credit, which totaled \$114.9 million at December 31, 2004. Of this total, management places a high probability of required funding within one year on approximately \$57.6 million. The amount remaining is unused home equity lines and other consumer lines on which management places low probability of funding.

The Company also has established lines of credit totaling \$80.0 million with the Federal Home Loan Bank of Atlanta (the "FHLB") as an additional source of liquidity. At December 31, 2004, the Company had \$45.0 million outstanding with the FHLB and had sufficient collateral necessary to borrow the full amount available under the lines of credit. Additionally, the Company has available unsecured federal funds lines of credit of \$5 million with other institutions. There was no balance outstanding under these lines at December 31, 2004. The lines bear interest at the current federal funds rate of the correspondent bank.

### MARKET RISK AND INTEREST RATE SENSITIVITY

The Company's interest rate risk represents the level of exposure it has to fluctuations in interest rates and is primarily measured as the change in earnings and the theoretical market value of equity that results from changes in interest rates. The Asset/Liability Management Committee of the Board of Directors (the "ALCO") oversees the Company's management of interest rate risk. The objective of the management of interest rate risk is to optimize net interest income during volatile as well as stable interest rate environments while maintaining a balance between the maturity and repricing characteristics of assets and liabilities that is consistent with the Company's liquidity, asset and earnings growth, and capital adequacy goals.

Due to changes in interest rates, the level of income for a financial institution can be affected by the repricing characteristics of its assets and liabilities. At December 31, 2004, the Company is in an asset sensitive position. Management continuously takes steps to reduce higher costing fixed rate funding instruments, while increasing assets that are more fluid in their repricing. An asset sensitive position, theoretically, is favorable in a rising rate environment since more assets than liabilities will reprice in a given time frame as interest rates rise. Management works to maintain a consistent spread between yields on assets and costs of deposits and borrowings, regardless of the direction of interest rates.

The following chart shows the static gap position for interest sensitive assets and liabilities of the Company as of December 31, 2004. The chart is as of a point in time, and reflects only the contractual terms of the loan or deposit accounts in assigning assets and liabilities to the various repricing periods except that deposit accounts with no contractual maturity, such as money market, NOW and savings accounts, have been allocated evenly over a five-year period. In addition, the maturities of investments shown in the gap table will differ from contractual maturities due to anticipated calls of certain securities based on current interest rates. While this chart indicates the opportunity to reprice assets and liabilities within certain time frames, it does not reflect the fact that interest rate changes occur in disproportionate increments for various assets and liabilities.

Period from December 31, 2004 in which assets and liabilities reprice:

(\$'s in 000's)	0 to 90 days	91 to 365 days	1 to 2 years	3 to 5 years	> 5 years
<b>ASSETS:</b>					
Short term investments	\$14,851	\$ —	\$ —	\$ —	\$ —
Securities	9,734	18,323	250	5,605	11,199
Loans held for sale	10,220	—	—	—	—
Loans:					
Residential real estate	2,833	1,956	2,138	6,692	41,623
Commercial real estate	7,371	22,473	25,245	32,177	7,593
Construction and land development	11,474	2,821	2,307	927	246
Demand and time	18,545	10,158	4,581	7,862	5,023
Lease financing	419	980	1,082	1,108	9
Installment	282	432	340	488	542
	<u>40,924</u>	<u>38,820</u>	<u>35,693</u>	<u>49,254</u>	<u>55,036</u>
	<u>\$75,729</u>	<u>\$57,143</u>	<u>\$35,943</u>	<u>\$ 54,859</u>	<u>\$66,235</u>
<b>LIABILITIES:</b>					
Deposits	\$29,090	\$53,663	\$40,663	\$102,425	\$ 5
Borrowings	12,169	—	—	5,000	40,000
	<u>\$41,259</u>	<u>\$53,663</u>	<u>\$40,663</u>	<u>\$107,425</u>	<u>\$40,005</u>
Gap position					
Period	\$34,470	\$ 3,480	\$(4,720)	\$(52,566)	\$26,230
% of assets	10.8%	1.1%	(1.5)%	(16.5)%	8.2%
Cumulative	\$34,470	\$37,950	\$33,230	\$(19,336)	\$ 6,894
% of assets	10.8%	11.9%	10.4%	(6.1)%	2.1%
Cumulative risk sensitive assets to risk sensitive liabilities	183.5%	140.0%	124.5%	92.0%	102.4%

**INFLATION**

Inflation may be expected to have an impact on the Company's operating costs and thus on net income. A prolonged period of inflation could cause interest rates, wages, and other costs to increase and could adversely affect the Company's results of operations unless the fees charged by the Company could be increased correspondingly. However, the Company believes that the impact of inflation was not material for 2004, 2003 and 2002.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company enters into off-balance sheet arrangements in the normal course of business. These arrangements consist primarily of commitments to extend credit, lines of credit and letters of credit. In addition, the Company has certain operating lease obligations.

Credit commitments are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have interest rates fixed at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The Company's exposure to credit loss in the event of nonperformance by the borrower is the contract amount of the commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Company is not aware of any accounting loss it would incur by funding its commitments.

Outstanding loan commitments, unused lines of credit and letters of credit were as follows at December 31, 2004:

Loan commitments	\$32,151,577
Unused lines of credit	82,755,434
Letters of credit	2,910,330

The Company leases various branch and general office facilities to conduct its operations. The leases have remaining terms which range from a period of one year to 20 years. Most leases contain renewal options which are generally exercisable at increased rates. Some of the leases provide for increases in the rental rates at specified times during the lease terms, prior to the expiration dates.

The following table shows information relating to the Company's off-balance sheet obligations at December 31, 2004 (dollars in thousands):

<i>Contractual Obligations</i>	<i>Total</i>	<i>Less than 1 year</i>	<i>One to three years</i>	<i>Three to five years</i>	<i>More than five years</i>
Operating lease obligations	\$6,804	\$690	\$1,034	\$720	\$4,360

#### NEW ACCOUNTING PRONOUNCEMENTS

On March 9, 2004, the SEC issued Staff Accounting Bulletin 105, *Application of Accounting Principles to Loan Commitments*, to inform registrants of the Staff's view that the fair value of the recorded loan commitments should not consider the expected future cash flows related to the associated servicing of the future loan. The provision of the Bulletin must be applied to loan commitments accounted for as derivatives for reporting periods beginning after March 31, 2004.

In March 2004, the Emerging Issues Task Force reached a consensus on Issue 03-1, *Meaning of Other Than Temporary Impairment*. The Task Force reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under Statement of Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The three-step model used to determine other-than-temporary impairments shall be applied prospectively to all current and future investments in interim or annual reporting periods beginning after June 15, 2004.

FASB Statement No. 123, *Accounting for Stock-Based Compensation (Revised 2004) Share Based Payment*, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. The Statement eliminates the alternative to use the Accounting Principles Board Opinion 25's intrinsic value method of accounting that was provided in Statement 123 as originally issued. Under Opinion 25, issuing stock options to employees generally result in recognition of no compensation costs. This Statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. In addition, this Statement amends FASB Statement No. 95, *Statement of Cash Flows* to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. This Statement is effective as of the first interim or annual reporting period that begins after June 15, 2005.

AICPA Statement of Position No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, prohibits the carrying over of valuation allowances in loans and securities acquired in a transfer. At transfer, the assets are to be recorded at the total cash flows expected to be collected. The SOP is effective for loans acquired in fiscal years beginning after December 15, 2004.

Also during 2004, APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, was amended to eliminate the exception for nonmonetary exchanges of similar productive assets and replace it with a general exception for exchanges of nonmonetary assets that do not have commercial substance.

The provisions of FASB Statement No. 123 will require the Company to expense the estimated fair value of options granted, beginning in the third quarter of 2005. Management does not expect the other statements to have any material effect on the Company's financial position or results of operation.

#### 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding the market risk of the Company's financial instruments, see "Market Risk and Interest Rate Sensitivity" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

**ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**  
**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders  
Carrollton Bancorp and Subsidiary  
Baltimore, Maryland

We have audited the accompanying consolidated balance sheets of Carrollton Bancorp and Subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board 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 Carrollton Bancorp and Subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

A handwritten signature in cursive script that reads "Rowles & Company, LLP".

Baltimore, Maryland  
February 10, 2005

## CONSOLIDATED BALANCE SHEETS

December 31,

	2004	2003
<b>ASSETS</b>		
Cash and due from banks	\$ 19,341,463	\$ 19,711,633
Federal funds sold and Federal Home Loan Bank deposit	14,851,081	7,589,293
Federal Home Loan Bank stock, at cost	2,622,900	2,250,000
Investment securities		
Available for sale	42,488,492	62,458,957
Held to maturity	—	25,000
Loans held for sale	10,219,729	2,241,583
Loans, less allowance for loan losses of \$3,485,076 and \$3,648,245	216,241,218	195,648,316
Premises and equipment	5,416,934	5,079,551
Accrued interest receivable	1,295,719	1,421,554
Foreclosed real estate	—	100,000
Prepaid income taxes	194,611	33,910
Bank owned life insurance	4,052,648	3,999,699
Other assets	2,398,337	1,850,479
	<u>\$319,123,132</u>	<u>\$302,409,975</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing	\$ 53,739,771	\$ 42,484,836
Interest-bearing	172,106,374	164,571,264
Total deposits	225,846,145	207,056,100
Federal funds purchased and securities sold under agreement to repurchase	10,183,951	11,951,594
Notes payable — U.S. Treasury	1,984,714	2,025,339
Advances from the Federal Home Loan Bank	45,000,000	45,000,000
Accrued interest payable	493,179	451,055
Deferred income taxes	200,762	286,475
Other liabilities	1,199,101	1,514,530
	<u>284,907,852</u>	<u>268,285,093</u>
Shareholders' equity		
Common stock, par \$1.00 per share; authorized 10,000,000 shares; issued and outstanding 2,834,823 in 2004 and 2,828,078 in 2003	2,834,823	2,828,078
Surplus	18,774,448	18,682,387
Retained earnings	10,239,356	10,427,425
Accumulated other comprehensive income	2,366,653	2,186,992
	<u>34,215,280</u>	<u>34,124,882</u>
	<u>\$319,123,132</u>	<u>\$302,409,975</u>

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

## CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,

	2004	2003	2002
<b>INTEREST INCOME</b>			
Interest and fees on loans	\$13,584,677	\$13,034,872	\$14,907,165
Interest and dividends on securities			
Taxable interest income	1,399,879	2,331,880	3,381,602
Nontaxable interest income	188,296	218,645	244,340
Dividends	210,572	125,539	121,388
Interest on federal funds sold and other interest income	116,899	224,755	330,869
Total interest income	<u>15,500,323</u>	<u>15,935,691</u>	<u>18,985,364</u>
<b>INTEREST EXPENSE</b>			
Deposits	2,130,765	3,469,039	5,496,357
Borrowings	3,190,857	3,170,695	3,195,963
Total interest expense	<u>5,321,622</u>	<u>6,639,734</u>	<u>8,692,320</u>
Net interest income	10,178,701	9,295,957	10,293,044
<b>PROVISION FOR LOAN LOSSES</b>	—	243,000	526,000
Net interest income after provision for loan losses	<u>10,178,701</u>	<u>9,052,957</u>	<u>9,767,044</u>
<b>NONINTEREST INCOME</b>			
Service charges on deposit accounts	948,386	987,582	1,118,349
Brokerage commissions	623,923	597,247	670,952
Mortgage banking fees and gains	1,342,399	665,948	—
Other fees and commissions	5,750,633	5,531,726	4,847,738
Gains on security sales	115,810	486,109	209,880
Gain on branch divestiture	—	—	687,883
Total noninterest income	<u>8,781,151</u>	<u>8,268,612</u>	<u>7,534,802</u>
<b>NONINTEREST EXPENSES</b>			
Salaries	6,837,035	5,996,496	5,118,713
Employee benefits	1,876,248	1,499,002	1,140,614
Occupancy	1,601,321	1,452,624	1,431,978
Furniture and equipment	1,590,436	1,784,787	2,059,447
Write down of impaired securities	497,313	—	—
Other noninterest expenses	5,348,647	5,325,446	4,786,206
Total noninterest expenses	<u>17,751,000</u>	<u>16,058,355</u>	<u>14,536,958</u>
Income before income taxes	1,208,852	1,263,214	2,764,888
<b>INCOME TAXES</b>	<u>320,488</u>	<u>338,500</u>	<u>847,630</u>
<b>NET INCOME</b>	<u>\$ 888,364</u>	<u>\$ 924,714</u>	<u>\$ 1,917,258</u>
<b>NET INCOME PER SHARE—BASIC</b>	<u>\$ 0.31</u>	<u>\$ 0.33</u>	<u>\$ 0.68</u>
<b>NET INCOME PER SHARE—DILUTED</b>	<u>\$ 0.31</u>	<u>\$ 0.32</u>	<u>\$ 0.68</u>

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

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	<i>Common Stock</i>			<i>Retained Earnings</i>	<i>Accumulated</i>	<i>Comprehensive Income</i>
	<i>Shares</i>	<i>Par Value</i>	<i>Surplus</i>		<i>Other Comprehensive Income</i>	
<b>BALANCE, DECEMBER 31, 2001</b>	2,701,254	\$2,701,254	\$17,017,446	\$11,490,504	\$1,249,179	
Net Income		—	—	1,917,258	—	\$1,917,258
Net unrealized gains (losses) on available for sale securities, net of tax		—	—	—	488,661	488,661
Comprehensive Income						<u>\$2,405,919</u>
Shares acquired and cancelled	(14,044)	(14,044)	(185,277)	—	—	
Stock dividend, 5%	134,547	134,547	1,785,439	(1,919,986)		
Cash dividends, \$0.34 per share		—	—	(973,902)	—	
<b>BALANCE, DECEMBER 31, 2002</b>	2,821,757	2,821,757	18,617,608	10,513,874	1,737,840	
Net Income		—	—	924,714	—	\$ 924,714
Net unrealized gains (losses) on available for sale securities, net of tax		—	—	—	449,152	449,152
Comprehensive Income						<u>\$1,373,866</u>
Stock options exercised	6,715	6,715	70,007	—	—	
Adjustment to 2002 stock dividend	(394)	(394)	(5,228)	5,622	—	
Cash dividends, \$0.36 per share		—	—	(1,016,785)	—	
<b>BALANCE, DECEMBER 31, 2003</b>	2,828,078	2,828,078	18,682,387	10,427,425	2,186,992	
Net Income		—	—	888,364	—	\$ 888,364
Net unrealized gains (losses) on available for sale securities, net of tax		—	—	—	179,661	179,661
Comprehensive Income						<u>\$1,068,025</u>
Stock options exercised, including tax benefit of \$21,293	8,845	8,845	122,616	—	—	
Shares acquired and cancelled	(2,100)	(2,100)	(30,555)	—	—	
Cash dividends, \$0.38 per share		—	—	(1,076,433)	—	
<b>BALANCE, DECEMBER 31, 2004</b>	<u>2,834,823</u>	<u>\$2,834,823</u>	<u>\$18,774,448</u>	<u>\$10,239,356</u>	<u>\$2,366,653</u>	

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2004	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 888,364	\$ 924,714	\$ 1,917,258
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Provision for loan losses	—	243,000	526,000
Depreciation and amortization	1,255,340	1,440,603	1,650,548
Deferred income taxes	(198,755)	(253,808)	(192,177)
Amortization of premiums and discounts	230,676	436,783	249,218
Gains on disposal of securities	(115,810)	(486,109)	(209,880)
Write down of impaired securities	497,313	—	—
Loans held for sale made, net of principal sold	(6,635,747)	(1,575,635)	—
Mortgage-banking fees and gains	(1,342,399)	(665,948)	—
Gain on branch divestiture	—	—	(687,883)
Gains on sale and write-down of premises and equipment	(18,941)	(90,006)	(72,984)
(Gains) losses on sale of foreclosed real estate	11,548	(14,309)	7,898
Write-down of foreclosed real estate	8,077	9,442	—
(Increase) decrease in:			
Accrued interest receivable	125,835	326,440	492,996
Prepaid income taxes	(160,701)	118,681	(152,591)
Other assets	(600,809)	(3,875,775)	115,485
Increase (decrease) in:			
Accrued interest payable	42,124	(62,303)	(37,395)
Income taxes payable	—	—	(280,785)
Other liabilities	(315,427)	882,352	(45,187)
Net cash provided by (used in) operating activities	<u>(6,329,312)</u>	<u>(2,641,878)</u>	<u>3,280,521</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sales of securities available for sale	2,518,491	1,724,217	600,596
Proceeds from maturities of securities available for sale	30,685,807	115,149,964	136,088,554
Proceeds from redemption (purchase) of Federal Home Loan Bank stock	(372,900)	250,000	750,000
Purchase of securities available for sale	(13,528,310)	(100,048,513)	(110,281,342)
Loans made, net of principal collected	(20,677,402)	5,637,979	3,282,936
Purchase of loans, net of principal collected	—	—	11,617,770
Purchase of premises and equipment	(1,935,364)	(923,640)	(367,160)
Proceeds from sale of premises and equipment	361,582	269,198	212,984
Purchase of foreclosed real estate	—	—	(145,191)
Net proceeds from branch divestiture	—	—	687,883
Proceeds from sale of foreclosed real estate	164,876	235,590	50,779
Net cash provided by (used in) investing activities	<u>(2,783,220)</u>	<u>22,294,795</u>	<u>42,497,809</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase (decrease) in time deposits	7,124,050	(26,481,138)	(12,942,713)
Net increase (decrease) in other deposits	11,665,996	3,273,130	(22,321,899)
Net increase (decrease) in other borrowed funds	(1,808,269)	396,324	1,690,054
Common stock repurchase and retirement	(32,655)	—	(199,321)
Stock options exercised	131,461	76,722	—
Dividends paid	(1,076,433)	(1,016,785)	(973,902)
Net cash provided by (used in) financing activities	<u>16,004,150</u>	<u>(23,751,747)</u>	<u>(34,747,781)</u>
Net increase (decrease) in cash and cash equivalents	6,891,618	(4,098,830)	11,030,549
Cash and cash equivalents at beginning of year	27,300,926	31,399,756	20,369,207
Cash and cash equivalents at end of year	<u>\$ 34,192,544</u>	<u>\$ 27,300,926</u>	<u>\$ 31,399,756</u>
<b>SUPPLEMENTAL INFORMATION:</b>			
Interest paid on deposits and borrowings	<u>\$ 5,279,498</u>	<u>\$ 6,702,037</u>	<u>\$ 8,729,715</u>
Income taxes paid	<u>\$ 545,609</u>	<u>\$ 191,024</u>	<u>\$ 1,568,808</u>
<b>NONCASH ACTIVITY:</b>			
Transfer of loans to foreclosed real estate	<u>\$ 84,500</u>	<u>\$ 112,069</u>	<u>\$ 132,140</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies reflected in the financial statements conform to generally accepted accounting principles and to general practices within the banking industry. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of commitments and contingent liabilities at the date of the financial statements and revenues and expenses during the year. Actual results could differ from those estimates.

**Business** – The Company provides commercial banking and brokerage services to businesses and individuals in Baltimore and surrounding areas of central Maryland, and also makes residential mortgage loans in Virginia, Pennsylvania and Delaware.

**Principles Of Consolidation** – The consolidated financial statements include the accounts of Carrollton Bancorp (the Company) and its subsidiary, the Bank. Intercompany balances and transactions have been eliminated.

The Parent Only financial statements of the Company account for the Bank using the equity method of accounting.

**Cash Equivalents** – For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

**Investment Securities** – Investment securities are classified as either available for sale or held to maturity. The Company does not currently conduct short-term purchase and sale transactions of investment securities which would be classified as trading securities.

The Company classifies investments as available for sale based principally on the Company's asset/liability position and potential liquidity needs. These securities are available for sale in response to changes in market interest rates or in the event the Company needs funds to meet loan demand or deposit withdrawals. Securities classified as available for sale are carried at market value. The unrealized gain or loss, net of taxes, related to securities classified as available for sale is reflected as a component of shareholders' equity. Gains or losses on securities sales are determined by the specific-identification method.

The remaining securities in the investment portfolio are classified as held to maturity. These securities are carried at amortized cost. The Company has the ability and the intent to hold these securities to maturity. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of securities.

**Loans Held for Sale** – Loans held for sale are carried at the lower of aggregate cost or market value. Market value is determined based on outstanding investor commitments or, in the absence of such commitments, based on current investor yield requirements. Gains and losses on loan sales are determined using the specific-identification method.

**Loans and Allowance For Loan Losses** – Loans are stated at face value, plus deferred origination costs, less unearned discount, deferred origination fees, and the allowance for loan losses. Interest on loans is credited to income based on the principal amounts outstanding. Origination fees and costs are deferred and amortized to income over the estimated terms of the loans. Accrual of interest is discontinued generally when the collection of principal or interest reaches 90 days past due, or earlier if collection becomes uncertain based upon the financial weakness of the borrower or the realizable value of the collateral. Management may grant a waiver from nonaccrual status for a 90 day past due loan that is well secured or in the process of collection. Nonaccrual loans are returned to accrual status when all past due principal and interest has been collected, and the remainder of the loan is judged to be fully collectible. Loans are considered impaired when, based on current information, management considers it unlikely that the collection of principal and interest payments will be made according to contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued. If collection of principal is evaluated as doubtful, all payments are applied to principal.

The Company measures impaired loans (1) at the observable market price; (2) at the present value of expected cash flows discounted at the loan's effective interest rate; or (3) at the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, an impairment is recognized through the allowance for loan losses.

The allowance for loan losses represents an estimate which, in management's judgment, will be adequate to absorb probable losses on existing loans and other extensions of credit that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans. These evaluations take into consideration such factors as historical loss experience, changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrowers' ability to pay, overall portfolio quality, and review of specific problem areas. Actual loan performance may differ from estimates used by management.

**Premises and Equipment** – Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed over the estimated useful lives using the straight-line method. Leasehold improvements are amortized over the terms of the leases or the estimated useful lives of the improvements, whichever is shorter.

**Foreclosed Real Estate** – Real estate acquired through foreclosure is recorded at the lower of cost or fair market value on the date acquired. Losses incurred at the time of acquisition of the property are charged to the allowance for

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

loan losses. Subsequent reductions in the estimated carrying value of the property and other expenses of owning the property are included in noninterest expense.

**Intangible Assets** – A deposit intangible asset of \$1,847,700, relating to a branch acquisition, is being amortized using the straight-line method over 15 years. The remaining unamortized balance at December 31, 2004 and 2003 was \$677,453 and \$800,633, respectively. Amortization expense was \$123,180 for 2004, 2003, and 2002, respectively.

The Company capitalizes the value of loan servicing retained on loan sales, and amortizes the value over the estimated life of the portfolio of loans serviced.

Intangible assets are included in other assets on the Consolidated Balance Sheets. Management evaluates intangible assets for impairment quarterly.

**Income Taxes** – The provision for income taxes includes taxes payable for the current year and deferred income taxes. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

**Per Share Data** – Basic net income per common share is determined by dividing net income by the weighted average shares of common stock outstanding giving retroactive effect to any stock dividends and splits declared. Diluted earnings per share is determined by adjusting average shares of common stock outstanding by the potentially dilutive effects of stock options outstanding. The dilutive effects of stock options are computed using the treasury stock method.

**Comprehensive Income** – Comprehensive income includes net income and the unrealized gain (loss) on investment securities available for sale, net of income taxes.

**Stock options** – The Company uses the intrinsic value method to account for stock based compensation plans. Because the option price of stock options granted was equal to the market price of the common stock at the date of grant for all options granted, no compensation expense related to the options was recognized. If the Company had applied a fair value based method to recognize compensation cost for the options granted, net income and net income per share would have been changed to the following pro forma amounts for the years ended December 31, 2004, 2003, and 2002.

	2004	2003	2002
Net Income:			
As Reported	\$888,364	\$924,714	\$1,917,258
Additional compensation net of related income tax	<u>(81,812)</u>	<u>(22,727)</u>	<u>(41,824)</u>
Pro forma	<u>\$806,552</u>	<u>\$901,987</u>	<u>\$1,875,434</u>
Basic Earnings Per Share:			
As Reported	\$ 0.31	\$ 0.33	\$ 0.68
Pro forma	0.28	0.32	0.66
Diluted Earnings Per Share:			
As reported	0.31	0.32	0.68
Pro forma	0.28	0.32	0.66

The value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants during the years ended December 31, 2004, 2003, and 2002.

	2004	2003	2002
Dividend yield	2.25%	2.48% to 2.84%	2.84% to 2.97%
Expected volatility	18.15%	20.88%	19.55%
Risk free rate	4.43%	4.25% to 4.67%	4.70% to 5.56%
Estimated life	10 years	10 years	10 years

2. RESTRICTIONS ON CASH AND DUE FROM BANKS

Banks are required to carry cash reserves with the Federal Reserve Bank or maintain cash on hand of specified percentages of deposit balances. The Bank's normal amount of cash on hand, which averaged \$22 million and \$20 million during 2004 and 2003, respectively, is sufficient to satisfy the reserve requirements.

2. RESTRICTIONS ON CASH AND DUE FROM BANKS *(Continued)*

In order to cover the costs of services provided by correspondent banks, the Company maintains compensating balances at these correspondent banks, or pays fees in the event the credit earned on balances is not sufficient to cover activity charges. During 2004 and 2003, the Company maintained an average compensating balance of approximately \$1,000,000 which was maintained at the Federal Reserve Bank.

## 3. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	<i>Amortized cost</i>	<i>Unrealized gains</i>	<i>Unrealized losses</i>	<i>Fair value</i>
December 31, 2004				
<b>AVAILABLE FOR SALE</b>				
U.S. government agency	\$20,061,205	\$ 2,797	\$150,212	\$19,913,790
Mortgage-backed securities	8,287,646	174,560	14,320	8,447,886
State and municipal	4,017,338	120,657	562	4,137,433
Corporate bonds	3,011,368	25,552	—	3,036,920
	<u>35,377,557</u>	<u>323,566</u>	<u>165,094</u>	<u>35,536,029</u>
Equity securities	3,255,196	3,701,667	4,400	6,952,463
	<u>\$38,632,753</u>	<u>\$4,025,233</u>	<u>\$169,494</u>	<u>\$42,488,492</u>
	<i>Amortized cost</i>	<i>Unrealized gains</i>	<i>Unrealized losses</i>	<i>Fair value</i>
December 31, 2003				
<b>AVAILABLE FOR SALE</b>				
U.S. government agency	\$34,536,818	\$ 70,616	\$ 41,149	\$34,566,285
Mortgage-backed securities	9,086,362	541,905	—	9,628,267
State and municipal	5,041,536	159,588	3,408	5,197,716
Corporate bonds	6,578,815	241,525	—	6,820,340
	<u>55,243,531</u>	<u>1,013,634</u>	<u>44,557</u>	<u>56,212,608</u>
Equity securities	3,652,390	2,996,026	402,067	6,246,349
	<u>\$58,895,921</u>	<u>\$4,009,660</u>	<u>\$446,624</u>	<u>\$62,458,957</u>
<b>HELD TO MATURITY</b>				
Foreign Bond	\$ 25,000	\$ —	\$ —	\$ 25,000

Information related to unrealized losses in the portfolio as of December 31, 2004 follows:

	December 31, 2004					
	Less than 12 months		12 months or longer		Total	
	<i>Fair Value</i>	<i>Unrealized Losses</i>	<i>Fair Value</i>	<i>Unrealized Losses</i>	<i>Fair Value</i>	<i>Unrealized Losses</i>
U.S. government agency	\$16,912,860	\$150,212	\$ —	\$ —	\$16,912,860	\$150,212
Mortgage-backed securities	2,386,835	14,320	—	—	2,386,835	14,320
State and municipal	—	—	125,688	562	125,688	562
Equity securities	—	—	11,100	4,400	11,100	4,400
	<u>\$19,299,695</u>	<u>\$164,532</u>	<u>\$ 136,788</u>	<u>\$4,962</u>	<u>\$19,436,483</u>	<u>\$169,494</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

During 2004, the Company wrote down its FHLMC preferred stock securities by \$497,313 to fair value to reflect what the Company considers to be an other-than-temporary impairment of those securities. At December 31, 2004, one marketable equity security had an unrealized loss with aggregate depreciation of 40% from the Company's cost

## 3. INVESTMENT SECURITIES (Continued)

basis. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysis reports, financial performance and projected target prices of investment analysts within a one-year time frame. Unrealized losses on marketable equity securities that are in excess of 50% of cost, and that have been sustained for more than 24 months, are generally recognized by management as being other than temporary and charged to earnings, unless evidence exists to support a realizable value equal to or greater than the Company's carrying value of the investment.

All unrealized losses on U.S. government agency and state and municipal securities as of December 31, 2004 are considered to be temporary losses, because each security will be redeemed at face value at, or prior to maturity. In most cases, the temporary impairment in value is caused by market interest rate fluctuations.

Contractual maturities of debt securities at December 31, 2004 and 2003 are shown below. Actual maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

<i>Maturing</i>	December 31, 2004			
	Available for sale		Held to maturity	
	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Amortized Cost</i>	<i>Fair Value</i>
Within one year	\$18,466,830	\$18,361,490	\$ —	\$ —
Over one to five years	5,840,388	5,860,698	—	—
Over five to ten years	2,782,693	2,865,955	—	—
Mortgage-backed securities	8,287,646	8,447,886	—	—
	<u>\$35,377,557</u>	<u>\$35,536,029</u>	<u>\$ —</u>	<u>\$ —</u>

<i>Maturing</i>	December 31, 2003			
	Available for sale		Held to maturity	
	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Amortized Cost</i>	<i>Fair Value</i>
Within one year	\$ 6,028,398	\$ 6,136,303	\$25,000	\$25,000
Over one to five years	36,783,957	36,988,559	—	—
Over five to ten years	3,344,814	3,459,479	—	—
Mortgage-backed securities	9,086,362	9,628,267	—	—
	<u>\$55,243,531</u>	<u>\$56,212,608</u>	<u>\$25,000</u>	<u>\$25,000</u>

At December 31, 2004 and 2003, securities with an amortized cost of \$26,930,449 (fair value of \$26,941,696) and \$30,077,878 (fair value of \$30,610,239), respectively, were pledged as collateral for government deposits, securities sold under repurchase agreements, and advances from the Federal Home Loan Bank.

In 2004, 2003, and 2002, the Company realized gross gains on sales of securities of \$115,810, \$486,109, and \$209,880, respectively, and losses or write downs of \$497,313, \$0, and \$0, respectively. Income taxes on net security gains were \$(147,336), \$187,735, and \$81,056 in 2004, 2003, and 2002, respectively.

## 4. LOANS

Major classifications of loans at December 31 are as follows:

	2004	2003
Real estate:		
Residential	\$ 55,242,018	\$ 57,586,028
Commercial	94,858,597	82,856,038
Construction and land development	17,774,874	16,275,828
Demand and time	46,168,587	35,978,633
Lease financing	3,598,003	4,449,408
Installment	2,084,215	2,150,626
	<u>219,726,294</u>	<u>199,296,561</u>
Allowance for loan losses	3,485,076	3,648,245
Loans, net	<u>\$216,241,218</u>	<u>\$195,648,316</u>

The Bank makes loans to customers located in Maryland, Virginia, Pennsylvania and Delaware. Although the loan portfolio is diversified, its performance will be influenced by the regional economy.

The maturity and rate repricing distribution of the loan portfolio at December 31 is as follows:

	2004	2003
Repricing or maturing within one year	\$ 93,722,336	\$ 79,048,922
Maturing over one to five years	87,538,764	64,465,542
Maturing over five years	38,465,194	55,782,097
	<u>\$219,726,294</u>	<u>\$199,296,561</u>

Loan balances have been adjusted by the following deferred amounts as of December 31:

	2004	2003
Deferred origination costs and premiums	\$ 458,177	\$ 466,708
Deferred origination fees and unearned discounts	(662,831)	(537,019)
Net deferred fees	<u>\$ (204,654)</u>	<u>\$ (70,311)</u>

Transactions in the allowance for loan losses for the years ended December 31 were as follows:

	2004	2003	2002
Beginning balance	\$3,648,245	\$3,578,762	\$3,338,807
Provision charged to operations	—	243,000	526,000
Recoveries	113,953	91,511	94,561
	<u>3,762,198</u>	<u>3,913,273</u>	<u>3,959,368</u>
Loans charged off	277,122	265,028	380,606
Ending balance	<u>\$3,485,076</u>	<u>\$3,648,245</u>	<u>\$3,578,762</u>

Nonperforming assets and loans past-due 90 days or more but not in nonaccrual status were as follows at December 31:

	2004	2003	2002
Nonaccrual loans	\$ 615,394	\$ 712,116	\$ 734,879
Restructured loans	455,864	661,974	568,969
Foreclosed real estate	—	100,000	218,654
Total nonperforming assets	<u>\$1,071,258</u>	<u>\$1,474,090</u>	<u>\$1,522,502</u>
Accruing loans past-due			
90 days or more	<u>\$1,567,919</u>	<u>\$1,036,018</u>	<u>\$1,900,663</u>

4. LOANS (Continued)

The amount of interest income that would have been recorded in 2004, 2003, and 2002 on nonaccrual loans if those loans had been handled in accordance with their contractual terms totaled \$64,037, \$54,857, and 30,938, respectively. The amount of interest income actually recorded on nonaccrual loans totaled \$32,318, \$30,660, and \$22,878 for 2004, 2003, and 2002, respectively.

At December 31, 2004, 2003, and 2002, the Company had one impaired loan to the same borrower amounting to \$455,864, \$661,974, and \$568,969, respectively, which was classified as impaired because it had been restructured to accept interest only payments for a period of time. The average balance of impaired loans amounted to \$530,680, \$615,021, and \$576,577 in 2004, 2003, and 2002, respectively. During 2004, 2003, and 2002, the Company received total payments on impaired loans of \$341,857, \$34,650, and \$85,189, respectively. Of these amounts, \$75,938, \$34,650, and \$54,614 were recorded as interest income for 2004, 2003, and 2002, respectively. The remainder was applied to reduce principal. There is no specific allowance for this loan since the fair value of the collateral securing the loan is considered adequate to cover all principal and interest due. The Company also continues to accrue interest on this loan due to the adequacy of the collateral value.

Loans with a balance of \$48,231,884 and \$49,827,528 were pledged as collateral to the Federal Home Loan Bank of Atlanta as of December 31, 2004 and 2003, respectively. At December 31, 2004 and 2003, the Company serviced loans for others totaling \$2,383,332 and \$3,423,249, respectively.

5. CREDIT COMMITMENTS

Outstanding loan commitments, unused lines of credit, and letters of credit were as follows as of December 31:

	2004	2003	2002
<b>LOAN COMMITMENTS</b>			
Mortgage loans	\$ 8,899,836	\$ 9,744,958	\$ —
Construction and land development	9,438,961	4,290,726	6,899,380
Commercial loans	13,812,780	19,588,470	9,448,509
	<u>\$32,151,577</u>	<u>\$33,624,154</u>	<u>\$16,347,889</u>
<b>UNUSED LINES OF CREDIT</b>			
Home equity lines	\$55,883,051	\$48,536,491	\$46,945,198
Commercial lines	25,467,308	24,667,060	22,608,235
Unsecured consumer lines	1,405,075	1,396,869	369,182
	<u>\$82,755,434</u>	<u>\$74,600,420</u>	<u>\$69,922,615</u>
<b>LETTERS OF CREDIT</b>			
	<u>\$ 2,910,330</u>	<u>\$ 2,795,649</u>	<u>\$ 3,166,123</u>

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have interest rates fixed at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The Company's exposure to credit loss in the event of nonperformance by the borrower is the contract amount of the commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Company is not aware of any accounting loss it would incur by funding the above commitments.

6. RELATED PARTY TRANSACTIONS

The Company's executive officers and directors, or other entities to which they are related, enter into loan transactions with the Bank in the ordinary course of business. The terms of these transactions are similar to the terms provided to other borrowers entering into similar loan transactions and do not involve more than normal risk of

## 6. RELATED PARTY TRANSACTIONS (Continued)

collectibility. During the years ended December 31, 2004, 2003 and 2002, transactions in related party loans were as follows:

	2004	2003	2002
Beginning balance	\$ 3,209,200	\$ 4,421,030	\$ 5,264,386
Additions	1,040,580	648,991	1,184,451
Repayments	<u>(2,429,063)</u>	<u>(1,860,821)</u>	<u>(2,027,807)</u>
Ending balance	<u>\$ 1,820,717</u>	<u>\$ 3,209,200</u>	<u>\$ 4,421,030</u>

A director of the Company is a partner in a law firm that provides legal services to the Company and the Bank. During the years ended December 31, 2004, 2003, and 2002, amounts paid to the law firm in connection with those services were \$249,341, \$259,502, and \$224,138, respectively.

A director of the Company is President of an insurance brokerage through which the Company and the Bank place various insurance policies. During the years ended December 31, 2004, 2003, and 2002, amounts paid to the insurance brokerage for insurance premiums were \$192,234, \$244,721, and \$153,656, respectively. Related commissions amounted to \$28,660, \$32,528, and \$17,724 during the years ended December 31, 2004, 2003, and 2002, respectively.

A director of the Company is President of an electrical company through which the Company and the Bank contracted for electrical services amounting to \$0 in 2004, \$3,341 in 2003, and \$4,623 in 2002.

A director of the Company is the Executive Vice President for a commercial real estate services company, through which the Company and the Bank contracted for appraisal and management services amounting to \$739,712 in 2004, \$100,949 in 2003, and \$3,744 in 2002.

## 7. PREMISES AND EQUIPMENT

A summary of premises and equipment is as follows as of December 31:

	2004	2003
Land and improvements	\$ 909,544	\$ 909,544
Buildings	2,850,977	2,730,050
Leasehold improvements	2,773,689	2,146,153
Equipment and fixtures	<u>7,930,744</u>	<u>7,821,438</u>
	14,464,954	13,607,185
Accumulated depreciation and amortization	<u>(9,048,020)</u>	<u>(8,527,634)</u>
	<u>\$ 5,416,934</u>	<u>\$ 5,079,551</u>

Buildings have useful lives of 7 to 40 years. Leasehold improvements have useful lives of 1 to 40 years. Equipment and fixtures have useful lives of 3 to 40 years.

Depreciation and amortization of premises and equipment was \$1,059,198, \$1,275,612, and \$1,481,612 for 2004, 2003, and 2002, respectively. Amortization of intangible assets, excluding amortization of deposit premiums, was \$72,962, \$41,811, and \$45,756 for 2004, 2003, and 2002, respectively.

During the year ended December 31, 2002, the Company sold its Baltimore Street property for \$200,000. The Bank also sold deposits, along with all assets located within its Liberty Road branch.

## 8. DEPOSITS

Major classifications of interest-bearing deposits are as follows as of December 31:

	2004	2003
NOW and Super NOW	\$ 35,662,256	\$ 37,515,591
Money market	31,041,530	27,957,320
Savings	35,934,645	36,754,460
Certificates of deposit of \$100,000 or more	9,321,990	9,225,093
Other time deposits (a)	<u>60,145,953</u>	<u>53,118,800</u>
	<u>\$172,106,374</u>	<u>\$164,571,264</u>

(a) Includes CDARS deposits, all of which are < \$100,000.

8. DEPOSITS (Continued)

Interest expense associated with certificates of deposit of \$100,000 or more was approximately \$145,000, \$868,000, and \$1,198,000 for the years ended December 31, 2004, 2003, and 2002, respectively.

Time deposits mature as follows:

	December 31,	
	2004	2003
Maturing within one year	\$51,131,664	\$48,928,167
Maturing over one to two years	9,712,718	6,325,619
Maturing over two to three years	3,936,965	3,365,557
Maturing over three to four years	1,362,043	2,054,149
Maturing over four to five years	3,324,553	1,670,401
	<u>\$69,467,943</u>	<u>\$62,343,893</u>

9. BORROWED FUNDS

Federal funds purchased and securities sold under agreements to repurchase represent transactions with customers for correspondent or commercial account cash management services, and borrowings by the Company under lines of credit with other institutions. The transactions with customers are overnight borrowing arrangements with interest rates discounted from the federal funds sold rate. Securities underlying the customer repurchase agreements are maintained in the Company's control. Additional information is as follows:

	2004	2003	2002
Total outstanding at year end	\$10,183,951	\$11,951,594	\$11,535,372
Average amount outstanding during year	9,983,370	12,324,539	11,739,672
Maximum amount outstanding at any month end	13,540,231	14,733,180	12,939,282
Weighted average interest rate at year end	1.91%	1.22%	0.82%
Weighted average interest rate for the year	0.96%	0.71%	0.92%

Notes payable – U.S. Treasury are Federal Treasury Tax and Loan deposits accepted by the Bank from its customers to be remitted to the Federal Reserve Bank on a periodic basis. The Company pays interest on these deposits at a slight discount to the federal funds rate. The average balances of the notes were \$1,051,267 and \$910,061 during 2004 and 2003, respectively.

Advances from the Federal Home Loan Bank (FHLB) of Atlanta amounted to \$45,000,000 at December 31, 2004 and 2003. Advances averaged \$45,000,000 for both 2004 and 2003, with a weighted average cost of 6.74% for both 2004 and 2003. At both December 31, 2004 and 2003, the advances carried a weighted average interest rate of 6.74%, and mature at dates ranging from March 26, 2008 to May 24, 2010. The Bank has a total secured line of \$80 million with the FHLB for which the Bank granted the FHLB a security interest in certain residential first mortgage loans and commercial mortgage loans, as well as pledged investment securities (see notes 3 and 4).

The Company borrows under available unsecured federal funds lines of credit of \$5 million with other institutions. There was no balance outstanding under these lines at December 31, 2004 and 2003. These lines bear interest at the current federal funds rate of the correspondent bank.

## 10. OTHER NONINTEREST EXPENSES

Other noninterest expenses include the following for the years ended December 31:

	2004	2003	2002
ATM services	\$1,134,848	\$1,458,647	\$1,474,497
Data processing services	719,445	1,025,536	809,215
Carrier service	479,131	367,186	386,094
Employee-related expenses	306,678	294,645	176,789
Marketing	287,343	187,172	85,849
Printing, stationery, and supplies	282,914	193,616	217,188
Postage and freight	228,030	208,914	176,675
Liability insurance	216,890	181,657	135,656
Loan expenses	215,570	123,910	81,641
Telephone	195,867	221,363	240,999
Professional services	187,784	573,684	406,946
Directors' fees	165,950	139,950	141,150
Deposit premium amortization	123,180	123,180	123,180
Shareholder expense	91,283	36,000	97,171
Bank account charges	88,134	73,490	91,827
Software amortization	72,962	41,811	45,756
Other	552,638	74,685	95,573
	<u>\$5,348,647</u>	<u>\$5,325,446</u>	<u>\$4,786,206</u>

## 11. STOCK OPTIONS

The Company adopted a stock option incentive plan in 1998, which provides for the granting of common stock options to directors and key employees. In 2004, the shareholders approved increasing the number of shares available for grant under the Plan from 210,000 shares to 300,000 shares. These stock option awards contain a serial feature whereby one third of the options granted vest and can be exercised after each year. Option prices are equal to the estimated fair market value of the common stock at the date of the grant. Options expire ten years after the date of grant or upon employee termination if not exercised.

Information with respect to options outstanding is as follows for the years ended December 31:

	2004		2003		2002	
	<i>Shares</i>	<i>Option Price Range</i>	<i>Shares</i>	<i>Option Price Range</i>	<i>Shares</i>	<i>Option Price Range</i>
Outstanding at beginning of year	174,785		179,025		162,434	
Granted	32,430	\$16.02 to \$16.22	9,930	\$14.50 to \$17.75	39,690	\$12.11 to \$12.67
Exercised	(8,845)	\$9.71 to \$15.42	(6,085)	\$9.71 to \$13.45	—	
Expired/Canceled	(4,900)	\$10.94 to \$18.10	(8,085)	\$10.94 to \$18.10	(23,099)	\$9.71 to \$18.10
Outstanding at end of year	<u>193,470</u>	\$9.71 to \$18.10	<u>174,785</u>	\$9.71 to \$18.10	<u>179,025</u>	\$9.71 to \$18.10
Exercisable at December 31	<u>143,919</u>		<u>137,580</u>		<u>100,135</u>	

## 11. STOCK OPTIONS (Continued)

A Summary of information about stock options outstanding is as follows at December 31, 2004:

<i>Weighted Average Exercise Price</i>	<i>Shares</i>	<i>Weighted Average Remaining Life (Years)</i>	<i>Shares Underlying Options Currently Exercisable</i>
\$ 9.71	3,150	6.33	3,150
10.54	840	6.16	840
10.94	32,975	6.42	32,975
12.11	5,460	7.33	3,640
12.14	630	7.16	420
12.67	26,250	7.58	17,500
13.45	19,425	5.58	19,425
13.45	3,580	5.33	3,580
14.50	6,510	8.33	2,170
15.36	3,150	4.33	3,150
15.42	26,670	4.35	26,670
15.48	1,050	4.83	1,050
16.02	25,500	9.58	—
16.22	6,930	9.33	—
16.70	3,150	3.16	3,150
17.75	3,000	8.92	999
17.79	22,050	3.35	22,050
18.10	3,150	3.33	3,150
	<u>193,470</u>		<u>143,919</u>

## 12. NET INCOME PER SHARE

The calculation of net income per common share as restated giving retroactive effect to any stock dividends and splits is as follows for the years ended December 31:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
<b>BASIC:</b>			
Net income (applicable to common stock)	\$ 888,364	\$ 924,714	\$ 1,917,258
Average common shares outstanding	2,831,880	2,825,077	2,832,265
Basic net income per share	\$ 0.31	\$ 0.33	\$ 0.68
<b>DILUTED:</b>			
Net income (applicable to common stock)	\$ 888,364	\$ 924,714	\$ 1,917,258
Average common shares outstanding	2,831,880	2,825,077	2,832,265
Stock option adjustment	28,366	27,810	5,093
Average common shares outstanding-diluted	<u>2,860,246</u>	<u>2,852,887</u>	<u>2,837,358</u>
Diluted net income per share	<u>\$ 0.31</u>	<u>\$ 0.32</u>	<u>\$ 0.68</u>

## 13. COMPREHENSIVE INCOME

Comprehensive income is defined as net income plus transactions and other occurrences which are the result of nonowner changes in equity. For the Company, nonowner equity changes are comprised of unrealized gains or losses on available for sale securities that will be accumulated with net income in determining comprehensive income. Presented below is a reconciliation of net income to comprehensive income for the years ended December 31:

	2004	2003	2002
Net Income	\$ 888,364	\$ 924,714	\$1,917,258
Other comprehensive income:			
Unrealized holding gains (losses) during the period	(88,800)	1,217,864	1,006,004
Add: Security impairment write down	497,313	—	—
Less: Adjustment for security gains	(115,810)	(486,109)	(209,880)
Other comprehensive income before tax	292,703	731,755	796,124
Income taxes on comprehensive income	(113,042)	(282,603)	(307,463)
Other comprehensive income after tax	179,661	449,152	488,661
Comprehensive income	<u>\$1,068,025</u>	<u>\$1,373,866</u>	<u>\$2,405,919</u>

## 14. CAPITAL STANDARDS

The Federal Reserve Board and the FDIC have adopted risk-based capital standards for banking organizations. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. As of December 31, 2004 and 2003, the capital ratios and minimum capital requirements are as follows:

	Actual		Minimum Capital Adequacy		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>DECEMBER 31, 2004</b>						
Total Capital (to risk-weighted assets)						
Consolidated	\$32,832,000	12.74%	\$20,616,000	8.0%	\$25,770,000	10.0%
Carrollton Bank	32,680,000	12.96%	20,168,000	8.0%	25,210,000	10.0%
Tier 1 Capital (to risk-weighted assets)						
Consolidated	29,677,000	11.52%	10,308,000	4.0%	15,462,000	6.0%
Carrollton Bank	29,525,000	11.71%	10,084,000	4.0%	15,126,000	6.0%
Tier 1 Capital (to average assets)						
Consolidated	29,677,000	9.41%	12,616,000	4.0%	15,770,000	5.0%
Carrollton Bank	29,525,000	9.49%	12,447,000	4.0%	15,559,000	5.0%
<b>DECEMBER 31, 2003</b>						
Total Capital (to risk-weighted assets)						
Consolidated	\$34,998,000	15.51%	\$18,049,000	8.0%	\$22,562,000	10.0%
Carrollton Bank	31,581,000	14.12%	17,895,000	8.0%	22,368,000	10.0%
Tier 1 Capital (to risk-weighted assets)						
Consolidated	31,014,000	13.75%	9,025,000	4.0%	13,537,000	6.0%
Carrollton Bank	28,774,000	12.86%	8,947,000	4.0%	13,421,000	6.0%
Tier 1 Capital (to average assets)						
Consolidated	31,014,000	10.35%	11,983,000	4.0%	14,979,000	5.0%
Carrollton Bank	28,774,000	9.75%	11,799,000	4.0%	14,749,000	5.0%

Tier 1 capital consists of common stock, surplus, and retained earnings. Total capital includes a limited amount of the allowance for loan losses. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off-balance sheet items.

Failure to meet the capital requirements could affect the Company's ability to pay dividends and accept deposits and may significantly affect the operations of the Company.

As of December 31, 2004, the most recent notification from the Federal Reserve and the FDIC categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company's or Bank's category.

## 15. RETIREMENT PLANS

The Company has a defined benefit pension plan covering substantially all of the employees. Benefits are based on years of service and the employee's highest average rate of earnings for the three consecutive years during the last five full years before retirement. Assets of the plan are held in a trust fund managed by an insurance company. During 2004, the Company froze the Plan and incurred a curtailment charge of \$23,644.

The following table sets forth the financial status of the plan as of and for the year ended December 31:

	2004	2003	2002
<b>CHANGE IN BENEFIT OBLIGATION:</b>			
Benefit obligation at beginning of year	\$8,820,583	\$8,201,071	\$7,225,216
Service cost	528,407	434,987	391,125
Interest cost	545,710	544,400	496,375
Actuarial gain	69,083	21,234	409,288
Benefits paid	(331,542)	(381,109)	(320,933)
Adjustment for special event – curtailment	(1,893,235)	—	—
Benefit obligation at end of year	<u>7,739,006</u>	<u>8,820,583</u>	<u>8,201,071</u>
<b>CHANGE IN PLAN ASSETS:</b>			
Fair value of plan assets at beginning of year	7,399,746	6,161,247	6,735,251
Actual return on plan assets	271,153	1,152,983	(581,876)
Employer contribution	450,000	466,625	328,805
Benefits paid	(390,181)	(381,109)	(320,933)
Fair value of plan assets at end of year	<u>7,730,718</u>	<u>7,399,746</u>	<u>6,161,247</u>
Funded status	(8,288)	(1,420,837)	(2,039,824)
Unrecognized net actuarial (gain) loss	(15,901)	1,537,550	2,244,035
Unrecognized prior service cost	—	73,501	126,928
Prepaid (accrued) benefit cost	<u>\$ (24,189)</u>	<u>\$ 190,214</u>	<u>\$ 331,139</u>
<b>ASSUMPTIONS USED IN MEASURING THE PROJECTED BENEFIT OBLIGATION WERE AS FOLLOWS FOR THE YEARS ENDED DECEMBER 31:</b>			
Discount rates	6.75%	6.25%	6.75%
Rates of increase in compensation levels	5.50%	4.25%	5.50%
Long-term rate of return on assets	9.00%	8.00%	9.00%
<b>NET PENSION EXPENSE INCLUDES THE FOLLOWING COMPONENTS:</b>			
Service cost	\$ 528,407	\$ 434,987	\$ 391,125
Interest cost	545,710	544,400	496,375
Estimated return on assets	(558,384)	(538,297)	(605,295)
Net amortization and deferral	148,670	166,460	51,065
Net pension expense	<u>\$ 664,403</u>	<u>\$ 607,550</u>	<u>\$ 333,270</u>
<b>ACCUMULATED BENEFIT OBLIGATION AT YEAR END</b>	<u>\$7,739,006</u>	<u>\$7,089,425</u>	<u>\$6,180,465</u>
<b>ALLOCATION OF ASSETS</b>			
Equity securities	\$3,715,646	\$3,361,235	
Fixed income-guaranteed fund	4,015,072	4,038,511	
	<u>\$7,730,718</u>	<u>\$7,399,746</u>	

The Plan's investment strategy is predicated on its investment objectives and the risk and return expectations of asset classes appropriate for the Plan. Investment objectives have been established by considering the Plan's liquidity needs and time horizon and the fiduciary standards under ERISA. The asset allocation strategy is developed to meet the Plan's long term needs in a manner designed to control volatility and to reflect the Company's risk tolerance.

In determining the long-term rate of return on pension plan assets assumption, the target asset allocation is first reviewed. An expected long-term rate of return is assumed for each asset class, and an underlying inflation rate assumption is also made. The effects of asset diversification and periodic fund rebalancing are also considered.

The Company has a contributory thrift plan qualifying under Section 401(k) of the Internal Revenue Code. Employees with one year of service are eligible for participation in the plan. In conjunction with the curtailment of the pension plan, the Company expanded the thrift plan to make it a Safe Harbor Plan. Once an employee has been

15. RETIREMENT PLANS *(Continued)*

at the Company for one year, the Company then contributes 3% of the employee's salary quarterly to the plan for the employee's benefit. The Company's contributions to this plan, included in employee benefit expenses, were \$92,485, \$70,678, and \$88,866 for 2004, 2003, and 2002, respectively.

## 16. CONTINGENCIES

The Company is involved in various legal actions arising from normal business activities. Management believes that the ultimate liability or risk of loss resulting from these actions will not materially affect the Company's financial position.

## 17. INCOME TAXES

The components of income tax expense are as follows for the years ended December 31:

	2004	2003	2002
<b>CURRENT</b>			
Federal	\$428,205	\$577,840	\$ 988,868
State	91,038	14,468	50,939
	519,243	592,308	1,039,807
<b>DEFERRED</b>	(198,755)	(253,808)	(192,177)
	<u>\$320,488</u>	<u>\$338,500</u>	<u>\$ 847,630</u>

The components of the deferred tax benefits were as follows for the years ended December 31:

	2004	2003	2002
Provision for loan losses	\$ 62,425	\$ (26,244)	\$(125,757)
Deferred loan origination costs	6,794	(39,382)	(112,822)
Deferred compensation plan	3,128	4,099	892
Depreciation	7,004	(136,195)	(29,292)
Discount accretion	(2,140)	(1,661)	3,246
Retirement benefits	(83,904)	(54,425)	(1,724)
Impairment loss provisions	(192,062)	—	73,280
	<u>\$(198,755)</u>	<u>\$(253,808)</u>	<u>\$(192,177)</u>

The components of the net deferred tax liability were as follows for the years ended December 31:

	2004	2003	2002
<b>DEFERRED TAX ASSETS</b>			
Allowance for loan losses	\$1,110,802	\$1,173,227	\$1,146,983
Deferred compensation plan	206,665	209,793	213,892
Prepaid retirement benefits	9,342	—	—
	<u>1,326,809</u>	<u>1,383,020</u>	<u>1,360,875</u>
<b>DEFERRED TAX LIABILITIES</b>			
Accrued retirement benefits	—	74,562	128,987
Deferred loan origination costs	131,884	125,090	164,472
Unrealized gains on available for sale investment securities	1,297,024	1,376,044	1,093,441
Depreciation	92,812	85,808	222,003
Discount accretion	3,832	5,972	7,633
FHLB Stock dividends	2,019	2,019	2,019
	<u>1,527,571</u>	<u>1,669,495</u>	<u>1,618,555</u>
<b>NET DEFERRED TAX LIABILITY</b>	<u>\$ (200,762)</u>	<u>\$ (286,475)</u>	<u>\$ (257,680)</u>

17. INCOME TAXES *(Continued)*

The differences between the federal income tax rate of 34 percent and the effective tax rate for the Company are reconciled as follows:

	<i>2004</i>	<i>2003</i>	<i>2002</i>
Statutory federal income tax rate	34.0%	34.0%	34.0%
Increase (Decrease) resulting from:			
Tax-exempt income	(10.2)	(9.3)	(4.8)
State income taxes, net of federal income tax benefit	1.9	1.5	1.2
Nondeductible expense	0.8	0.6	0.3
	<u>26.5%</u>	<u>26.8%</u>	<u>30.7%</u>

18. LEASE COMMITMENTS

The Company leases various branch and general office facilities to conduct its operations. The leases have remaining terms which range from a period of 1 year to 20 years. Most leases contain renewal options which are generally exercisable at increased rates. Some of the leases provide for increases in the rental rates at specified times during the lease terms, prior to the expiration dates.

The leases generally provide for payment of property taxes, insurance, and maintenance costs by the Company. The total rental expense for all real property leases amounted to \$779,709, \$615,032, and \$569,703 for 2004, 2003, and 2002, respectively.

Lease obligations will require minimum rent payments as follows:

<i>Period</i>	<i>Minimum rentals</i>
2005	\$ 689,744
2006	556,987
2007	477,314
2008	402,545
2009	316,942
Remaining years	<u>4,360,216</u>
	<u>\$6,803,748</u>

## 19. PARENT COMPANY FINANCIAL INFORMATION

The balance sheets as of December 31, 2004 and 2003 and statements of income and cash flows for Carrollton Bancorp (Parent Only) for 2004, 2003, and 2002, are presented below:

## BALANCE SHEETS

	December 31,	
	2004	2003
<b>ASSETS</b>		
Cash	\$ 23,413	\$ 52,999
Interest-bearing deposits in subsidiary	60,765	570,547
Investment in subsidiary	30,296,137	30,314,976
Investment securities available for sale	5,579,821	4,746,989
Other assets	25,740	26,401
	<u>\$35,985,876</u>	<u>\$35,711,912</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities	\$ 1,770,596	\$ 1,587,030
Shareholders' Equity		
Common Stock	2,834,823	2,828,078
Surplus	18,774,448	18,682,387
Retained earnings	10,239,356	10,427,425
Accumulated other comprehensive income	2,366,653	2,186,992
	<u>34,215,280</u>	<u>34,124,882</u>
	<u>\$35,985,876</u>	<u>\$35,711,912</u>

## STATEMENTS OF INCOME

	Years ended December 31,		
	2004	2003	2002
<b>INCOME</b>			
Dividends from subsidiary	\$588,273	\$258,840	\$ 235,309
Interest and dividends	132,490	157,236	128,866
Security gains	—	462,778	209,880
	<u>720,763</u>	<u>878,854</u>	<u>574,055</u>
<b>EXPENSES</b>			
	<u>105,403</u>	<u>86,855</u>	<u>92,624</u>
Income before income taxes and equity in undistributed net income of subsidiary	615,360	791,999	481,431
Income tax expense (benefit)	(21,691)	171,968	62,236
	<u>637,051</u>	<u>620,031</u>	<u>419,195</u>
Equity in undistributed net income of subsidiary	251,313	304,683	1,498,063
Net Income	<u>\$888,364</u>	<u>\$924,714</u>	<u>\$1,917,258</u>

## 19. PARENT COMPANY FINANCIAL INFORMATION (Continued)

## STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2004	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 888,364	\$ 924,714	\$1,917,258
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Equity in undistributed income of subsidiary	(251,313)	(304,683)	(1,498,063)
Security gains	—	(462,778)	(209,880)
Decrease (increase) in other assets	662	(26,401)	—
Increase (decrease) in other liabilities	920,110	289,445	62,563
Net cash provided by operating activities	<u>1,557,823</u>	<u>420,297</u>	<u>271,878</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net (increase) decrease in interest-bearing deposits	(509,782)	(156,691)	59,038
Purchase of securities available for sale	(100,000)	—	—
Proceeds from sales of securities available for sale	—	719,381	600,596
Net cash provided by (used in) investing activities	<u>(609,782)</u>	<u>562,690</u>	<u>659,634</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Dividends paid	(1,076,433)	(1,016,785)	(973,902)
Common stock repurchase and retirement	(32,655)	—	(199,321)
Stock options exercised	131,461	76,722	—
Net cash used in financing activities	<u>(977,627)</u>	<u>(940,063)</u>	<u>(1,173,223)</u>
Net (decrease) increase in cash	(29,586)	42,924	(241,711)
Cash at beginning of year	52,999	10,075	251,786
Cash at end of year	<u>\$ 23,413</u>	<u>\$ 52,999</u>	<u>\$ 10,075</u>
<b>NONCASH ACTIVITIES:</b>			
Income taxes paid, net of cash received from subsidiaries	<u>\$ 53,475</u>	<u>\$ 147,417</u>	<u>\$ 8,942</u>

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments are summarized below. The fair values of a significant portion of these financial instruments are estimates derived using present value techniques prescribed by the FASB and may not be indicative of the net realizable or liquidation values. Also, the calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

	December 31, 2004		December 31, 2003	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	\$ 34,192,544	\$ 34,192,544	\$ 27,300,926	\$ 27,300,926
Investment securities (total)	42,488,492	42,488,492	62,483,957	62,483,957
Federal Home Loan Bank stock	2,622,900	2,622,900	2,250,000	2,250,000
Loans held for sale	10,219,729	10,438,684	2,241,583	2,326,387
Loans, net	216,241,218	218,555,856	195,648,316	217,381,629
Accrued interest receivable	1,295,719	1,295,719	1,421,554	1,421,554
<b>FINANCIAL LIABILITIES</b>				
Noninterest-bearing deposits	\$ 53,739,771	\$ 53,739,771	\$ 42,484,836	\$ 42,484,836
Interest-bearing deposits	172,106,374	172,460,896	164,571,264	165,649,405
Federal funds purchased	687,883	687,883	3,507,348	3,507,348
Securities sold under agreements to repurchase	9,496,068	9,496,068	8,444,246	8,444,246
Notes payable-U.S. Treasury	1,984,714	1,984,714	2,025,339	2,025,339
Advances from the Federal Home Loan Bank	45,000,000	50,629,817	45,000,000	55,430,707
Accrued interest payable	493,179	493,179	451,055	451,055

The fair values of U.S. Treasury and government agency securities, corporate bonds, mortgage-backed securities, and listed equity securities are determined using market quotations. For state and municipal securities, the fair values are estimated using a matrix that considers yield to maturity, credit quality, and marketability.

The fair value of fixed-term loans is estimated to be the present value of scheduled payments, and anticipated prepayments in the case of residential mortgages, discounted using interest rates currently in effect for loans of the same class and term. The fair value of variable-rate loans is estimated to equal the carrying amount. The valuations of fixed-term and variable-rate loans are adjusted for possible loan losses.

The fair value of interest-bearing checking, savings, and money market deposit accounts is equal to the carrying amount. The fair value of fixed-maturity time deposits is estimated based on interest rates currently offered for deposits of similar remaining maturities.

Generally, the Company charges fees for commitments to extend credit. Interest rates on commitments to extend credit are normally committed for periods of less than one month. Fees charged on standby letters of credit are deemed to be immaterial and these guarantees are expected to be settled at face amount or expire unused. It is impractical to assign any fair value to these commitments.

## 21. SEGMENT INFORMATION

The Company has reportable segments that are strategic business units offering complimentary products and services to the core business of banking. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company provides the accounting for all segments and charges a management fee for this service to the other segments. The Company has also lent money to various segments with terms similar to those offered third parties.

The Commercial/Retail Bank segment provides full service retail and business banking services, including lending and deposit services, investment activities and other customary services associated with a bank.

The Electronic Banking segment provides off-site ATM services, national point of sale transaction originations, home banking, and debit card transaction processing.

The Brokerage segment provides full service brokerage services for stocks, bonds, mutual funds and annuities.

The Mortgage Unit segment provides residential mortgage lending products and services.

## 21. SEGMENT INFORMATION (Continued)

Segment information for the Company for 2004 is as follows:

	<i>Commercial/ Retail Bank</i>	<i>Electronic Banking</i>	<i>Brokerage</i>	<i>Mortgage Unit</i>	<i>Segment Totals</i>	<i>Eliminations</i>	<i>Consolidated</i>
Interest income	\$ 12,967,518	\$ —	\$ —	\$ 1,871,921	\$ 14,839,439	\$ 660,884	\$ 15,500,323
Interest expense	(4,546,465)	(114,273)	—	—	(4,660,738)	(660,884)	(5,321,622)
Net interest income	8,421,053	(114,273)	—	1,871,921	10,178,701	—	10,178,701
Noninterest income	996,456	4,714,411	644,802	2,425,482	8,781,151	—	8,781,151
Intersegment income	665,091	—	2,615	(651,657)	16,049	(16,049)	—
Noninterest expenses	(10,588,278)	(3,504,470)	(482,356)	(3,191,945)	(17,767,049)	16,049	(17,751,000)
Income before income taxes	(505,678)	1,095,668	165,061	453,801	1,208,852	—	1,208,852
Income taxes	348,411	(423,147)	(70,495)	(175,257)	(320,488)	—	(320,488)
Net income	\$ (157,267)	\$ 672,521	\$ 94,566	\$ 278,544	\$ 888,364	\$ —	\$ 888,364
Segment assets	\$316,116,470	\$ 4,999,471	\$ 168,524	\$20,374,769	\$341,659,234	\$ (22,536,102)	\$319,123,132
Expenditures for segment purchases of premises, equipment and software	\$ 1,466,051	\$ 349,932	\$ 37,297	\$ 82,084	\$ 1,935,364	\$ —	\$ 1,935,364

A reconciliation of total segment assets to consolidated total assets follows as of December 31, 2004:

Total segment assets	\$341,659,234
Elimination of intersegment loans	(21,988,401)
Elimination of intersegment deposit accounts	(547,701)
	<u>\$319,123,132</u>

Segment information for the Company for 2003 is as follows:

	<i>Commercial/ Retail Bank</i>	<i>Electronic Banking</i>	<i>Brokerage</i>	<i>Mortgage Unit</i>	<i>Segment Totals</i>	<i>Eliminations</i>	<i>Consolidated</i>
Interest income	\$ 15,065,256	\$ —	\$ 3,962	\$ 579,609	\$ 15,648,827	\$ 286,864	\$ 15,935,691
Interest expense	(5,901,928)	(177,442)	—	(273,500)	(6,352,870)	(286,864)	(6,639,734)
Net interest income	9,163,328	(177,442)	3,962	306,109	9,295,957	—	9,295,957
Provision for loan losses	(231,000)	—	—	(12,000)	(243,000)	—	(243,000)
Noninterest income	2,076,622	4,734,112	793,572	664,306	8,268,612	—	8,268,612
Intersegment income	100,724	—	—	—	100,724	(100,724)	—
Noninterest expenses	(10,944,649)	(3,821,983)	(509,665)	(882,782)	(16,159,079)	100,724	(16,058,355)
Income before income taxes	165,025	734,687	287,869	75,633	1,263,214	—	1,263,214
Income taxes	85,622	(283,736)	(111,175)	(29,211)	(338,500)	—	(338,500)
Net income	\$ 250,647	\$ 450,951	\$ 176,694	\$ 46,422	\$ 924,714	\$ —	\$ 924,714
Segment assets	\$296,158,289	\$ 6,571,225	\$ 340,094	\$ 5,383,870	\$308,453,478	\$ (6,043,503)	\$302,409,975
Expenditures for segment purchases of premises, equipment and software	\$ 787,225	\$ 74,423	\$ —	\$ 61,992	\$ 923,640	\$ —	\$ 923,640

A reconciliation of total segment assets to consolidated total assets follows as of December 31, 2003:

Total segment assets	\$308,453,478
Elimination of intersegment loans	(4,518,191)
Elimination of intersegment deposit accounts	(1,525,312)
	<u>\$302,409,975</u>

## 21. SEGMENT INFORMATION (Continued)

Segment information for the Company for 2002 is as follows:

	<i>Commercial/ Retail Bank</i>	<i>Electronic Banking</i>	<i>Brokerage</i>	<i>Mortgage Unit</i>	<i>Segment Totals</i>	<i>Eliminations</i>	<i>Consolidated</i>
Interest income	\$ 16,880,426	\$ —	\$ 3,826	\$ 1,285,642	\$ 18,169,894	\$ 815,470	\$ 18,985,364
Interest expense	(6,797,663)	(278,423)	—	(800,764)	(7,876,850)	(815,470)	(8,692,320)
Net interest income	10,082,763	(278,423)	3,826	484,878	10,293,044	—	10,293,044
Provision for loan losses	(502,000)	—	—	(24,000)	(526,000)	—	(526,000)
Noninterest income	2,640,874	4,222,976	670,952	—	7,534,802	—	7,534,802
Intersegment income	65,119	—	—	—	65,119	(65,119)	—
Noninterest expenses	(10,372,136)	(3,621,027)	(535,204)	(73,710)	(14,602,077)	65,119	(14,536,958)
Income before income taxes	1,914,620	323,526	139,574	387,168	2,764,888	—	2,764,888
Income taxes	(519,487)	(124,946)	(53,673)	(149,524)	(847,630)	—	(847,630)
Net income	\$ 1,395,133	\$ 198,580	\$ 85,901	\$ 237,644	\$ 1,917,258	\$ —	\$ 1,917,258
Segment assets	\$311,072,820	\$12,714,617	\$ 237,172	\$12,279,240	\$336,303,849	\$(12,082,234)	\$324,221,615
Expenditures for segment purchases of premises, equipment and software	\$ 305,036	\$ 62,124	\$ —	\$ —	\$ 367,160	\$ —	\$ 367,160

A reconciliation of total segment assets to consolidated total assets follows as of December 31, 2002:

Total segment assets	\$336,303,849
Elimination of intersegment loans	(11,072,112)
Elimination of intersegment deposit accounts	(1,010,122)
	<u>\$324,221,615</u>

## 22. CONSOLIDATED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Year Ended December 31, 2004

	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>
Interest income	\$3,790,140	\$3,811,468	\$3,867,106	\$4,031,609
Interest expense	(1,276,800)	(1,275,781)	(1,317,334)	(1,451,707)
Net interest income	2,513,340	2,535,687	2,549,772	2,579,902
Security gains	115,810	—	—	—
Other income	1,954,704	2,155,806	2,191,752	2,363,079
Operating expenses	(4,171,692)	(4,167,106)	(4,540,898)	(4,871,304)
Income before taxes	412,162	524,387	200,626	71,677
Income taxes	(105,190)	(169,247)	(51,744)	5,693
Net income	\$ 306,972	\$ 355,140	\$ 148,882	\$ 77,370
Net income per share – basic	\$ 0.11	\$ 0.13	\$ 0.05	\$ 0.02
Cash dividends per share	\$ 0.09	\$ 0.09	\$ 0.10	\$ 0.10
Market prices: high	\$ 18.21	\$ 18.13	\$ 17.20	\$ 17.80
low	\$ 17.80	\$ 15.65	\$ 14.80	\$ 15.70

## 22. CONSOLIDATED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) (Continued)

	Year Ended December 31, 2003			
	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>
Interest income	\$4,241,869	\$4,060,277	\$3,865,703	\$3,767,842
Interest expense	(1,943,872)	(1,926,524)	(1,452,690)	(1,316,648)
Net interest income	2,297,997	2,133,753	2,413,013	2,451,194
Provision for loan losses	(121,500)	(121,500)	—	—
Security gains	154,118	192,879	115,781	23,331
Other income	1,759,179	1,982,259	2,192,819	1,848,246
Operating expenses	(3,532,988)	(3,833,056)	(4,222,518)	(4,469,793)
Income before taxes	556,806	354,335	499,095	(147,022)
Income taxes	(207,561)	(89,574)	(133,742)	92,377
Net income	<u>\$ 349,245</u>	<u>\$ 264,761</u>	<u>\$ 365,353</u>	<u>\$ (54,645)</u>
Net income per share – basic	<u>\$ 0.12</u>	<u>\$ 0.09</u>	<u>\$ 0.13</u>	<u>\$ (0.01)</u>
Cash dividends per share	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.09</u>
Market prices: high	<u>\$ 15.55</u>	<u>\$ 17.99</u>	<u>\$ 18.10</u>	<u>\$ 18.40</u>
low	<u>\$ 12.82</u>	<u>\$ 14.15</u>	<u>\$ 16.03</u>	<u>\$ 17.49</u>

	Year Ended December 31, 2002			
	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>
Interest income	\$ 4,913,172	\$ 4,824,517	\$ 4,773,938	\$ 4,473,737
Interest expense	(2,345,141)	(2,175,561)	(2,126,511)	(2,045,107)
Net interest income	2,568,031	2,648,956	2,647,427	2,428,630
Provision for loan losses	(131,500)	(131,500)	(131,500)	(131,500)
Gain on branch divestiture	—	687,883	—	—
Security gains	103,005	—	106,875	—
Other income	1,524,190	1,816,697	1,743,196	1,552,956
Operating expenses	(3,605,742)	(3,696,614)	(3,680,708)	(3,553,894)
Income before taxes	457,984	1,325,422	685,290	296,192
Income taxes	(132,462)	(439,327)	(218,304)	(57,537)
Net income	<u>\$ 325,522</u>	<u>\$ 886,095</u>	<u>\$ 466,986</u>	<u>\$ 238,655</u>
Net income per share – basic	<u>\$ 0.11</u>	<u>\$ 0.31</u>	<u>\$ 0.16</u>	<u>\$ 0.10</u>
Cash dividends per share	<u>\$ 0.085</u>	<u>\$ 0.086</u>	<u>\$ 0.085</u>	<u>\$ 0.086</u>
Market prices: high	<u>\$ 12.02</u>	<u>\$ 12.88</u>	<u>\$ 13.11</u>	<u>\$ 14.25</u>
low	<u>\$ 11.20</u>	<u>\$ 11.35</u>	<u>\$ 11.84</u>	<u>\$ 11.70</u>

**ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS**

At no time whatsoever during the Company's two most recent fiscal years or any subsequent interim period, has an independent accountant who was previously engaged as the principal accountant to audit the Company's financial statements, or an independent accountant who was previously engaged to audit a significant subsidiary and on whom the principal accountant expressed reliance in its report, resigned, declined to stand for reelection or been dismissed.

**ITEM 9A: CONTROLS AND PROCEDURES**

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. The design of any system of controls is based in part upon certain assumption about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

In addition, we reviewed our internal controls, and there have been no significant changes in our internal controls or other factors that could significantly affect those controls subsequent to the date of their last evaluation.

**ITEM 9B: OTHER INFORMATION**

Not applicable.

**PART III**

---

**ITEM 10: DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;  
COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT**

There is hereby incorporated by reference into this Item 10 the information appearing under the captions "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement relating to its Annual Meeting of Shareholders to be held on April 19, 2005.

**ITEM 11: EXECUTIVE COMPENSATION**

There is hereby incorporated by reference into this Item 11 the information appearing under the captions "Executive Compensation," "Long-Term Incentive Plan," and "Retirement Plans" in the Company's definitive Proxy Statement relating to its Annual Meeting of Shareholders to be held on April 19, 2005.

**ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

There is hereby incorporated by reference into this Item 12 the information appearing under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's definitive Proxy Statement relating to its Annual Meeting of Shareholders to be held on April 19, 2005.

**ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

There is hereby incorporated by reference into this Item 13 the information appearing under the caption "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement relating to its Annual meeting of Shareholders to be held on April 19, 2005.

**ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES**

There is hereby incorporated by reference into this Item 14 the information appearing under the caption "Audit Fees and Services" in the Company's definitive Proxy Statement relating to its Annual meeting of Shareholders to be held on April 19, 2005.

## PART IV

## ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

## a) List of Exhibits:

*Exhibit*

<i>Number</i>	<i>Description</i>
3(i)	Articles of Incorporation of Carrollton Bancorp*
3(ii)	By-Laws of Carrollton Bancorp*
10.1	Lease dated January 24, 1989 by and between Hill Management Services, Inc. and The Carrollton Bank of Baltimore.*
10.2	Lease dated July 21, 1989 by and between Hill Management Services, Inc. and The Carrollton Bank of Baltimore.*
10.3	Lease dated October 30, 1959 between Arbutus Shopping Plaza, Inc. and The Carrollton Bank of Baltimore, as amended.*
10.4	Lease dated August 3, 1976 between Arbutus Shopping Plaza, Inc. and The Carrollton Bank of Baltimore.*
10.5	Lease dated May 20, 1971 by and between Home Mutual Life Insurance Company and The Carrollton Bank of Baltimore.*
10.6	Lease dated April 17, 1974 by and between Liberty Plaza Enterprises, Inc. and The Carrollton Bank of Baltimore.*
10.7	Lease dated July 19, 1988 by and between Northway Limited Partnership and The Carrollton Bank of Baltimore.*
10.8	Lease dated August 11, 1994 by and between Kensington Associates Limited Partnership and Carrollton Bank.**
10.9	Lease dated October 11, 1994 by and between Ridgeview Associates Limited Partnership and Carrollton Bank.**
10.10	Employment agreement with Robert A. Altieri***
10.11	Employment agreement with Gary M. Jewell***
21.1	Subsidiaries of Carrollton Bancorp
23.0	Consent of Accountant
31.1	Certification of Robert A. Altieri, President and Chief Executive Officer
31.2	Certification of Barbara M. Broczkowski, Senior Vice President and Chief Financial Officer
32.1	Certification of Robert A. Altieri, President and Chief Executive Officer
32.2	Certification of Barbara M. Broczkowski, Senior Vice President and Chief Financial Officer

\* Incorporated by reference from Registration Statement dated January 12, 1990 on SEC Form S-4 (1933 Act File No.: 33-33027).

\*\* Incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994 (1934 Act File No.: 0-23090).

\*\*\* Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (1934 Act File No.: 000-23090)

## b) Reports on Form 8-K:

Notice of press release related to earnings for the quarter ended March 31, 2004 filed on April 16, 2004.

Notice of press release related to earnings for the quarter ended June 30, 2004 filed on July 23, 2004.

Notice of change of Chief Financial Officer filed on August 13, 2004.

Notice of press release related to earnings for the quarter ended September 30, 2004 and to the restatement of prior quarter earnings filed on November 4, 2004.

Notice of press release related to dividend declaration filed on November 16, 2004.



March 18, 2005                    /s/ David P. Hessler  
David P. Hessler  
Director

March 18, 2005                    /s/ Howard S. Klein  
Howard S. Klein  
Director

March 18, 2005                    /s/ Ben F. Mason  
Ben F. Mason  
Director

March 18, 2005                    /s/ Charles E. Moore, Jr.  
Charles E. Moore, Jr.  
Director

March 18, 2005                    /s/ John Paul Rogers  
John Paul Rogers  
Director

March 18, 2005                    /s/ William C. Rogers, Jr.  
William C. Rogers, Jr.  
Director

## EXHIBIT INDEX

<i>Exhibit Number</i>	<i>Description</i>	<i>Sequentially Numbered Page</i>
3(i)	Articles of Incorporation of Carrollton Bancorp	*
3(ii)	By-Laws of Carrollton Bancorp	*
10.1	Lease dated January 24, 1989 by and between Hill Management Services, Inc. and The Carrollton Bank of Baltimore.	*
10.2	Lease dated July 21, 1989 by and between Hill Management Services, Inc. and The Carrollton Bank of Baltimore.	*
10.3	Lease dated October 30, 1959 between Arbutus Shopping Plaza, Inc. and The Carrollton Bank of Baltimore, as amended.	*
10.4	Lease dated August 3, 1976 between Arbutus Shopping Plaza, Inc. and The Carrollton Bank of Baltimore.	*
10.5	Lease dated May 20, 1971 by and between Home Mutual Life Insurance Company and The Carrollton Bank of Baltimore.	*
10.6	Lease dated April 17, 1974 by and between Liberty Plaza Enterprises, Inc. and The Carrollton Bank of Baltimore.	*
10.7	Lease dated July 19, 1988 by and between Northway Limited Partnership and The Carrollton Bank of Baltimore.	*
10.8	Lease dated August 11, 1994 by and between Kensington Associates Limited Partnership and Carrollton Bank.	**
10.9	Lease dated October 11, 1994 by and between Ridgeview Associates Limited Partnership and Carrollton Bank.	**
10.10	Employment agreement with Robert A. Altieri	***
10.11	Employment agreement with Gary M. Jewell	***
21.1	Subsidiaries of Carrollton Bancorp	
23.0	Consent of Accountant	
31.1	Certification of Robert A. Altieri, President and Chief Executive Officer	
31.2	Certification of Barbara M. Broczkowski, Senior Vice President and Chief Financial Officer	
32.1	Certification of Robert A. Altieri, President and Chief Executive Officer	
32.2	Certification of Barbara M. Broczkowski, Senior Vice President and Chief Financial Officer	

\* Incorporated by reference from Registration Statement dated January 12, 1990 on SEC Form S-4 (1933 Act File No.: 33-33027).

\*\* Incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994 (1934 Act File No.: 0-23090).

\*\*\* Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (1934 Act File No.: 000-23090)

**EXHIBIT 21.1**

Subsidiaries of Carrollton Bancorp

Carrollton Bancorp

Carrollton Bank

Carrollton Financial Services, Inc.

Carrollton Community Development Corp.

Carrollton Mortgage Services, Inc.

Subsidiaries are indicated by indentation. All subsidiaries are 100% owned, except for Carrollton Community Development Corp. which is 96.4% owned.

**EXHIBIT 23.0**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Carrollton Bancorp  
Baltimore, Maryland

As Independent Registered Public Accounting Firm, we hereby consent to the incorporation of our report dated February 10, 2005 on the consolidated financial statements of Carrollton Bancorp and Subsidiary included in this Form 10-K into Carrollton Bancorp's previously filed registration statements on Form S-8, File Nos. 333-82915 and 333-120929.

Baltimore, Maryland  
February 10, 2005

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Carrollton Bancorp (the "Company") on Form 10-K for the period ending December 31, 2004, as filed with the Securities and Exchange Commission (the "Report") and which this Certification is an exhibit, the undersigned hereby certifies, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

- (1) I have reviewed the report;
- (2) Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which the statements were made, not misleading with respect to the period covered by the Report;
- (3) Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in the Report;
- (4) The registrant's other certifying officers and I:
  - (a) are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the issuer;
  - (b) have designed such disclosures, controls and procedures to ensure that material information is made known to them, particularly during the period in which this annual report is being prepared;
  - (c) have evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the Report (the evaluation date); and
  - (d) have presented within the Report our conclusions as to the effectiveness of the disclosure controls and procedures based on the required evaluation as of that date;
- (5) The registrant's other certifying officers and I have disclosed to the registrant's auditors and the registrant's audit committee of the board of directors:
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls; and
- (6) The registrant's other certifying officers and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ ROBERT A. ALTIERI

---

Robert A. Altieri  
*President and Chief Executive Officer*

Date: March 2, 2005

## EXHIBIT 31.2

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Carrollton Bancorp (the "Company") on Form 10-K for the period ending December 31, 2004, as filed with the Securities and Exchange Commission (the "Report") and which this Certification is an exhibit, the undersigned hereby certifies, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

- (1) I have reviewed the Report on Form 10-K of Carrollton Bancorp;
- (2) Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which the statements were made, not misleading with respect to the period covered by the Report;
- (3) Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in the Report;
- (4) The registrant's other certifying officers and I:
  - (a) are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the issuer;
  - (b) have designed such disclosures, controls and procedures to ensure that material information is made known to them, particularly during the period in which this annual report is being prepared;
  - (c) have evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the Report (the evaluation date); and
  - (d) have presented within the Report our conclusions as to the effectiveness of the disclosure controls and procedures based on the required evaluation as of that date;
- (5) The registrant's other certifying officers and I have disclosed to the registrant's auditors and the registrant's audit committee of the board of directors:
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls; and
- (6) The registrant's other certifying officers and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ BARBARA M. BROCKOWSKI

Barbara M. Broczkowski

*Senior Vice President and Chief Financial Officer*

Date: March 2, 2005

**EXHIBIT 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

In connection with the Form 10-K of Carrollton Bancorp for the year ended December 31, 2004, I, Robert A. Altieri, President and Chief Executive Officer of Carrollton Bancorp, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes/Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) such Form 10-K for the year ended December 31, 2004, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in such Form 10-K for the year ended December 31, 2004, fairly presents, in all material respects, the financial conditions and results of operations of Carrollton Bancorp.

/s/ Robert A. Altieri

---

Robert A. Altieri  
*President and Chief Executive Officer*

**EXHIBIT 32.2****CERTIFICATION OF CHIEF FINANCIAL OFFICER**

In connection with the Form 10-K of Carrollton Bancorp for the year ended December 31, 2004, I, Barbara M. Broczkowski, Senior Vice President and Chief Financial Officer of Carrollton Bancorp, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes/Oxley Act of 2002, to the best of my knowledge and belief, that:

- (1) such Form 10-K for the year ended December 31, 2004, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in such Form 10-K for the year ended December 31, 2004, fairly presents, in all material respects, the financial conditions and results of operations of Carrollton Bancorp.

/s/ Barbara M. Broczkowski

\_\_\_\_\_  
Barbara M. Broczkowski  
*Senior Vice President and Chief Financial Officer*

DIRECTORS AND OFFICERS

DIRECTORS

Robert J. Aumiller  
*Executive Vice President*  
*MacKenzie Commercial Real Estate Services*

Steven K. Breeden  
*Managing Member*  
*Security Development, LLC*

Albert R. Counselman  
*President and Chief Executive Officer*  
*Riggs, Counselman, Michaels & Downes, Inc.*

Harold I. Hackerman  
*Vice President*  
*Ellin & Tucker, Chartered*

John P. Hauswald  
*Retired Business Owner*

David P. Hessler  
*President and CEO*  
*Eastern Sales and Engineering Co.*

Howard S. Klein  
*Vice President and General Counsel*  
*Klein's Super Markets*

Ben F. Mason  
*Vice President*  
*Plexus Group*

Charles E. Moore, Jr.  
*President and CFO*  
*TelAtlantic Communications, Inc.*

John Paul Rogers  
*Attorney*

William C. Rogers, Jr.  
*Attorney*

William McCallister  
*Director Emeritus*

OFFICERS

CARROLLTON BANCORP  
Albert R. Counselman  
*Chairman of the Board*  
Robert A. Altieri  
*President and Chief Executive Officer*  
Allyson Cwiek—*Vice President and Secretary*  
Barbara M. Broczkowski—*Senior Vice President and Chief Financial Officer*

CARROLLTON BANK  
John Paul Rogers  
*Chairman of the Board*  
Robert A. Altieri  
*President and Chief Executive Officer*  
Allyson Cwiek—*Vice President and Secretary*  
Senior Vice Presidents:  
Edward R. Bootey—*Operations*  
Barbara M. Broczkowski—*Chief Financial Officer*  
John A. Giovanazi—*Lending*  
Robert F. Hickey—*Branch Administration*  
Gary M. Jewell—*Electronic Banking*  
Vice Presidents:  
Tianne Baker—*Commercial Lending*  
Michael Camiel—*Credit*  
Leroy J. Cummins—*Audit*  
Stephen G. Hyman—*Commercial Lending*  
George Mazurkevich—*Commercial Lending*  
Beatrice McQuarrie—*Finance*  
Robert J. Morales—*Operations*  
Joyce F. Murphy—*Electronic Banking*  
W. Stephen Pindell—*Commercial Lending*  
William M. Rash—*Branch Administration*  
Harry P. Schultheis—*Commercial Lending*  
William Sherman—*Commercial Lending*  
Eunice W. Taylor—*Electronic Banking*  
Gary Veverka—*Commercial Lending*  
Lois A. Ward—*Human Resources*  
Victor Zubar—*MIS*  
Assistant Vice Presidents:  
William Brown—*Data Processing*  
Patricia Harris—*Branch Administration*  
Cindi Joynes—*Finance*  
Lori Ratzburg—*Credit*  
Donna Smith—*Customer Service*  
Robert J. Tolson—*Loan Servicing*

CARROLLTON FINANCIAL SERVICES, INC.  
Brian J. Culloty  
*Chairman of the Board and President*  
Steven Moore  
*Vice President and Secretary*

CARROLLTON MORTGAGE SERVICES, INC.  
Robert A. Altieri  
*President*  
Ron Antrim  
*Vice President*  
Barbara M. Broczkowski  
*Treasurer*  
John A. Giovanazi  
*Director*

CARROLLTON COMMUNITY DEVELOPMENT CORPORATION  
John A. Giovanazi  
*President*

## SHAREHOLDER INFORMATION

### BUSINESS SUMMARY

Carrollton Bancorp (the Company) is a bank holding company registered under the Bank Holding Company Act of 1956, and was organized on January 11, 1990. Carrollton Bank is a Maryland State chartered commercial bank and the principal subsidiary of the Company. The Bank was incorporated under the laws of the State of Maryland in 1903 and is engaged in a general commercial and retail banking business. Carrollton Financial Services, Inc., a subsidiary of the Bank, provides full service brokerage services for stocks, bonds, mutual funds and annuities. Carrollton Mortgage Services, Inc., also a subsidiary of the Bank, is a residential mortgage lender.

The Bank operates 11 full service branch offices in Baltimore County, Baltimore City, Anne Arundel, and Harford County, Maryland. The Bank offers a wide range of both personal and commercial deposit and loan services.

The Bank and its subsidiaries currently have 165 full time equivalent employees. Management considers its relationship with its employees to be good.

The Bank faces strong competition in its market area. Its most direct competition for deposits comes from other commercial banks, savings banks, savings and loan associations and credit unions. It also competes for deposits with brokerage houses, mutual funds and, to a lesser extent, the securities markets. The Bank also competes with the same banking entities for loans, as well as with mortgage banking companies and other institutional lenders. Some of the Bank's competitors have assets and operating capacity which exceed that of the Bank.

The Company is subject to regulation and examination by the Federal Reserve Board, and is required to file periodic reports and any additional information that the Federal Reserve Board may require. The Bank is subject to supervision, regulation and examination by the Department of Labor, Licensing and Regulation of the State of Maryland and the Federal Deposit Insurance Corporation.

### CORPORATE HEADQUARTERS:

344 North Charles Street, Suite 300  
Baltimore, Maryland 21201  
Phone: (410) 536-4600  
Internet: [www.carrolltonbank.com](http://www.carrolltonbank.com)

### INVESTMENT SUBSIDIARY:

Carrollton Financial Services, Inc.  
The Avenue at White Marsh  
8157A Honeygo Blvd.  
White Marsh, Maryland 21236  
Phone: (410) 242-6418  
(800) 851-0851

### MORTGAGE SUBSIDIARY:

Carrollton Mortgage Services, Inc.  
2300 York Road, Suite 115  
Timonium, Maryland 21093

### ANNUAL MEETING NOTICE:

The annual meeting of shareholders of Carrollton Bancorp will be held on Tuesday, April 19, 2005 at 10 a.m. at the Corporate Headquarters, 344 North Charles Street, Baltimore, Maryland.

### STOCK LISTING:

The common stock of Carrollton Bancorp trades on the NASDAQ National Market tier of The NASDAQ Stock Market under the symbol "CRRB". There were 428 record holders of stock at December 31, 2004.

### TRANSFER AGENT AND REGISTRAR:

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, New York 10038  
Phone: (800) 937-5449  
(212) 936-5100  
Internet: [www.amstock.com](http://www.amstock.com)

**INDEPENDENT ACCOUNTANTS:**

Rowles & Company, LLP  
101 E. Chesapeake Avenue, Suite 300  
Baltimore, Maryland 21286

During 2004 and 2003, there were no disagreements with the Company's accountants on accounting matters or financial disclosure.

**ADDITIONAL INFORMATION:**

The Company files an annual report with the Securities and Exchange Commission on Form 10-K. Any shareholder may obtain a copy, without charge, upon request to the Company's Chief Financial Officer.

**ANALYSTS, INVESTORS, AND OTHERS SEEKING FINANCIAL INFORMATION ABOUT THE COMPANY ARE INVITED TO CONTACT:**

Barbara M. Broczkowski  
Chief Financial Officer  
Carrollton Bancorp  
344 North Charles Street  
Baltimore, Maryland 21201  
Phone: (410) 536-7308

## NOTES

## NOTES

## NOTES