

LETTER TO OUR SHAREHOLDERS

Dear Shareholders:

In 2005, we continued the successful implementation of our business plan to become a premier community commercial bank.

2005 marked yet another milestone for Carrollton Bancorp. Not only are we commemorating our 102nd year of servicing the Baltimore community, we are also celebrating a year when earnings increased by 177% to \$2.5 million, which constitutes a record for your company. The Company achieved considerable growth in interest earning assets in a highly competitive market place. It is important to stress that the Company's results are attributable to our pace of lending and deposit gathering and our risk profile, all of which are key elements of our very solid foundation for future success.

As our financial strength improves, we are able to take steps to implement our strategy to secure a strong and successful future. The Company's current rate of earnings has allowed us to expand our branch network in the last year without compromising financial performance. Of the many initiatives undertaken in 2005, three important ones warrant specific mention: the opening of our first full service branch in 7 years; the elimination of our marginally profitable network of 162 Automated Teller Machines (ATMs) with Wal-Mart and Sam's Clubs; and the retirement of \$5.0 million of 7.26% borrowings. These moves have positioned the Company to improve its efficiencies and future core earnings. In the first quarter of 2006, the Company restructured \$35 million of Federal Home Bank (FHLB) advances with a rate of 6.84% maturing February 2, 2010. The prepayment penalty of \$2.3 million was substantially offset by the profit on the sale of equity securities of \$2.2 million. This restructuring should help your Company to produce more consistent earnings in a rising or declining interest rate environment.

Excluding security gains, FHLB prepayment penalty and write down and cost of disposal of the ATMs, core earnings for the year would have been \$2.6 million, or \$0.92 per diluted share, a 123% increase over 2004 core earnings of \$1.2 million or \$0.41 per diluted share excluding security gains and a \$497,000 write down of Federal Home Loan Mortgage Corporation stock.

The Company continues to methodically and meticulously grow our loan portfolio, with commercial real estate and business loans comprising almost 78% of the Company's total loan portfolio. Our ability to continue to grow our loan portfolio in an extremely competitive marketplace is directly attributable to the Company's unwavering commitment to become a strong commercial bank supporting the Baltimore business community.

This commitment to our community is reflected in the growth achieved in our loans and deposits. In 2005, total assets increased by \$41.3 million or 13%. Gross loans and leases, including loans held for sale, grew by \$31.8 million or 14%, and investment securities rose by \$5.1 million or 12%. Total deposits increased 20% to \$271.6 million. Non interest bearing deposits grew by \$13.3 million or 25% over 2004; money market accounts rose by \$19.4 million or 63% over 2004, and certificates of deposit increased \$20.1 million or 29% over 2004. The continued focus of our lending team on aggressively priced loan products and the strategically managed growth in deposits has enabled the Company to achieve an expansion of its net interest margin (to 3.89% in 2005 from 3.81% in 2004) during a period when many institutions experienced a decline in their net interest margins.

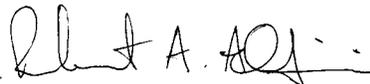
Carrollton Bancorp continues to be a well capitalized financial institution. The Company's year end capital and Tier-1 risk based capital ratios were 13.51% and 11.63%, respectively. Each measure continues to substantially exceed the federal regulatory standards for well capitalized financial services institutions. As part of our overall capital management, we have increased dividends 5% in 2005 and 10% for 2006. In addition, the Company repurchased 42,500 shares or 1.4% of outstanding shares.

These are exciting times for our Company and we appreciate the strong support we receive from our shareholders. We are very proud of the progress made to date and congratulate our Board, our Management team and our Associates for all the hard work and great teamwork that has made this fantastic improvement possible.

Most Sincerely,



Albert R. Counselman
Chairman of the Board



Robert A. Altieri
President and Chief Executive Officer

SELECTED FINANCIAL DATA

	2005	2004	2003	2002	2001
CONSOLIDATED INCOME STATEMENT DATA:					
Interest income	\$ 19,071,379	\$ 15,500,323	\$ 15,935,691	\$ 18,985,364	\$ 23,832,624
Interest expense	7,375,083	5,321,622	6,639,734	8,692,320	12,872,355
Net interest income	11,696,296	10,178,701	9,295,957	10,293,044	10,960,269
Provision for loan losses	—	—	243,000	526,000	550,000
Net interest income after provision for loan losses	11,696,296	10,178,701	9,052,957	9,767,044	10,410,269
Noninterest income	10,718,636	8,781,151	8,268,612	7,534,802	7,156,444
Noninterest expenses	18,634,124	17,751,000	16,058,355	14,536,958	14,817,504
Income before income taxes	3,780,808	1,208,852	1,263,214	2,764,888	2,749,209
Income taxes	1,322,371	320,488	338,500	847,630	816,132
Net income	\$ 2,458,437	\$ 888,364	\$ 924,714	\$ 1,917,258	\$ 1,933,077
CONSOLIDATED BALANCE SHEET DATA, AT YEAR END					
Assets	\$360,467,146	\$319,123,132	\$302,409,975	\$324,221,615	\$356,907,181
Gross loans	247,943,073	219,726,294	199,296,561	205,220,126	220,177,983
Deposits	271,626,503	225,846,145	207,056,100	230,264,108	265,528,720
Shareholders' equity	34,640,165	34,215,280	34,124,882	33,691,079	32,458,383
PER SHARE DATA: (a)					
Number of shares of Common Stock outstanding, at year-end	2,809,698	2,834,823	2,828,078	2,821,757	2,836,317
Net income:					
Basic	\$ 0.87	\$ 0.31	\$ 0.33	\$ 0.68	\$ 0.68
Diluted	0.87	0.31	0.32	0.68	0.68
Cash dividends declared	0.40	0.38	0.36	0.34	0.34
Book value, at year end	12.33	12.07	12.07	11.94	11.44
Performance and capital ratios:					
Return on average assets	0.72%	0.29%	0.29%	0.57%	0.52%
Return on average shareholders' equity	7.12%	2.61%	2.71%	5.70%	6.05%
Net interest margin (b)	3.89%	3.81%	3.36%	3.47%	3.32%
Average shareholders' equity to average total assets	10.13%	11.11%	10.83%	9.99%	8.52%
Year-end capital to year-end risk - weighted assets:					
Tier 1	11.63%	11.52%	13.75%	13.57%	12.88%
Total	13.51%	12.74%	15.51%	15.07%	14.26%
Year-end Tier 1 leverage ratio	8.96%	9.41%	10.35%	9.54%	8.61%
Cash dividends declared to net income	45.97%	121.17%	109.96%	50.80%	50.43%
ASSETS QUALITY RATIOS:					
Allowance for loan losses, at year-end to:					
Gross loans	1.35%	1.59%	1.83%	1.74%	1.52%
Nonperforming, restructured and past-due loans	209.50%	132.05%	151.37%	111.68%	276.13%
Net charge-offs to average gross loans	0.06%	0.08%	0.09%	0.13%	0.10%
Nonperforming assets as a percent of period-end gross loans and foreclosed real estate	0.64%	1.20%	1.26%	1.67%	0.55%

(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) Net interest margin is the ratio of net interest income, determined on a fully taxable equivalent basis (a non-GAAP financial measure), to total average interest earning assets.

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON APRIL 18, 2006

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 18, 2006 at 10:00 a.m.], prevailing local time, for the purpose of considering and acting upon:

1. The election of four directors for a three-year term ending in 2009, or until their respective successors are duly elected and qualified.
2. The ratification of the appointment of Rowles & Company, LLP as the Independent Registered Public Accounting Firm to serve for the fiscal year ending December 31, 2006.
3. Any other matters that may properly come before the meeting or any adjournment thereof.

The close of business on March 1, 2006, has been fixed by the Board of Directors as the record date for determining shareholders 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, 2005.

PLEASE SIGN, DATE AND MAIL THE ACCOMPANYING PROXY IN THE ENCLOSED, SELF-ADDRESSED, STAMPED ENVELOPE, AS DIRECTED ON THE PROXY CARD IN ORDER THAT YOUR STOCK MAY BE VOTED. 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 17, 2006

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

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS

APRIL 18, 2006

SOLICITATION AND REVOCATION OF PROXIES

This Proxy Statement (the "Proxy Statement") is furnished on or about March 17, 2006 to the shareholders of Carrollton Bancorp (the "Company") in connection with the solicitation of proxies by the Board of Directors of the Company to be voted at the Annual Meeting of Shareholders, and any adjournments thereof. Our principal executive offices are located at 344 North Charles Street, Baltimore, Maryland 21201.

The Board of Directors has selected Robert J. Aumiller, Steven K. Breeden, and Harold I. Hackerman 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 the Independent Registered Public Accounting Firm to audit the financial statements of the Company for 2006.

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 votes cast by the shareholders present, in person or by proxy, at a meeting at which a quorum is present, are 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 2005 Annual Shareholders' Meeting held on April 19, 2005.

VOTING SECURITIES

On March 1, 2006, the Company had outstanding 2,813,268 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, 2006 has been fixed by the Board of Directors as the record date for determining the shareholders 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, or until their respective successors are duly elected and qualified. The Shareholders will vote at this Annual Meeting for the election of four directors for the three-year term expiring at the Annual Meeting of Shareholders in 2009.

The proxies solicited hereby, unless directed to the contrary, will be voted FOR the election as directors of all four 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 on the Board of Directors, 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 here will be unable to serve. Alternatively, the Board of Directors may elect to reduce the size of the Board of Directors.

The following material shows, as of December 31, 2005, the names and ages of all nominees, the principal occupation and business experience of each nominee during the last five years and the year in which each nominee was first elected to the Board of Directors. The material also contains information on those directors whose terms continue beyond the date of the Annual Meeting.

NOMINEES FOR DIRECTORS WHOSE TERMS EXPIRE IN 2006

Albert R. Counselman – Mr. Counselman, age 57, has served as a director of Carrollton Bank ("the Bank"), the principal subsidiary of the Company, 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 and Chief Executive Officer 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 83, 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)

David P. Hessler – Mr. Hessler, age 49, 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 79, 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.

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

DIRECTORS CONTINUING IN OFFICE**DIRECTORS WHOSE TERMS EXPIRE IN 2007**

Robert J. Aumiller – Mr. Aumiller, age 57, currently is serving as a director of the Bank 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 68, currently is serving as a director of the Bank and the Company beginning with his appointment in 2001. He is the Special Assistant to the President of Sojourner-Douglass College since January 2006 and formerly Executive Vice President of the Plexus Corporation, a network engineering corporation, as of 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. (2)(4)

Charles E. Moore, Jr. – Mr. Moore, age 56, 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 70, 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 Board 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.

DIRECTOR WHOSE TERMS EXPIRE IN 2008

Steven K. Breeden – Mr. Breeden, age 47, 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 54, has served as a director of the Bank and 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 47, 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 service supermarkets and related development and operating companies since 1987. (1) (4)

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/Corporate Governance Committee, Compensation Committee, Executive Committee, Loan Committee, Strategic Plan Committee, Facilities Committee, and an Asset/Liability Committee. The Audit Committee, The Compensation Committee, and The Nominating/Corporate Governance Committee are discussed below.

The Audit Committee held thirteen meetings during 2005. 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 Registered Public Accounting Firm. 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.

The Compensation Committee met five times during 2005. 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/Corporate Governance Committee held no meetings during 2005. Its members are Messrs. Breeden, Hessler and Moore. The purposes of the Nominating/Corporate Governance 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 received 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 received a monthly fee of \$1,250. Directors do not receive additional fees for their service as directors of the Company. On November 17, 2005, the Board of Directors approved an additional \$300 for Board members and \$400 for the Chairman of the Board for attendance at the regular Board meetings to be effective January 1, 2006. In addition, the Board of Directors approved \$400 for the Audit Committee members, \$450 for the Audit Committee Chairman, \$300 for the Loan Committee members and \$350 for the Loan Committee Chairman for each committee meeting attended. After review of a report by a consultant on director fees, the Compensation Committee recommended and the Board of Directors approved on February 23, 2006 increasing the Bank Chairman's fee \$200, the Company Chairman's fee \$100, and the Audit Committee Chairman's fee \$150 per meeting. All other committee fees remained the same.

ATTENDANCE AT BOARD MEETINGS

The Board of Directors of the Company met nine times and the Board of Directors of the Bank met fifteen times during the year ended December 31, 2005. 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, 2005.

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

The Nominating/Corporate Governance Committee operates pursuant to a charter adopted by the Board, a copy of which is attached to this proxy statement and can also be found on the Company's website at www.carrolltonbank.com.

In recommending director nominees, the Nominating/Corporate Governance Committee will consider candidates recommended by the Company'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/Corporate Governance 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/Corporate Governance 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/Corporate Governance 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/Corporate Governance 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/Corporate Governance 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/Corporate Governance 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/Corporate Governance 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/Corporate Governance Committee is responsible for assembling and maintaining a list of qualified candidates to fill vacancies on the Board. The Nominating/Corporate Governance 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 was included as part of the definitive proxy statement delivered to stockholders with respect to the 2004 Annual Meeting. 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 and applicable SEC rules. The Audit Committee has (1) reviewed and discussed the Company’s audited financial statements with management and representatives of Rowles & Company, LLP, the Company’s Independent Registered Public Accounting Firm; (2) discussed with Rowles & Company, LLP all matters required to be discussed by Statement on Auditing Standards No. 61, as amended by Statement on Auditing Standards No. 90 (Communication with Audit Committees); and (3) reviewed the written disclosures required by Independence Standards Board Standard No. 1, which were received from the Company’s Independent Registered Public Accounting Firm, and has discussed the Independent Registered Public Accounting Firm’s independence with them. The Audit Committee has reviewed the fees of the Independent Registered Accounting Firm for non-audit services and believes that such fees are compatible with the independence of the Independent Registered Accounting Firm.

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005.

Audit Committee:

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors has ratified and affirmed the Audit Committee’s appointment of the accounting firm of Rowles & Company, LLP, to serve as Independent Registered Public Accounting Firm for the Company for 2006 subject to ratification 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 2006 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.

The Board of Directors unanimously recommends a vote “FOR” ratification.

AUDIT FEES AND SERVICES

	2005	2004
Audit Fees	\$75,880	\$72,762
Audit – Related Fees	9,995	12,662
Tax Fees	9,998	9,292
All Other Fees	—	—
Total	<u>\$95,873</u>	<u>\$94,716</u>

Audit services of Rowles & Company, LLP for 2005 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 Quarterly Reports on Forms 10-Q. “Audit- Related Fees” incurred in 2005 include charges related to the Company’s defined benefit plan audit and the Company’s 401(K) plan audit. “Tax Fees” in 2005 represent income tax return preparation and advice.

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 Quarterly Reports on 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 defined benefit plan audit and the Company's 401(K) plan audit. "Tax Fees" in 2004 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, 2005, 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 44, has been President and Chief Executive Officer of both the Bank and Company 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 59, 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.

John A. Giovanazi – Mr. Giovanazi, age 48, 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 44, 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 59, has been Senior Vice President – Electronic Banking since July 1998. He was previously Senior Vice President and Retail Delivery Group Manager from March 1996 to July 1998. 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.

James M. Uveges – Mr. Uveges, age 55, replaced Barbara M. Broczkowski as Senior Vice President and Chief Financial Officer of the Bank on June 6, 2005. See Form 8K filed on May 24, 2005. He was previously an Interim Executive Consultant from May 2004 to June 2005. Prior to that, Mr. Uveges held the position of Senior Vice President and Chief Financial Officer at Spectera, Inc. from March 1999 to April 2004, Susquehanna Bank from January 1998 to February 1999 and American National Bancorp from 1990 to 1997.

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, 2005, 2004, and 2003 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 2005.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Annual Compensation			Long Term Compensation Awards		
		Salary	Bonus	Restricted Stock Awards	Securities Underlying Options/SARs	LTIP payouts	All Other Compensation
Robert A. Altieri	2005	\$200,648	\$ 0	\$ 0	10,000	\$ 0	\$12,218(1)
President and Chief Executive Officer	2004	191,879	0	0	0	0	4,873(1)
	2003	180,600	0	0	0	0	3,653(1)
Gary M. Jewell	2005	109,782	28,072	0	5,000	0	7,747(2)
Senior Vice President	2004	104,931	26,736	0	5,000	0	3,295(2)
	2003	99,757	20,566	0	0	0	2,633(2)
John A. Giovanazi	2005	121,221	0	0	5,000	0	7,542(3)
Senior Vice President	2004	115,825	5,500	0	5,000	0	2,975(3)
	2003	109,865	0	0	0	0	2,359(3)
Robert F. Hickey	2005	116,217	0	0	5,000	0	3,666(4)
Senior Vice President	2004	113,089	0	0	5,000	0	180(4)
	2003	8,461	0	0	3,000	0	0
Edward R. Bootey	2005	109,343	0	0	5,000	0	4,916(5)
Senior Vice President	2004	104,941	0	0	3,000	0	3,098(5)
	2003	100,286	0	0	0	0	2,682(5)
Randall M. Robey	2005	NA	NA	NA	NA	NA	NA
Former Executive Vice President and Chief Financial Officer	2004	125,486	0	0	5,000	0	1,092(6)
	2003	127,109	0	0	0	0	1,299(6)

- (1) For 2005, amount includes \$12,038 as a safe harbor and 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 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.
- (2) For 2005, amount includes \$6,973 as a safe harbor and 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 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.
- (3) For 2005, amount includes \$7,272 as a safe harbor and 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 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.

- (4) For 2005, amount includes \$3,486 as a safe harbor 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 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.
- (5) For 2005, amount includes \$4,142 as a safe harbor and 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 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.
- (6) Mr. Robey left the Company's employment effective August 31, 2004. In connection with his separation from the Company, Mr. Robey received severance of \$62,500 payable in thirteen equal bi-weekly installments. 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.

RETIREMENT PLANS

The Company had 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. Effective December 31, 2004, the Company froze the Plan. Participant benefits stopped accruing as of the date of the freeze.

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 was 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, 2005, 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	44	15
Gary M. Jewell	59	9
John A. Giovanazi	48	9
Robert F. Hickey	44	2
Edward R. Bootey	59	31

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 3% of the employee's salary quarterly to the Plan for the employee's benefit. The Company also matches 50% of the employee's 401(K) contribution up to 6% of the employee's compensation. The Company's contributions to this Plan, included in employee benefit expenses were \$292,080, \$92,485 and \$70,678 for 2005, 2004, and 2003, 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 2005

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%
Robert A. Altieri	10,000	21%	\$14.50	12/15/2015	\$260,949	\$415,518
Edward R. Bootey	5,000	11%	14.50	12/15/2015	130,474	207,759
John A. Giovanazi	5,000	11%	14.50	12/15/2015	130,474	207,759
Robert F. Hickey	5,000	11%	14.50	12/15/2015	130,474	207,759
Gary M. Jewell	5,000	11%	14.50	12/15/2015	130,474	207,759

A total of 53,930 incentive stock options were granted in 2005 under the 1998 Long-Term Incentive Plan, as amended, to directors and employees. Of that total, 6,930 stock options were granted to directors at an exercise price of \$14.45. The options granted to directors vest over a three-year period and expire, if not exercised, in 2015. On December 15, 2005, The Board of Directors authorized 42,000 options to officers and the immediate vesting of such options and all outstanding options to officers where the exercise price of the option exceeded the fair market value of the Company’s stock. This resulted in 47,000 of the 53,930 options granted in 2005 becoming vested that would otherwise have vested in future years. There were no grants in 2005 for restricted stock, stock appreciation rights, performance grants, phantom shares, and bonus shares or cash awards.

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

The following table provides information concerning options for Common Stock exercised by the Company’s Named Executives in 2005 and the value of options held by each at December 31, 2005

Name	Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert A. Altieri	—	—	44,650	0	\$ 72,072	\$0
Gary M. Jewell	—	—	27,850	0	\$ 18,985	\$0
John A. Giovanazi	—	—	17,665	0	\$ 23,441	\$0
Robert F. Hickey	—	—	13,000	0	\$ 2,500	\$0
Edward R. Bootey	—	—	30,050	0	\$ 27,505	\$0

(1) Value represents the difference between the option price and the market value of the common stock on December 31, 2005, rounded to the nearest dollar.

CODE OF ETHICS

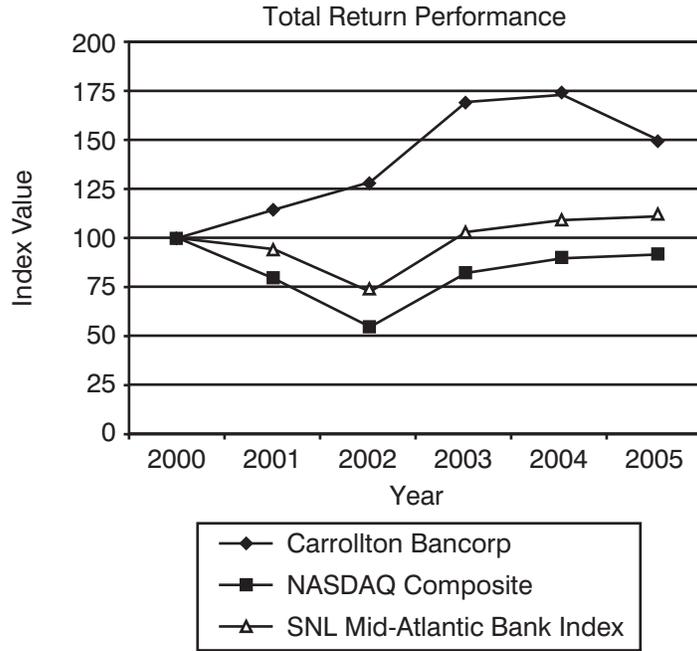
A Code of Ethics is in existence for all employees with a specific one for the Chief Executive Officer, Chief Financial Officer, and a Controller. There have been no exceptions to the Code of Ethics; any exceptions are required to be reported to the Audit Committee.

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, 2000 to December 31, 2005 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, 2000 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.



Index	Period Ending					
	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
Carrollton Bancorp	100.00	114.48	128.59	169.62	173.29	150.17
NASDAQ Composite	100.00	79.18	54.44	82.09	89.59	91.54
SNL Mid-Atlantic Bank Index	100.00	94.24	72.48	103.05	109.15	111.08

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of December 31, 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>
EXECUTIVE OFFICERS:		
Chief Executive Officer: Robert A. Altieri	45,877(2)	1.63%
Senior Vice President—Bank: Edward R. Bootey	32,475(3)	1.16%
Senior Vice President—Bank: John A. Giovanazi	17,665(4)	*
Senior Vice President—Bank: Robert F. Hickey	16,390(5)	*
Senior Vice President—Bank: Gary M. Jewell	27,850(6)	*
Senior Vice President—Bank: James M. Uveges	5,000(7)	*
DIRECTORS:		
Robert J. Aumiller	3,780(8)	*
Steven K. Breeden	14,280(9)	*
Albert R. Counselman	38,156(10)	1.36%
Harold I. Hackerman	3,665(11)	*
John P. Hauswald	16,702(12)	*
David P. Hessler	4,620(13)	*
Howard S. Klein	10,197(14)	*
Ben F. Mason	70,349(15)	2.50%
Charles E. Moore, Jr.	5,298(16)	*
John Paul Rogers	206,992(17)	7.36%
William C. Rogers, Jr.	278,174(18)(19)(20)	9.90%
All Directors and Executive Officers of the Company as a Group (17 persons)	653,291(22)	23.25%
OTHER SIGNIFICANT SHAREHOLDER:		
Patricia A. Rogers	184,062(21)	6.55%

* Less than 1%

- (1) Unless otherwise indicated, the named person has sole voting and investment power with respect to all shares.
- (2) Includes 1,054 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 44,650 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 30,050 fully vested options to purchase shares at an exercise price of between \$10.94 and \$17.79 per share.
- (4) Includes 17,665 fully vested options to purchase shares at an exercise price of between \$10.94 and \$16.02 per share.
- (5) Includes 13,000 fully vested options to purchase shares at an exercise price of between \$14.50 and \$17.75 per share.
- (6) Includes 27,850 fully vested options to purchase shares at an exercise price of between \$10.94 and \$17.79 per share.
- (7) Includes 5,000 fully vested options to purchase shares at an exercise price of \$14.85 per share.
- (8) Includes 3,465 shares owned jointly by Mr. Aumiller and his wife and 210 fully vested options to purchase shares at an exercise price of between \$14.45 and \$16.22 per share.
- (9) Includes 4,577 shares owned jointly by Mr. Breeden and his wife and 4,410 fully vested options to purchase shares at an exercise price of between \$9.71 and \$18.10 per share.
- (10) Includes 1,890 fully vested options to purchase shares at an exercise price of between \$12.11 and \$18.10 per share, but excludes 13,058 shares owned by Mr. Counselman's wife.

- (11) Includes 1,670 shares owned jointly by Mr. Hackerman and his wife, and 1,890 fully vested options to purchase shares at an exercise price of between \$12.11 and \$16.22 per share.
- (12) Includes 210 shares owned jointly by Mr. Hauswald and his wife and 4,200 fully vested options to purchase shares at an exercise price of between \$9.71 and \$18.10 per share.
- (13) Includes 1,470 shares owned jointly by Mr. Hessler and his wife and 3,150 fully vested options to purchase shares at an exercise price of between \$9.71 and \$16.22 per share.
- (14) 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 3,150 fully vested options to purchase shares at an exercise price of between \$9.71 and \$16.22 per share.
- (15) Includes 2,520 fully vested options to purchase shares at an exercise price of between \$9.71 and \$16.22 per share. Also includes 67,099 shares owned by The Security Title Guarantee Corporation of Baltimore of which Mr. Mason is a Director.
- (16) Includes 630 fully vested options to purchase shares at an exercise price of between \$12.11 and \$16.22 per share. Excludes 17,320 shares owned by Mr. Moore's wife and 4,689 shares of which Mrs. Moore has voting control as a personal representative of an estate.
- (17) Includes 3,780 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.
- (18) 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 2,520 fully vested options to purchase shares at an exercise price of between \$14.45 and \$18.10 per share.
- (19) 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.
- (20) Includes 135,126 shares owned jointly by Mr. Rogers and his wife and 4,689 shares of which Mr. Rogers has voting control as a personal representative of an estate. Excludes 12,322 shares owned by Mr. Roger's wife.
- (21) 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.
- (22) 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	206,992(a)	7.36%
William C. Rogers, Jr. 6 South Calvert Street Baltimore, MD 21201	278,174(b)	9.90%
Patricia A. Rogers P.O. Box 246 Gibson Island, MD 21056	184,062(c)	6.55%

- (a) A Schedule 13-G filed on February 10, 2006, states that John Paul Rogers has sole voting and dispositive power over 129,912 shares and shared voting and dispositive power over 77,080 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, 2006 states that William C. Rogers, Jr. has sole voting and dispositive power over 4,494 shares, and shared voting and dispositive power over 268,991 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. Also includes 4,689 shares of which Mr. Rogers has voting control as a personal representative of an estate.
- (c) A Schedule 13-G dated February 10, 2006 states that Patricia A. Rogers has sole voting and dispositive power over 106,982 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 2005.

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 "2005 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 2005, the Committee granted, under the 1998 Long-Term Incentive Plan, options for a total of 274,760 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.

On December 15, 2005, the Board of Directors authorized 42,000 options to officers and the immediate vesting of these options and all outstanding options to officers where the exercise price of the option exceeded the fair market value of the Company's stock. This resulted in 75,500 options becoming vested in 2005 that would have otherwise vested in future years.

2005 COMPENSATION

The Committee, in determining the 2005 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; James M. Uveges 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; and Gary M. Jewell is Senior Vice President—Electronic Banking of the Bank.

The Committee was aware of 2005 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, but improved significantly over prior years 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, and Mr. Hickey, Mr. Giovanazi, and Mr. Jewell 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.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

In 2005, 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 through its broker, Riggs, Counselman, Michaels & Downes, Inc., of which Mr. Counselman is President and Chief Executive Officer. 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 Steven K. Breeden, David P. Hessler, William C. Rogers, Jr. 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, 2005, 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 \$220,000 in 2005, 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 2005 of \$215,000. 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 \$169,000 in 2005 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 2007 Annual Meeting of the Company must be received at the Company's principal executive offices prior to December 17, 2006 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.

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 2005 is included herein. Copies of the report will also be available at the Annual Meeting on April 18, 2006.

A COPY OF THE COMPANY'S ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION ON FORM 10-K FOR THE PERIOD ENDED DECEMBER 31, 2005, 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 JAMES M. UVEGES, CHIEF FINANCIAL OFFICER, CARROLLTON BANCORP, 344 NORTH CHARLES STREET, SUITE 300, BALTIMORE, MARYLAND 21201-4301. EACH REQUEST MUST SET FORTH A GOOD FAITH REPRESENTATION THAT, AS OF MARCH 1, 2006, 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.

IMPORTANT NOTICE REGARDING DELIVERY OF SECURITY HOLDER DOCUMENTS

The Securities and Exchange Commission has adopted rules that allow us to deliver a single annual report, proxy statement, proxy statement combined with a prospectus, or any information statement to any household at which two or more shareholders reside who share the same last name or whom we believe to be members of the same family. This is known as “householding.”

If you share the same last name and address with one or more shareholders, from now on, unless we receive contrary instructions from you (or from one of these other shareholders), you and all other shareholders who have your last name and live at the same home address will receive only one copy of any of our annual report, proxy statement for our Annual Meeting of Stockholders, proxy statement we file and deliver in connection with any other meeting of shareholders, proxy statement combined with a prospectus or information statement. We will include with the household materials for our annual meetings, or any other shareholders’ meeting, a separate proxy card for each registered shareholder who shares your last name and lives at your home address.

If you do not wish to participate in the householding program, please contact our transfer agent, American Stock Transfer & Trust Company, at 1-800-937-5449 to “opt-out” or revoke your consent. If you “opt-out” or revoke your consent to householding, each primary account holder residing at your address will receive individual copies of the Carrollton Bancorp proxy statement, annual report and other future stockholder mailings.

If you do not object to householding, (1) you are agreeing that your household will only receive one copy of future Carrollton Bancorp stockholder mailings, and (2) your consent will be implied and householding will start 60 days after the mailing of this notice, to the extent you have not previously consented to participation in the householding program. Your affirmative or implied consent to householding will remain in effect until you revoke it. Carrollton Bancorp shall begin sending individual copies of applicable security holder communications subject to householding rules to a security holder within 30 days after revocation by the security holder of prior affirmative or implied consent. Your participation in the householding program is encouraged. It will reduce the volume of duplicate information received at your household as well as the cost of us preparing and mailing duplicate materials.

Most banks and brokers are delivering only one copy of the annual report and proxy statement to consenting street-name stockholders (you own shares in the name of a bank, broker or other holder of record on the books of our transfer agent) who share the same address. Those street-name stockholders who wish to receive separate copies may do so by contacting their bank or broker or other holder of record.

By Order of the Board of Directors



Allyson Cwiek
Secretary

Baltimore, Maryland
March 17, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-K

Annual Report pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934 (Fee required)

For the fiscal year ended December 31, 2005

Commission file number: 0-23090

Carrollton Bancorp

(Exact Name of Registrant as Specified in its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

52-1660951

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

344 N. Charles St.
Baltimore, MD

(Address of principal executive offices)

21201

(Zip Code)

(410) 536-4600

(Registrant's telephone number,
including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock,
par value \$1.00 per share

(Title of class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and will not 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 check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the Common Stock, all of which has voting rights, held by non-affiliates of the registrant on December 31, 2005 was \$42,145,470. This calculation is based upon the last price known to the registrant at which its Common Stock was sold as of the last business day of the registrant's most recently completed fourth fiscal quarter. As of December 31, 2005, the last known sale price was \$15.00 per share.

On March 1, 2006, 2,813,268 shares of the registrant's common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Company's Proxy Statement for Annual Meeting of Shareholders to be held on April 18, 2006, is incorporated by reference in this Form 10-K in Part III, Item 10, Item 11, Item 12, Item 13, and Item 14.

TABLE OF CONTENTS

PART I

- Item 1— Business
- Item 1A— Risk Factors
- Item 2— Properties
- Item 3— Legal Proceedings
- Item 4— Submission of Matters to a Vote of Security Holders

PART II

- Item 5— Market for Registrant’s Common Equity, Related Shareholders Matters and Issuer Purchases of Equity Securities
- Item 6— Selected Financial Data
- Item 7— Management’s Discussion and Analysis of Financial Condition and Results of Operations
- Item 7A— Quantitative and Qualitative Disclosures About Market Risk
- Item 8— Financial Statements and Supplementary Data
- Item 9— Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
- Item 9A— Controls and Procedures
- Item 9B— Other Information

PART III

- Item 10— Directors and Executive Officers of the Registrant
- Item 11— Executive Compensation
- Item 12— Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- Item 13— Certain Relationships and Related Transactions
- Item 14— Principal Accounting Fees and Services

PART IV

- Item 15— Exhibits and Financial Statement Schedules
- Signatures

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,” “plans,” “believes,” “estimates” and similar expressions also identify forward-looking statements. The forward-looking statements are based on Carrollton Bancorp’s current intent, belief and expectations. Forward-looking statements in this Annual Report on Form 10-K include, but are not limited to:

Part I. Item 3. Legal Proceedings:

Statement regarding the impact on the Company of routine legal proceeding.

Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations:

Statements regarding loan growth in real estate development and construction and commercial loan portfolios in 2006.

Statement regarding 2006 certificate of deposit pricing strategy.

Statement regarding challenges facing management in terms of interest rates, growth in net interest income and overall management of the net interest margin.

Statements regarding volatility in mortgage refinancing activity.

Part III. Item 7A. Quantitative and Qualitative Disclosures About Market Risk:

Statements regarding the Company’s ability to limit exposure to interest rate risk.

Statements regarding factors that influence demand for real estate loans.

Statements regarding future revenue improvements.

Statements regarding the sufficiency of the Company’s allowance for loan losses.

Part IV. Item 8. Note 3. Investments:

Statement regarding anticipated changes in the fair value of securities in relation to market rates.

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 the date of this Report. Carrollton Bancorp 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.

PART I

ITEM 1: 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, 2005, had a total of eleven 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 operated a network of ATMs in Maryland, Virginia, and West Virginia and sponsors national retailers who accept ATM cards for purchases in various electronic networks. On September 22, 2005, Wal-Mart notified the Bank of its intention to terminate the agreement for the Bank to provide ATM’s at Wal-Mart, Sam’s Club, and Wal-Mart Supercenters in Maryland, Virginia, and West Virginia. The effective date of the termination was January 22, 2006.

The Bank is an independent, community bank that seeks to provide personal attention and professional financial services to its customers while offering virtually all of the banking services of larger competitors. Our customers are primarily individuals and small and medium-sized businesses. The Bank’s business philosophy includes offering informed and courteous service, local and timely decision-making, flexible and reasonable operating procedures and consistently applied credit policies.

The executive offices of the Company and the principal office of the Bank are located at 344 North Charles Street, Baltimore, Maryland 21201, telephone number (410) 536-4600. The Company files quarterly and annual reports with the Securities and Exchange Commission (“SEC”) on forms 10-Q and 10-K, respectively, proxy materials on Schedule 14A and current reports on Form 8-K. The Company makes available, free of charge, all of these reports, as well as any amendments, through the Company’s Internet site as soon as is reasonably practicable after they are filed electronically with the SEC. The address of that site is <http://www.carrolltonbank.com>. To access the SEC reports, click on “Insider Transactions—SEC Filings”—“SEC Filings”. The SEC also maintains an internet site that contains reports, proxy materials and information statements at <http://sec.gov>. In addition, the Company will provide paper copies of filings free of charge upon written request.

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, savings accounts and certificates of deposit.
- Internet banking including electronic bill payment
- 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 mortgage loans, 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 commercial mortgage loans, time and demand loans, lines and letters of credit, and acquisition, development and construction 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 ratio 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 no losses on residential mortgage loans and recoveries of \$14,874 in 2005. The Bank experienced losses of \$746 and recoveries of \$8,087 in 2004. The Bank experienced losses of \$8,709 and recoveries of \$0 in 2003. There were no residential mortgage loans delinquent more than 90 days at December 31, 2005. 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. 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 \$0 and recoveries of \$7,700 during 2005. The Bank experienced losses on home equity loans during 2004 of \$7,000 and recoveries of \$0. The Bank experienced losses on home equity loans during 2003 of \$8,189 and recoveries of \$0. There were \$242,000 of home equity loans delinquent more than 90 days at December 31, 2005. 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 115% coverage of the business debt service, and for 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 no losses on commercial mortgage loans during 2005, 2004, and 2003, respectively. There were \$1.1 million of commercial mortgage loans past due more than 90 days at December 31, 2005. 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 80% 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 2005, 2004, or 2003. There were no construction and land development loans past due more than 90 days at December 31, 2005. There are no discernible delinquency or loss trends relating to construction and land development loans known to management.

Demand and time 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. 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. 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 \$123,578 and recoveries of \$130,904 on demand and time loans in 2005. The Bank had losses of \$192,440 and recoveries of \$67,111 on demand and time loans in 2004. The Bank had losses of \$200,173 and recoveries of \$58,034 on demand and time loans in 2003. There were no demand and time and line of credit loans delinquent more than 90 days at December 31, 2005. There are no discernible delinquency or loss trends relating to demand and time 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. 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 debt-to-income ratio requirement helps determine the borrower's current ability to repay the loan. The Bank had charge-offs of home improvement loans of \$0, \$10,020, and \$3,170, in 2005, 2004 and 2003, respectively. There were recoveries of \$0, \$14,898, and \$21,922, in 2005, 2004, and 2003, respectively. There were no home improvement loans delinquent more than 90 days at December 31, 2005. 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 up to 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 up to 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 2005, 2004, or 2003, and recoveries of \$0, \$0, and \$369, in 2005, 2004 and 2003, respectively. There were no automobile or other vehicle loans past due more than 90 days at December 31, 2005. 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 2005, 2004, and 2003 were \$1,927, \$43,470, and \$34,000, respectively. There were \$25,000 of overdraft loans and other personal loans past due more than 90 days at December 31, 2005. 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 2005, 2004, or 2003. Recoveries on loans secured by stocks and bonds were \$0, \$411, and \$0 in 2005, 2004, and 2003, respectively. There were no loans secured by savings accounts or stock and bond certificates past due more than

90 days at December 31, 2005. 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 did 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 2006 to 2031, 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 customers to deposit more than would normally be covered by FDIC insurance. CDARS is a nationwide program 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 2005, commission income totaled \$668,000 and net income was \$158,000.

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, 2005, the Bank and its subsidiaries had 157 full time equivalent employees, 31 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 believes that it has a favorable relationship with its employees.

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.

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.

THE PATRIOT ACT

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “PATRIOT Act”) requires financial institutions to develop a customer identification plan that includes procedures to:

- Collect identifying information about customers opening a deposit or loan account
- Verify customer identity
- Maintain records of the information used to verify the customer’s identity
- Determine whether the customer appears on any list of suspected terrorists or terrorist organizations

Under the provisions of the PATRIOT Act, the Bank is also required from time to time to search its customer data base for the names of known or suspected terrorists as provided by the government.

Due to the extensive regulation of the commercial banking business in the United States, the Company is particularly susceptible to changes in federal and state legislation and regulations.

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 1A: RISK FACTORS

The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us and our business. If any of these risks were to occur, our business, financial condition or results of operations could be materially and adversely affected.

We face significant competition for banking services in our primary market in which we operate. Competition in the local banking industries may limit our ability to attract and retain customers. We may face competition now and in the

future from the following: other local and regional banking institutions, including larger commercial banking organizations; savings banks; credit unions; other financial institutions; and non-bank financial services companies serving the area.

In particular, our competitors may possess greater resources that may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits, which enable them to serve the credit needs of larger customers. We also face competition from out-of-state financial intermediaries that have opened low-end production offices or that solicit deposits in their respective market areas. If we are unable to attract and retain banking customers we may be unable to continue our loan growth and level of deposits and our results of operations and financial condition may otherwise be negatively affected.

In the past, we have expanded our operations into non-banking activities such as insurance-related products and brokerage services. We may have difficulty competing with more established providers of these products and services due to the intense competition in many of these industries. In addition, we may be unable to attract and retain non-banking customers due to a lack of market and product knowledge or other industry specific matters or an inability to attract and retain qualified, experienced employees. Our failure to attract and retain customers with respect to these non-banking activities could negatively impact our future earnings.

Our main source of income from operations is net interest income, which is equal to the difference between the interest income received on loans, investment securities and other interest-earning assets and the interest expense incurred in connection with deposits, borrowings and other interest-bearing liabilities. As a result, our net interest income can be affected by changes in market interest rates. These rates are highly sensitive to many factors beyond our control, including general economic conditions, both domestic and foreign, and the monetary and fiscal policies of various governmental and regulatory authorities. We have adopted asset and liability management policies to try to minimize the potential adverse effects of changes in interest rates on our net interest income, primarily by altering the mix and maturity of loans, investments and funding sources. However, even with these policies in place, we cannot provide assurance that changes in interest rates will not negatively impact our operating results.

An increase in interest rates also could have a negative impact on our business by reducing the ability of borrowers to repay their current loan obligations, which could not only result in increased loan defaults, foreclosures and write-offs, but also necessitate further increases to our allowance for loan losses. Increases in interest rates also may reduce the demand for loans and, as a result, the amount of loan and commitment fees. In addition, fluctuations in interest rates may result in disintermediation, which is the flow of funds away from depository institutions into direct investments that pay higher rates of return, and may affect the value of our investment securities and other interest-earning assets.

If our customers default on the repayment of their loans, our profitability could be adversely affected. A borrower's default on its obligations under one or more of our loans may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the loans. If collection efforts are unsuccessful or acceptable workout arrangements cannot be reached, we may have to write-off the loans in whole or in part. Although we may acquire any real estate or other assets that secure the defaulted loans through foreclosure or other similar remedies, the amount owed under the defaulted loans may exceed the value of the assets acquired.

Our management periodically makes a determination of our allowance for loan losses based on available information, including the quality of our loan portfolio, economic conditions, and the value of the underlying collateral and the level of our non-accruing loans. If our assumptions prove to be incorrect, our allowance may not be sufficient. Increases in this allowance will result in an expense for the period. If, as a result of general economic conditions or an increase in nonperforming loans, management determines that an increase in our allowance for loan losses is necessary, we may incur additional expenses.

In addition, as an integral part of their examination process, bank regulatory agencies periodically review our allowance for loan losses and the value we attribute to real estate acquired through foreclosure or other similar remedies. These regulatory agencies may require us to adjust our determination of the value for these items. These adjustments could negatively impact our results of operations or financial condition.

Because we serve primarily individuals and smaller businesses, the ability of our customers to repay their loans is impacted by the economic conditions in these areas. As of December 31, 2005, approximately 78% of our loan portfolio consisted of commercial loans, defined as commercial and industrial, municipal, multi-family, commercial real estate and construction loans. Thus, our results of operations, both in terms of the origination of new loans and the potential default of existing loans, is heavily dependent upon the strength of local businesses.

We have traditionally obtained funds principally through deposits and borrowings. As a general matter, deposits are a cheaper source of funds than borrowings, because interest rates paid for deposits are typically less than interest rates charged for borrowings. If, as a result of competitive pressures, market interest rates, general economic conditions or other events, the balance of our deposits decrease relative to our overall banking operations, we may

have to rely more heavily on borrowings as a source of funds in the future. Such an increased reliance on borrowings could have a negative impact on our results of operations or financial condition.

In the course of our business, we may acquire, through foreclosure, properties securing loans that are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we might be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could substantially exceed the value of the affected properties. We may not have adequate remedies against the prior owners or other responsible parties and could find it difficult or impossible to sell the affected properties. The occurrence of one or more of these events could adversely affect our financial condition or operating results.

We originate and sell mortgage loans. Changes in interest rates affect demand for our loan products and the revenue realized on the sale of loans. A decrease in the volume of loans sold and lower gains on sales of mortgages can decrease our revenues and net income.

Bank holding companies and state and federally chartered banks operate in a highly regulated environment and are subject to supervision and examination by federal and state regulatory agencies. We are subject to the Bank Holding Company Act of 1956, as amended, and to regulation and supervision by the Federal Deposit Insurance Corporation, or FDIC, and the Office of the Maryland Commissioner of Financial Regulation. The cost of compliance with regulatory requirements may adversely affect our results of operations or financial condition. Federal and state laws and regulations govern numerous matters including: changes in the ownership or control of banks and bank holding companies; maintenance of adequate capital and the financial condition of a financial institution; permissible types, amounts and terms of extensions of credit and investments; permissible non-banking activities; the level of reserves against deposits; and restrictions on dividend payments.

The FDIC, and state banking authorities possess cease and desist powers to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the Federal Reserve Board possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we may conduct our business and obtain financing.

Furthermore, our banking business is affected not only by general economic conditions, but also by the monetary policies of the FRB. Changes in monetary or legislative policies may affect the interest rates we must offer to attract deposits and the interest rates we can charge on our loans, as well as the manner in which we offer deposits and make loans. These monetary policies have had, and are expected to continue to have, significant effects on the operating results of depository institutions, including our Bank.

We rely heavily on communications and information systems to conduct our business. Any failure or interruptions or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposits, servicing or loan origination systems. The occurrence of any failures or interruptions could result in a loss of customer business and have a material adverse effect on our results of operations and financial condition.

Under regulatory capital adequacy guidelines and other regulatory requirements, we must meet guidelines that include quantitative measures of assets, liabilities, and certain off-balance sheet items, subject to qualitative judgments by regulators about components, risk weightings and other factors. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. Our failure to maintain the status of "well capitalized" under our regulatory framework could affect the confidence of our customers in us, thus compromising our competitive position. In addition, failure to maintain the status of "well capitalized" under our regulatory framework or "well managed" under regulatory examination procedures could compromise our status as a bank holding company and related eligibility for a streamlined review process for acquisition proposals.

ITEM 2: PROPERTIES

The Company owned the following properties, which had a book value of \$3.9 million at December 31, 2005:

<i>Location</i>	<i>Description</i>
1740 East Joppa Road Towson, MD 21234	Full service branch with drive thru, Electronic Banking offices and leased office space
427 Crain Highway Glen Burnie, MD 21061	Full service branch with drive-thru
531 South Conkling Street. Baltimore, MD 21224	Full service branch with drive-thru
344 N. Charles Street Baltimore, MD 21201	Full service branch with Executive offices, Lending offices and Finance offices
Northway Shopping Center 684 Old Mill Road Millersville, MD 21108	Full service branch with drive-thru; subject to a ground lease that expires August 31, 2014, assuming the Company exercises all extension options
602 Hoagie Drive Bel Air, MD 21014	Full service branch with drive-thru and Lending offices; subject to a ground lease expiring November 30, 2044 assuming that the Company exercises all extension options.

The Company leased the following facilities at an aggregate annual rental of \$947,957 as of December 31, 2005:

<i>Location</i>	<i>Description</i>	<i>Lease Expiration Date*</i>
1066-70 Maiden Choice Lane Arbutus, MD 21229	Full service branch	April 30, 2006 (1)
4738 Shelbourne Road Baltimore, MD 21229	Detached drive-thru	April 30, 2006 (1)
Suites 101-103 & 120-122 1589 Sulphur Spring Road Baltimore, MD 21227	Administrative and operational offices	February 28, 2019
2637-A Old Annapolis Road Hanover, MD 21076	Full service branch	October 1, 2014
Wilkens Beltway Plaza 4658 Wilkens Avenue Baltimore, MD 21229	Limited-service branch	October 21, 2024
555 Fairmount Avenue Baltimore, MD 21286	Full service branch to be closed at the termination of the lease in April 2006	April 20, 2006
8157A Honeygo Boulevard White Marsh, MD 21236	Full service branch	December 31, 2017
2300 York Road Timonium, MD 21093	Mortgage subsidiary offices	January 14, 2010
208 Hickory Avenue Bel Air, MD 21014	Mortgage subsidiary offices	March 31, 2010
8905 Harford Road Baltimore, MD 21234	Mortgage subsidiary offices	June 30, 2006
1 Center Square, Suite 201 Hanover, PA 17331	Mortgage subsidiary offices	June 29, 2007

* Expiration date, assuming the Company exercises all extension options.

(1) The Company expects to sign a lease for 10 years with two five year extension options.

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

There were no matters submitted to a vote of the stockholders during the quarter ended December 31, 2005.

PART II

ITEM 5: MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

TRADING AND DIVIDENDS

As of December 31, 2005, there were 421 shareholders of record of the Company. The Company's Common Stock has traded on the National Association of Security Dealers' Automated Quotation System ("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.

As a depository institution whose deposits are insured by the FDIC, the Bank may not pay dividends or distribute any of its capital assets while it remains in default on any assessment due to the FDIC. The Bank currently is not in default under any of its obligations to the FDIC. As a commercial bank under the Maryland Financial Institution Law, the Bank may declare cash dividends from undivided profits or, with the prior approval of the Commissioner of Financial Regulation, out of surplus in excess of 100% of its required capital stock, and after providing for due or accrued expenses, losses, interest and taxes.

The Company and the Bank, in declaring and paying dividends, are also limited insofar as minimum capital requirements of regulatory authorities must be maintained. The Company and the Bank currently comply with such capital requirements.

Dividends declared per share on the Company's common stock were \$0.40 in 2005, \$0.38 in 2004, and \$0.36 in 2003, representing a payout ratio of 45.97% in 2005, 121.17% in 2004, and 109.96% in 2003. The dividend payout ratio is the result of dividing the amount of dividends paid by net income.

The Company implemented a Dividend Reinvestment Plan that provides automatic reinvestment of dividends in additional shares of Carrollton Bancorp common stock.

During 2005, the Company repurchased and retired 42,500 shares of common stock at a price of \$14.10 per share.

The following table sets forth the high and low sales price and dividends per share of the Company's Common Stock for the periods indicated.

<i>Period</i>	<i>Price Per Share</i>				<i>Cash Dividends Paid Per Share</i>	
	<i>2005</i>		<i>2004</i>		<i>2005</i>	<i>2004</i>
	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>		
4th Quarter	\$14.00	\$15.00	\$15.70	\$17.80	\$0.10	\$ 0.10
3rd Quarter	13.95	16.29	14.80	17.20	0.10	0.10
2nd Quarter	14.25	17.00	15.65	18.13	0.10	0.09
1st Quarter	14.12	17.00	17.80	18.21	0.10	0.09

As of December 31, 2005, there were 421 common shareholders of record holding an aggregate of 2,809,698 shares. The Company believes there to be in excess of 514 beneficial owners of the Company's Common Stock.

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:

<i>Plan Category</i>	<i>Number of securities to be issued upon exercise of outstanding options, warrants and rights</i> (a)	<i>Weighted-average exercise price of outstanding options, warrants and rights</i> (b)	<i>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</i> (c)
Equity compensation plans approved by security holders	227,130	\$14.52	25,240
Equity compensation plans not approved by security holders	—	—	—
Total	227,130	\$14.52	25,240

ITEM 6: SELECTED FINANCIAL DATA

	2005	2004	2003	2002	2001
CONSOLIDATED INCOME STATEMENT DATA:					
Interest income	\$ 19,071,379	\$ 15,500,323	\$ 15,935,691	\$ 18,985,364	\$ 23,832,624
Interest expense	7,375,083	5,321,622	6,639,734	8,692,320	12,872,355
Net interest income	11,696,296	10,178,701	9,295,957	10,293,044	10,960,269
Provision for loan losses	—	—	243,000	526,000	550,000
Net interest income after provision for loan losses	11,696,296	10,178,701	9,052,957	9,767,044	10,410,269
Noninterest income	10,718,636	8,781,151	8,268,612	7,534,802	7,156,444
Noninterest expenses	18,634,124	17,751,000	16,058,355	14,536,958	14,817,504
Income before income taxes	3,780,808	1,208,852	1,263,214	2,764,888	2,749,209
Income taxes	1,322,371	320,488	338,500	847,630	816,132
Net income	\$ 2,458,437	\$ 888,364	\$ 924,714	\$ 1,917,258	\$ 1,933,077
CONSOLIDATED BALANCE SHEET DATA, AT YEAR END					
Assets	\$360,467,146	\$319,123,132	\$302,409,975	\$324,221,615	\$356,907,181
Gross loans	247,943,073	219,726,294	199,296,561	205,220,126	220,177,983
Deposits	271,626,503	225,846,145	207,056,100	230,264,108	265,528,720
Shareholders' equity	34,640,165	34,215,280	34,124,882	33,691,079	32,458,383
PER SHARE DATA: (a)					
Number of shares of Common Stock outstanding, at year-end	2,809,698	2,834,823	2,828,078	2,821,757	2,836,317
Net income:					
Basic	\$ 0.87	\$ 0.31	\$ 0.33	\$ 0.68	\$ 0.68
Diluted	0.87	0.31	0.32	0.68	0.68
Cash dividends declared	0.40	0.38	0.36	0.34	0.34
Book value, at year end	12.33	12.07	12.07	11.94	11.44
Performance and capital ratios:					
Return on average assets	0.72%	0.29%	0.29%	0.57%	0.52%
Return on average shareholders' equity	7.12%	2.61%	2.71%	5.70%	6.05%
Net interest margin (b)	3.89%	3.81%	3.36%	3.47%	3.32%
Average shareholders' equity to average total assets	10.13%	11.11%	10.83%	9.99%	8.52%
Year-end capital to year-end risk - weighted assets:					
Tier 1	11.63%	11.52%	13.75%	13.57%	12.88%
Total	13.51%	12.74%	15.51%	15.07%	14.26%
Year-end Tier 1 leverage ratio	8.96%	9.41%	10.35%	9.54%	8.61%
Cash dividends declared to net income	45.97%	121.17%	109.96%	50.80%	50.43%
ASSETS QUALITY RATIOS:					
Allowance for loan losses, at year-end to:					
Gross loans	1.35%	1.59%	1.83%	1.74%	1.52%
Nonperforming, restructured and past-due loans	209.50%	132.05%	151.37%	111.68%	276.13%
Net charge-offs to average gross loans	0.06%	0.08%	0.09%	0.13%	0.10%
Nonperforming assets as a percent of period-end gross loans and foreclosed real estate	0.64%	1.20%	1.26%	1.67%	0.55%

(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) Net interest margin is the ratio of net interest income, determined on a fully taxable equivalent basis (a non-GAAP financial measure), to total average interest earning assets.

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 2006.

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 a 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 operated a network of ATMs in Maryland, Virginia, and West Virginia and sponsors national retailers who accept ATM cards for purchases in various electronic networks. On September 22, 2005, Wal-Mart notified the Bank of its intention to terminate the agreement for the Bank to provide ATMs at Wal-Mart, Sam's Club, and Wal-Mart Supercenters in Maryland, Virginia and West Virginia. The effective date of the termination was January 22, 2006.

During 2005, 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 2005, increasing its gross loan portfolio 12.8% over 2004. 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 34.7%.

Net income increased 177% from 2004 to 2005. The earnings for the year ended December 31, 2005 include security gains of \$840,000 from the sale of equity securities, a \$506,000 charge representing a penalty for the prepayment of a \$5 million Federal Home Loan Bank of Atlanta (FHLBA) advance at 7.26% maturing May 24, 2010, and the write down and cost of disposal of ATMs totaling \$564,000 related to the termination of the Wal-Mart agreement. Wal-Mart terminated the agreement for Carrollton Bank to provide automated teller machines (ATMs) at Wal-Mart, Sam's Club and Wal-Mart Supercenters in Maryland, Virginia and West Virginia. To illustrate the impact on earnings from these three items (using a non-GAAP financial measure), net income for 2005 excluding the gains on the sales of securities, FHLBA prepayment penalty, and the write down and cost of disposal of the ATMs, as described above, would have been \$2.6 million or \$0.92 per diluted share, an increase of 123%, compared to net income of \$1.2 million excluding the gains on the sale of securities and the \$497,000 write-down on the Federal Home Loan Mortgage Corporation stock (FHLMC) for 2004. The Company is asset sensitive and as a result of the increasing interest rate environment of 2005 and the increase in interest earning assets of \$33.7 million from 2004 to 2005, net interest income increased 15% for 2005 compared to 2004. Noninterest income excluding the gains on the sales of securities of \$840,000 in 2005 and \$116,000 in 2004 increased 14% compared to 2004.

The Company opened its newest retail branch in Bel Air, Maryland in January 2005. As of December 31, 2005, that branch had attracted \$8.5 million in deposits.

Based upon current earnings and encouraging prospects for future earnings, the Company paid dividends of \$.40 per share to shareholders during 2005.

RESULTS OF OPERATION

SUMMARY

The Company reported net income for 2005 of \$2.5 million or \$0.87 per share, representing a 177% increase from 2004 net income of \$888,000, or \$0.31 per share. Core earnings (earnings before the effect of investment security transactions) for the year were \$1.9 million, a 138% increase over 2004 core earnings of \$1.2 million.

The loan portfolio, including loans held for sale, increased 14.1% to \$258.3 million, a result of the Company's continuing efforts to align the loan portfolio to be in line with typical commercial banks. Interest income on loans increased 23.9% due to loans increasing \$31.9 million and loans repricing to higher rates.

The deposit portfolio increased 20.3% to \$271.6 million, with the majority of the growth derived from noninterest bearing deposits, money market accounts and certificates of deposit. Interest expense increased during 2005, due primarily to a \$32.5 million increase in interest-bearing deposits and the yield on interest-bearing deposits increasing 80 basis points.

Noninterest income increased 22.1% in 2005 compared to 2004, due primarily to a 625% or \$724,000 increase in gains on sales of securities, an increase of 41% or \$788,000 in fees and commissions earned by CMSI, a 3% or \$133,000 increase in the Electronic Banking Division's revenue, and a 14% or \$134,000 increase in service charges.

Noninterest expense increased 5.0% in 2005 compared to 2004, due to the opening of a new branch in the North Bel Air area of Harford County as well as increased expenses relating to the \$506,000 prepayment penalty assessed by the FHLBA for the payoff of \$5.0 million in borrowings plus the write-down of the Company's ATM network of \$563,000. Some of the increases in noninterest expenses were offset by a decrease in employee benefits due to freezing the defined benefit pension plan effective December 31, 2004 and by a decrease in furniture and equipment expense due to the original cost of the ATM network being fully depreciated in 2004. In 2004, the Company recognized a \$497,000 impairment on FHLMC stock it owned.

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 \$1.2 million, a 79.4% increase over 2003 core earnings of \$626,000.

The loan portfolio increased 10.2% during 2004 to \$219.7 million, 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 \$225.8 million, 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.

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

	2005			2004			2003		
	<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>
ASSETS									
Federal funds sold and Federal Home Loan Bank deposit	\$ 19,067,206	\$ 623,910	3.27%	\$ 8,606,166	\$ 116,899	1.36%	\$ 18,044,257	\$ 198,427	1.10%
Federal Home Loan Bank stock	2,643,019	109,616	4.15	2,261,207	80,737	3.57	2,352,030	90,075	3.83
Investment securities: (a)									
U.S. government agency	20,306,719	560,887	2.76	28,566,496	674,774	2.36	39,007,166	1,170,484	3.00
State and municipal	4,027,933	264,620	6.57	4,549,377	287,890	6.33	5,064,139	323,561	6.39
Mortgage-backed securities	11,089,402	611,055	5.51	8,747,456	479,546	5.48	12,605,968	676,216	5.36
Corporate bonds	1,277,192	70,749	5.54	4,592,680	274,845	5.98	7,504,350	453,741	6.05
Other	1,877,280	135,232	7.20	3,732,303	175,442	4.70	3,765,420	248,647	6.60
	<u>38,578,526</u>	<u>1,642,543</u>	<u>4.26</u>	<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>
Loans:									
Demand and time	67,134,231	3,554,951	5.30	49,920,788	2,783,558	5.58	36,937,606	2,362,358	6.40
Residential mortgage (b)	74,654,896	4,613,621	6.18	68,431,096	4,090,660	5.98	66,966,298	4,373,550	6.53
Commercial mortgage and construction	97,985,886	8,298,411	8.47	86,429,102	6,193,969	7.17	85,645,620	5,687,390	6.64
Installment	1,813,896	154,258	8.50	2,414,072	209,275	8.67	2,745,494	271,251	9.88
Lease financing	2,782,231	214,524	7.71	4,024,469	320,885	7.97	4,201,261	356,616	8.49
	<u>244,371,140</u>	<u>16,835,765</u>	<u>6.89</u>	<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>
Total interest-earning assets	304,659,891	19,211,834	6.31	272,275,212	15,688,480	5.76	284,839,609	16,212,316	5.69
Noninterest-bearing cash	26,624,448			21,682,244			19,662,376		
Premises and equipment	5,694,687			4,959,453			5,173,405		
Other assets	4,034,529			7,858,307			6,062,058		
Allowance for loan losses	(3,472,722)			(3,616,474)			(3,692,349)		
Unrealized gains on available for sale securities, net	3,412,785			3,174,905			3,306,853		
	<u>\$340,953,618</u>			<u>\$306,333,647</u>			<u>\$315,351,952</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing deposits:									
Savings and NOW	\$ 67,931,566	162,865	0.24%	\$ 71,404,510	180,741	0.25%	\$ 72,624,598	231,024	0.32%
Money market	40,658,604	998,161	2.45	29,186,544	322,785	1.11	28,266,591	267,744	0.95
Certificates of deposit	81,412,306	2,861,697	3.52	61,370,913	1,627,239	2.65	77,496,371	2,970,271	3.83
	<u>190,002,476</u>	<u>4,022,723</u>	<u>2.12</u>	<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>
Borrowed funds	54,879,637	3,352,360	6.11	56,153,768	3,190,857	5.68	58,234,600	3,170,695	5.44
Total interest-bearing liabilities	244,882,113	7,375,083	3.01	218,115,735	5,321,622	2.44	236,622,160	6,639,734	2.81
Noninterest-bearing deposits	59,645,770			51,501,352			42,449,945		
Other liabilities	1,885,164			2,674,734			2,132,959		
Shareholders' equity	34,540,571			34,041,826			34,146,888		
Total liabilities and shareholders' equity	<u>\$340,953,618</u>			<u>\$306,333,647</u>			<u>\$315,351,952</u>		
NET INTEREST MARGIN (C)									
	<u>\$304,659,891</u>	<u>\$11,836,751</u>	<u>3.89%</u>	<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>

(a) Interest on investments and loans is presented on a fully taxable equivalent basis (a non-GAAP financial measure), using the federal income tax rates of 34% and, where applicable, the state rate of 7% (or a combined federal and state rate of 38.62%) to increase tax exempt interest income to a taxable equivalent basis. This is a non-GAAP measure that management believes is useful when comparing annual results.

(b) Loans held for sale are included in residential mortgage loans.

(c) Net interest margin is the ratio of net interest income, determined on a fully taxable-equivalent basis, to total average interest earning assets.

Net interest income on a tax-equivalent basis increased to \$11.8 million for the year ended December 31, 2005 compared to \$10.4 million for 2004. The increase in tax-equivalent net interest income during 2005 was almost entirely due to a \$32.4 million increase in average earning assets during 2005 compared to 2004. An increase in average loans outstanding of \$33.2 million, or 15.7% and average federal funds sold of \$10.5 million or 121.6% was partially offset by a decline in average investment securities outstanding for the year of \$11.6 million.

The increase in average loans outstanding is attributed to the Company's active business development efforts in its commercial loan portfolio and general economic conditions of the Company's primary service market. Targeted short-term interest rates, as established by the Federal Reserve Bank, increased during 2005 resulting in the Company's yield on earning assets increasing 55 basis points to 6.31% for the year ended December 31, 2005 compared to 5.76% for the same period in 2004. The yield on loans increased to 6.89% in 2005 compared to 6.44% for 2004 as lower yielding loans repriced during the year to higher rates. The yield on investment securities also increased to 4.26% in 2005 from 3.77% in 2004. The net impact was a \$3.5 million or 22.4% increase in tax-equivalent interest income for the year ended December 31, 2005 compared to 2004.

In 2004, net interest income on a taxable-equivalent 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.

Interest expense increased \$2.1 million to \$7.4 million in 2005 from \$5.3 million in 2004. Interest expense increased primarily due to a change in the deposit mix, with an increase in the amount of interest-bearing deposits. In addition, the cost of interest-bearing deposits increased from 1.32% in 2004 to 2.12% in 2005.

Interest expense on total interest-bearing liabilities increased \$2.1 million, or 38.6%, for the year ended December 31, 2005. The increase in interest expense was due to a \$27.3 million increase in average interest-bearing liabilities and the cost of interest-bearing liabilities increasing to 3.01% for the year ended December 31, 2005 compared to 2.44% for the same period in 2004.

The following table and the related discussions of interest income and interest expense provide further analysis of the changes in net interest income during 2005 and 2004:

	2005 Compared to 2004			2004 Compared to 2003		
	<i>Change Due to Rate(b)</i>	<i>Variance In Volume(b)</i>	<i>Total</i>	<i>Change Due to Rates(b)</i>	<i>Variance In Volume(b)</i>	<i>Total</i>
INTEREST INCOME						
Federal funds sold and interest-bearing deposits with other banks	\$ 364,757	\$ 142,254	\$ 507,011	\$ 22,291	\$ (103,819)	\$ (81,528)
Investment securities and FHLB stock	(55,017)	(166,058)	(221,075)	(254,740)	(734,750)	(989,490)
Loans (a)	1,099,671	2,137,747	3,237,418	(383,662)	930,844	547,182
TOTAL INTEREST EARNED	1,409,411	2,113,943	3,523,354	(616,111)	92,275	(523,836)
INTEREST EXPENSE						
Deposits	1,501,020	390,938	1,891,958	(725,505)	(612,769)	(1,338,274)
Borrowings	216,307	(54,804)	161,503	133,359	(113,197)	20,162
TOTAL INTEREST EXPENSE	1,717,327	336,134	2,053,461	(592,146)	(725,966)	(1,318,112)
NET INTEREST INCOME	\$(307,916)	\$1,777,809	\$ 1,469,893	\$ (23,965)	\$ 818,241	\$ 794,276

- (a) Interest on investments and loans is presented on a fully taxable equivalent basis (a non-GAAP financial measure), using regular income tax rates.
- (b) 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 continues to experience strong asset quality in its loan portfolio with a low delinquency rate and a low charge off rate. The Company did not provide for any loan losses for the years ended December 31, 2005 and 2004. Nonaccrual, restructured and delinquent loans over 90 days to total loans improved further to 0.64% at the end of 2005 compared to 1.20% in 2004. The ratio of net loan losses to average loans decreased in 2005 to 0.06% compared to 0.08% for 2004.

The Company did not provide for any loan losses for the year ended December 31, 2004 compared to a net provision for loan losses of \$243,000 for 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 net loan losses to average loans decreased in 2004 to 0.08% compared to 0.09% for 2003.

NONINTEREST INCOME

Noninterest income increased from \$8.8 million during 2004 to \$10.7 million in 2005 due, in large part, to increases in gains and fees recognized on the sale of mortgage loans, net of costs, gains on security sales, increases in Electronic Banking division's revenues and increases in fees charged for deposit services. Specifically, net gains and fees on sales of mortgage loans increased \$788,000 or 41.1% from 2004 to 2005, gains on sales of securities increased \$724,000 or 625.2%, the Electronic Banking Division's revenue increased \$133,000 or 2.7% and deposit service charges increased by \$134,000 or 14.2%. Brokerage commissions also increased \$44,000 or 7.0%. The increase in net gains and fees on sales of mortgage loans corresponded to an increase in the volume of mortgage loans sold during the year, from \$129.7 million in 2004 to \$183.1 million in 2005. The Company believes that this increase in mortgage loan volume was primarily attributable to the market, in general, and expanding the operations of the mortgage company in 2004. The gain on sale of securities increased \$724,000 due to the Company taking some profits on equity investments in 2005.

Electronic banking income is comprised of three sources: national point of sale ("POS") sponsorships, ATM fees, and check card fees. Through December 31, 2005, the Company maintained ATMs in Wal-Mart stores in Maryland, Virginia and West Virginia, as well as at its branches. The fees from these ATMs represent approximately 39% of total electronic banking revenue in 2005. The Company sponsors merchants who accept ATM cards for purchases within various networks (i.e. STAR, PULSE, and NYCE). This national POS sponsorship income represents approximately 41% of total electronic banking revenue. Fees from check cards comprise the remaining 20% of electronic banking revenue. On September 22, 2005, Wal-Mart notified the Bank of its intention to terminate the agreement for the Company to provide ATM services at its locations in Maryland, Virginia and West Virginia. The effective date of the termination was January 22, 2006.

The Company offers a variety of financial planning and investment options to customers, through its subsidiary, CFS, and recognizes commission income as these services are provided.

Noninterest income increased 6.0% to \$8.8 million in 2004 compared to \$8.3 million in 2003. Included in noninterest income was \$116,000 in security gains realized in 2004 compared to \$486,000 in 2003. 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 decreased from \$5.2 million in 2003 to \$4.9 million in 2004. Electronic banking income is comprised of three sources: national point of sale, ("POS") sponsorships, ATM fees and check card fees. The Company maintained ATMs in Wal-Mart stores in Maryland, Virginia and West Virginia, as well as at its branches. The fees from these ATMs represented approximately 46% of total electronic banking revenue in 2004. The Company sponsors merchants who accept ATM cards for purchases within various networks (i.e. STAR, PULSE, NYCE). This national POS sponsorship income represented approximately 31% of total electronic banking revenue. Fees from check cards comprise the remaining 23% of electronic banking revenue.

Mortgage-banking revenue increased \$1.3 million to \$1.9 million 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.

NONINTEREST EXPENSES

Noninterest expense consists primarily of costs associated with personnel, occupancy and equipment, data processing, marketing and professional fees. The Company's noninterest expense for the year ended December 31, 2005 totaled \$18.6 million, representing an increase of \$883,000, or 5.0%, as compared to 2004. Salaries, the largest component of noninterest expense increased \$607,000 or 8.9% from 2004 to 2005 due to merit increases and the opening of a new branch in the North Bel Air area of Harford County and were partially offset by a decrease in the

average number of fulltime equivalent employees from 165 in 2004 to 157 in 2005. Employee benefits decreased by \$532,000 due to freezing the defined benefit pension plan effective December 31, 2004.

Occupancy costs increased \$247,000 or 15.4%, due to the opening of the new branch in Harford County and normal lease payment escalations and costs to maintain business properties. Furniture and equipment expense decreased \$379,000 or 23.8% due to the original cost of the ATM network being fully depreciated in 2004.

In 2005, the Company had non-recurring charges of \$564,000 related to the termination of the Wal-Mart agreement, and \$506,000 representing a penalty for the prepayment of a \$5.0 million FHLBA advance at 7.26% maturing May 24, 2010. In 2004, there was a non-recurring charge of \$497,000 related to the write down of FHLMC stock.

Other noninterest expense increased \$368,000 or 6.9% due to increases in marketing expenses related to opening the new branch in Harford County, amortization of software acquired, increased data processing services due to growth in loans and deposits, increased loan expenses related to CMSI, and professional fees partially offset by decreases in various other 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.

INCOME TAX PROVISION

Income tax expense was \$1.3 million in 2005, compared to \$320,000 in 2004 and \$339,000 in 2003. The effective tax rate was 35.0% in 2005, 26.5% in 2004 and 26.8% in 2003. 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. During 2005, a lower percentage of the Company's pre-tax income was exempt from taxes compared to 2004 and 2003.

FINANCIAL CONDITION

SUMMARY

Total assets of the Company increased by 13.0% to \$360.5 million at December 31, 2005 from \$319.1 million at December 31, 2004. Investment securities increased 12.0% to \$47.6 million at December 31, 2005. Gross loans, excluding loans held for sale, increased by 12.8% to \$247.9 million at December 31, 2005 compared to \$219.7 million at the end of 2004. Interest-earning assets increased \$33.7 million to \$326.6 million and were 89.9% of total assets at December 31, 2005.

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:

	2005	2004	2003	2002	2001
AVAILABLE FOR SALE					
U.S. Government agency	\$10,740,335	\$19,913,790	\$34,566,285	\$ 44,866,333	\$ 64,711,849
Mortgage-backed securities	8,490,125	8,447,886	9,628,267	17,008,728	19,758,761
State and municipal bonds	3,689,859	4,137,433	5,197,716	5,446,260	5,891,946
Corporate bonds	1,514,471	3,036,920	6,820,340	7,962,805	7,739,978
	<u>24,434,790</u>	<u>35,536,029</u>	<u>56,212,608</u>	<u>75,284,126</u>	<u>98,102,534</u>
Equity securities	4,660,213	6,952,463	6,246,349	3,502,021	4,299,478
Total available for sale	<u>29,095,003</u>	<u>42,488,492</u>	<u>62,458,957</u>	<u>78,786,147</u>	<u>102,402,012</u>
HELD TO MATURITY					
U.S. Government agency	5,000,000	—	—	—	—
Mortgage-backed securities	9,575,713	—	—	—	—
State and municipal bonds	3,912,692	—	—	—	—
Foreign bonds	—	—	25,000	25,000	25,000
Total held to maturity	<u>18,488,405</u>	<u>—</u>	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>
Total investment securities	<u>\$47,583,408</u>	<u>\$42,488,492</u>	<u>\$62,483,957</u>	<u>\$ 78,811,147</u>	<u>\$102,427,012</u>

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, 2005:

<i>Maturing</i>	Available for Sale			Held to Maturity		
	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Yield</i>	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Yield</i>
Within one year	\$ 250,000	\$ 250,161	3.75%	\$ —	\$ —	
Over one to five years	9,767,684	9,744,231	3.99	—	—	
Over five to ten years	5,899,059	5,950,273	5.07	8,912,692	8,798,810	4.55%
	<u>15,916,743</u>	<u>15,944,665</u>		<u>8,912,692</u>	<u>8,798,810</u>	
Mortgage-backed securities	8,551,466	8,490,125	5.84	9,575,713	9,506,469	4.86%
Equity securities	1,633,298	4,660,213	2.45	—	—	
	<u>\$26,101,507</u>	<u>\$29,095,003</u>		<u>\$18,488,405</u>	<u>\$18,305,279</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 increased \$5.1 million to \$47.6 million at December 31, 2005 compared to \$42.5 million at December 31, 2004. The increase was due to purchases of mortgage backed securities and state and municipal bonds. In 2004, the Company recognized a \$497,000 other-than-temporary impairment of the Company's investment in FMLMC preferred stock.

LOANS

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

	2005	2004	2003	2002	2001
Real Estate:					
Residential	\$ 53,148,211	\$ 55,242,018	\$ 57,586,028	\$ 79,520,154	\$117,617,158
Commercial	97,909,115	94,858,597	82,856,038	78,500,418	52,675,033
Construction and land development	37,415,478	17,774,874	16,275,828	7,664,367	10,116,583
Demand and time	56,118,527	46,168,587	35,978,633	32,444,790	33,982,346
Lease financing	1,936,482	3,598,003	4,449,408	4,343,539	1,328,828
Installment	1,415,260	2,084,215	2,150,626	2,746,858	4,458,035
	<u>247,943,073</u>	<u>219,726,294</u>	<u>199,296,561</u>	<u>205,220,126</u>	<u>220,177,983</u>
Allowance for loan losses	3,337,163	3,485,076	3,648,245	3,578,762	3,338,807
Loans, net	<u>\$244,605,910</u>	<u>\$216,241,218</u>	<u>\$195,648,316</u>	<u>\$201,641,364</u>	<u>\$216,839,176</u>

Gross loans, excluding loans held for sale, increased \$28.2 million or 12.8% from \$219.7 million as of December 31, 2004 to \$247.9 million as of December 31, 2005. The increase was primarily in commercial lending including commercial construction and land development. Commercial loans amounted to \$193.3 million at December 31, 2005 and were 78% of total loans. Consumer loans amounted to \$54.6 million and were 22% of total loans.

The following table shows the contractual maturities and interest rate sensitivities of the Company's loans at December 31, 2005. 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	\$ 379,930	\$ 43,968,962	\$ 1,480,467	\$1,031,970	\$ 6,286,882	\$ —	\$ 53,148,211
Commercial	21,690,256	21,243,527	46,432,866	296,961	8,245,505	—	97,909,115
Construction and land development	14,934,717	17,974,609	3,081,808	—	1,424,344	—	37,415,478
	<u>37,004,903</u>	<u>83,187,098</u>	<u>50,995,141</u>	<u>1,328,931</u>	<u>15,956,731</u>	<u>—</u>	<u>188,472,804</u>
Demand and time	2,839,530	37,271,160	15,239,114	443,043	325,680	—	56,118,527
Lease financing	820,765	—	1,115,717	—	—	—	1,936,482
Installment	352,098	297,422	303,125	36,937	399,906	25,772	1,415,260
	<u>\$41,017,296</u>	<u>\$120,755,680</u>	<u>\$67,653,097</u>	<u>\$1,808,911</u>	<u>\$16,682,317</u>	<u>\$25,772</u>	<u>\$247,943,073</u>

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

	2005	2004	2003	2002	2001
Nonaccrual loans (a)	\$1,413,925	\$ 615,394	\$ 712,116	\$ 734,879	\$387,037
Restructured loans	—	455,864	661,974	568,969	598,644
Foreclosed real estate	—	—	100,000	218,654	—
	<u>\$1,413,925</u>	<u>\$1,071,258</u>	<u>\$1,474,090</u>	<u>\$1,522,502</u>	<u>\$985,681</u>
Accruing loans past-due 90 days or more	<u>\$ 179,012</u>	<u>\$1,567,919</u>	<u>\$1,036,018</u>	<u>\$1,900,663</u>	<u>\$223,459</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 \$77,744, \$143,374, and \$134,190 as of December 31, 2005, 2004 and 2003, 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 \$2,319,000, \$2,559,000, and \$3,099,000 as of December 31, 2005, 2004 and 2003, 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, 2001 through 2005, 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. Due to the level of the unallocated allowance, management did not make any provision for loan losses in 2005 and 2004.

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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Balance at beginning of year	\$3,485,076	\$3,648,245	\$3,578,762	\$3,338,807	\$3,024,290
Charge-offs:					
Demand and time	123,578	192,440	200,173	21,904	—
Lease financing	168,823	—	—	—	—
Real estate:					
Residential	—	7,746	16,898	160,591	117,582
Commercial	—	—	—	112,718	—
Construction	—	—	—	—	—
Installment	22,640	76,936	47,957	85,393	184,559
	<u>315,041</u>	<u>277,122</u>	<u>265,028</u>	<u>380,606</u>	<u>302,141</u>
Recoveries:					
Demand and time	130,904	67,111	58,034	2,475	17,269
Lease financing	3,980	—	—	—	—
Real estate:					
Residential	14,874	8,087	—	67,705	22,802
Commercial	—	—	—	—	—
Construction	—	—	—	—	—
Installment	17,370	38,755	33,477	24,381	26,587
	<u>167,128</u>	<u>113,953</u>	<u>91,511</u>	<u>94,561</u>	<u>66,658</u>
Net charge-offs	<u>147,913</u>	<u>163,169</u>	<u>173,517</u>	<u>286,045</u>	<u>235,483</u>
Provision charged to operations	—	—	243,000	526,000	550,000
Balance at end of the year	<u>\$3,337,163</u>	<u>\$3,485,076</u>	<u>\$3,648,245</u>	<u>\$3,578,762</u>	<u>\$3,338,807</u>
Ratio of net charge-offs to average loans outstanding	<u>0.06%</u>	<u>0.08%</u>	<u>0.09%</u>	<u>0.13%</u>	<u>0.10%</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>	2005	2004	2003	2002	2001
Demand and time and lease financing	\$ 474,059	\$ 589,053	\$1,226,447	\$ 733,560	\$ 607,323
Real estate:					
Residential	718,028	587,292	831,173	754,979	707,061
Commercial	679,002	1,034,546	1,041,834	876,243	775,321
Construction and land development	382,204	342,114	—	—	—
Installment	143,318	149,271	133,865	94,162	173,166
Unallocated	940,552	782,800	414,926	1,119,818	1,075,936
	<u>\$3,337,163</u>	<u>\$3,485,076</u>	<u>\$3,648,245</u>	<u>\$3,578,762</u>	<u>\$3,338,807</u>

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

<i>Portfolio</i>	2005	2004	2003	2002	2001
Demand and time and lease financing	23.4%	22.7%	20.2%	17.9%	16.0%
Real estate:					
Residential	21.4	25.1	28.9	38.8	53.5
Commercial	39.6	43.2	41.6	38.2	23.9
Construction and land development	15.1	8.1	8.2	3.8	4.6
Installment	0.5	0.9	1.1	1.3	2.0
	<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, 2005, the allowance for loan losses was \$3.3 million, a 4.2% decrease from the end of 2004. The ratio of the allowance to total loans was 1.35% at December 31, 2005 and 1.59% at December 31, 2004. The ratio of net loan losses to average loans outstanding for 2005 was 0.06% compared to 0.08% for 2004. The ratio of nonaccrual loans, restructured loans and loans delinquent more than 90 days to total loans decreased to 0.64% at December 31, 2005 from 1.20% at the end of 2004. The ratio of real estate loans to total loans decreased to 76.1% at the end of 2005 from 76.4% at the end of 2004.

FUNDING SOURCES

DEPOSITS

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

	2005		2004		2003	
	<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	\$ 59,645,770	—%	\$ 51,501,352	—%	\$ 42,449,945	—%
Interest-bearing deposits:						
NOW accounts	34,384,963	0.21	35,016,262	0.21	37,515,591	0.31
Savings accounts	33,546,603	0.27	36,388,248	0.29	35,109,007	0.33
Money market accounts	40,658,604	2.45	29,186,544	1.11	28,266,591	0.95
Certificates of deposit	81,412,306	3.52	61,370,913	2.65	77,496,371	3.83
	<u>\$249,648,246</u>	<u>1.61</u>	<u>\$213,463,319</u>	<u>1.00</u>	<u>\$220,837,505</u>	<u>1.57</u>

The following table provides the maturities of certificates of deposit of the Company in amounts of \$100,000 or more at December 31, 2005:

Maturing in:	
3 months or less	\$ 5,521,007
Over 3 months through 6 months	1,969,060
Over 6 months through 12 months	3,680,896
Over 12 months	3,819,613
	<u>\$14,990,576</u>

Total deposits at December 31, 2005 increased by \$45.8 million to \$271.6 million from the end of 2004. Interest bearing accounts increased by \$32.5 million and noninterest-bearing deposits increased by \$13.3 million. During 2005, 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 of December 31, 2005, the Bank had approximately \$21.4 million in CDARS deposits.

BORROWED FUNDS

Borrowed funds consist of securities sold under repurchase agreements, federal funds purchased and borrowings from the FHLB and notes payable-U.S. Treasury. Securities sold under repurchase agreements are securities sold to the Bank's customers under a continuing "roll-over" contract and mature in one business day. The underlying securities sold are federal agency securities that are segregated from the Company's other investment securities. Federal funds purchased are unsecured, overnight borrowings from other financial institutions. Notes payable-U.S. Treasury are U.S. Treasury and Federal Treasury Tax and Loan deposits accepted by the Bank from its customers to be remitted to the Federal Reserve on a periodic basis.

Information with respect to borrowings is as follows at and for the years ended December 31:

	<i>Maturity Date</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Amount outstanding at year-end:				
Federal Home Loan Bank	March 26, 2008	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Federal Home Loan Bank	February 2, 2010	35,000,000	35,000,000	35,000,000
Federal Home Loan Bank	May 24, 2010	—	5,000,000	5,000,000
		<u>\$40,000,000</u>	<u>\$45,000,000</u>	<u>\$45,000,000</u>
Federal funds purchased and securities sold under repurchase agreements				
		\$ 9,280,348	\$10,183,951	\$11,951,594
Notes-payable — U.S. Treasury		\$ 1,932,124	\$ 1,984,714	\$ 2,025,339
Weighted average interest rate at year-end:				
Advances from the FHLB		6.67%	6.84%	6.84%
Federal funds purchased and securities sold under repurchase agreements		3.59%	1.91%	1.22%
Notes payable — U.S. Treasury		4.17%	1.97%	0.73%
Maximum outstanding at any month-end:				
Advances from the FHLB		\$45,000,000	\$45,000,000	\$45,000,000
Federal funds purchased and securities sold under repurchase agreements		11,742,108	13,540,231	14,733,180
Notes payable — U.S. Treasury		1,958,750	2,008,989	2,032,502
Average balance outstanding during the year:				
Advances from the FHLB		\$44,876,712	\$45,000,000	\$45,000,000
Federal funds purchased and securities sold under repurchase agreements		8,986,714	10,102,501	12,324,539
Notes payable — U.S. Treasury		1,016,211	1,051,267	910,061
Weighted average interest rate during the year:				
Advances from the FHLB		6.84%	6.84%	6.84%
Federal funds purchased and securities sold under repurchase agreements		2.66%	0.96%	0.71%
Notes payable — U.S. Treasury		3.06%	1.10%	1.04%

Debt retirement expense of \$505,839 was incurred in 2005 due to the prepayment of a \$5.0 million FHLB advance that had a maturity date of May 24, 2010 and an interest rate of 7.26%.

The Company may borrow under available unsecured federal funds lines of credit of \$10 million and a secured federal funds line of credit of \$10 million with other institutions. There was no balance outstanding under these lines at December 31, 2005 and 2004. These lines bear interest at the current federal funds rate of the correspondent bank.

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, 2005 and 2004. 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:

	Carrollton Bancorp		Carrollton Bank
	<i>Minimum</i>	<i>2005</i>	<i>2005</i>
Leverage ratio	4%	8.96%	8.72%
Risk-based capital:			
Tier 1 (Core)	4%	11.63%	11.30%
Total	8%	13.51%	12.52%

Total shareholders' equity increased 1.2% to \$34.6 million at December 31, 2005. Earnings of the Company of \$2.5 million for the year ended December 31, 2005 and the proceeds and the tax benefit from the exercise of stock options of \$225,000 were offset by dividends of \$1.1 million and a repurchase of shares totaling \$599,000.

LIQUIDITY AND CAPITAL EXPENDITURES

CAPITAL EXPENDITURES

Capital expenditures were approximately \$902,000 in 2005, \$1.9 million in 2004, and \$923,000 in 2003. Capital expenditures in 2005 were due to renovations at several branches and normal business activity. 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 a system conversion.

Capital expenditures are projected to be approximately \$700,000 for fiscal year 2006 for renovations at five of the Company's branch locations and the operations center.

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, unpledged investment securities held to maturity due within one year, and unpledged securities available for sale. Such assets totaled \$68.2 million or 18.9% of total assets at December 31, 2005.

The borrowing requirements of customers include commitments to extend credit and the unused portion of lines of credit, which totaled \$105.7 million at December 31, 2005. Of this total, management places a high probability of required funding within one year on approximately \$58.1 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, 2005, the Company had \$40.0 million outstanding with the FHLB and had \$65.0 million collateral available to borrow under the line of credit. Additionally, the Company has available unsecured federal funds lines of credit of \$10.0 million and a secured federal funds line of credit of \$10.0 million with other institutions. There was no balance outstanding under these lines at December 31, 2005. 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, 2005, 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.

In order to partially offset a reduction in interest income in a declining interest rate environment, on December 14, 2005, the Bank purchased a \$10.0 million notional amount interest rate Floor with a minimum interest rate (strike rate) of 7.0% based on the US prime rate. The term of the Floor is five years. The Floor will reduce the variability of cash flow from a pool of variable rate loans should the rate index of the loans fall below the predetermined strike rate of the hedge (7%).

The following chart shows the static gap position for interest sensitive assets and liabilities of the Company as of December 31, 2005. 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, 2005 in which assets and liabilities reprice:

(\$'s in 000's)	<i>0 to 90</i> <i>days</i>	<i>91 to 365</i> <i>days</i>	<i>1 to 2</i> <i>years</i>	<i>3 to 5</i> <i>years</i>	<i>> 5</i> <i>years</i>
ASSETS:					
Short term investments	\$ 11,855	\$ —	\$ —	\$ —	\$ —
Investment securities	5,668	2,179	5,435	14,264	15,194
Loans held for sale	13,767	—	—	—	—
Loans:					
Residential real estate	45,294	1,260	959	2,624	3,011
Commercial real estate	23,690	5,221	20,826	42,361	5,811
Construction and land development	22,118	10,066	725	3,082	1,424
Demand and time	38,511	537	1,063	15,239	769
Lease financing	113	93	614	1,116	—
Installment	906	23	65	238	183
	<u>\$161,922</u>	<u>\$ 19,379</u>	<u>\$29,687</u>	<u>\$78,924</u>	<u>\$ 26,392</u>
LIABILITIES:					
Deposits	\$ 75,743	\$ 44,877	\$10,915	\$ 9,728	\$ 131,190
Borrowings	11,212	—	—	40,000	—
	<u>\$ 86,955</u>	<u>\$ 44,877</u>	<u>\$10,915</u>	<u>\$49,728</u>	<u>\$ 131,090</u>
Gap position					
Period	\$ 74,967	\$(25,498)	\$18,772	\$29,196	\$(104,798)
% of assets	20.80%	(7.07)%	5.21%	8.10%	(29.07)%
Cumulative	\$ 74,967	\$ 49,469	\$68,241	\$97,437	\$ (7,361)
% of assets	20.80%	13.72%	18.93%	27.03%	(2.04)%
Cumulative risk sensitive assets to risk sensitive liabilities	186.21%	43.18%	271.98%	158.71%	20.12%

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 2005, 2004 and 2003.

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, 2005:

Loan commitments	\$26,037,567
Unused lines of credit	79,700,600
Letters of credit	2,606,061

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, 2005 (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	\$8,080	\$724	\$1,299	\$1,030	\$5,027

NEW ACCOUNTING PRONOUNCEMENTS

FASB Statement No. 154, *Accounting Changes and Error Corrections* replaces APB Opinion No. 20 *Accounting Changes* and FASB Statement No. 3 *Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28*. FASB Statement No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. It applies to all voluntary changes in accounting principle. It establishes retrospective application as the required method for reporting a change in accounting principle and the reporting of a correction of an error. The Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

FASB Statement No. 153, *Exchanges of Nonmonetary Assets an Amendment of APB Opinion No. 29*, eliminates the exception to fair value for exchanges of similar productive assets that was provided in APB Opinion No. 29.

FASB Statement No. 152, *Accounting for Real Estate Time-Sharing Transactions*, amends FASB Statement No. 66 *Accounting for Sales of Real Estate* to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position 04-2, *Accounting for Real Estate Time Sharing Transactions*. This Statement also amends FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions.

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.

FASB Statement No. 123R, *Share Based Payment*, revises FASB Statement No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. Statement 123R establishes standards to the accounting for transactions in which an entity exchanges its equity instruments for goods or services. Statement 123R 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. As such, it eliminated the alternative provided by Statement 123 that such costs could be measured either by using fair value or by using Opinion 25's intrinsic value method of accounting which generally did not result in the recognition of compensation costs as a result of the grant of stock options to employees. In addition, Statement 123R 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. Statement 123R becomes effective as of the first interim or annual reporting period that begins after December 15, 2005.

The provisions of FASB Statement No. 123R will require the Company to expense the estimated fair value of options granted, beginning in the first quarter of 2006. 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
Baltimore, Maryland

We have audited the accompanying consolidated balance sheets of Carrollton Bancorp and Subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years ended December 31, 2005. 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2005 and 2004, and the results of their operations and their cash flows for each of the three years ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP, Certified Public Accountants

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

Baltimore, Maryland
February 10, 2006

CONSOLIDATED BALANCE SHEETS

December 31,

	2005	2004
ASSETS		
Cash and due from banks	\$ 27,235,233	\$ 19,341,463
Federal funds sold and Federal Home Loan Bank deposit	11,855,332	14,851,081
Federal Home Loan Bank stock, at cost	2,431,600	2,622,900
Investment securities		
Available for sale	29,095,003	42,488,492
Held to maturity	18,488,405	—
Loans held for sale	13,767,109	10,219,729
Loans, less allowance for loan losses of \$3,337,163 and \$3,485,076	244,605,910	216,241,218
Premises and equipment	5,433,628	5,416,934
Accrued interest receivable	1,418,829	1,295,719
Prepaid income taxes	256,482	194,611
Bank owned life insurance	4,123,544	4,052,648
Other assets	1,756,071	2,398,337
	<u>\$360,467,146</u>	<u>\$319,123,132</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	\$ 67,010,985	\$ 53,739,771
Interest-bearing	204,615,518	172,106,374
Total deposits	271,626,503	225,846,145
Federal funds purchased and securities sold under agreements to repurchase	9,280,348	10,183,951
Notes payable — U.S. Treasury	1,932,124	1,984,714
Advances from the Federal Home Loan Bank	40,000,000	45,000,000
Accrued interest payable	581,863	493,179
Deferred income taxes	20,973	200,762
Other liabilities	2,385,170	1,199,101
	325,826,981	284,907,852
Shareholders' equity		
Common stock, par \$1.00 per share; authorized 10,000,000 shares; issued and outstanding 2,809,698 in 2005 and 2,834,823 in 2004	2,809,698	2,834,823
Additional paid-in capital	18,425,528	18,774,448
Retained earnings	11,567,531	10,239,356
Accumulated other comprehensive income	1,837,408	2,366,653
	<u>34,640,165</u>	<u>34,215,280</u>
	<u>\$360,467,146</u>	<u>\$319,123,132</u>

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

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,

	2005	2004	2003
INTEREST INCOME			
Interest and fees on loans	\$16,826,955	\$13,584,677	\$13,034,872
Interest and dividends on securities			
Taxable interest income	1,201,016	1,399,879	2,331,880
Nontaxable interest income	174,649	188,296	218,645
Dividends	244,849	210,572	125,539
Interest on federal funds sold and other interest income	623,910	116,899	224,755
Total interest income	<u>19,071,379</u>	<u>15,500,323</u>	<u>15,935,691</u>
INTEREST EXPENSE			
Deposits	4,022,723	2,130,765	3,469,039
Borrowings	3,352,360	3,190,857	3,170,695
Total interest expense	<u>7,375,083</u>	<u>5,321,622</u>	<u>6,639,734</u>
Net interest income	11,696,296	10,178,701	9,295,957
PROVISION FOR LOAN LOSSES	—	—	243,000
Net interest income after provision for loan losses	<u>11,696,296</u>	<u>10,178,701</u>	<u>9,052,957</u>
NONINTEREST INCOME			
Service charges on deposit accounts	1,082,568	948,386	987,582
Brokerage commissions	667,510	623,923	597,247
Electronic Banking fees	5,030,775	4,898,255	5,204,886
Mortgage banking fees and gains	2,705,785	1,917,883	665,948
Other fees and commissions	392,139	276,894	326,840
Gains on security sales	839,859	115,810	486,109
Total noninterest income	<u>10,718,636</u>	<u>8,781,151</u>	<u>8,268,612</u>
NONINTEREST EXPENSES			
Salaries	7,444,463	6,837,035	5,996,496
Employee benefits	1,344,092	1,876,248	1,499,002
Occupancy	1,848,168	1,601,321	1,452,624
Furniture and equipment	1,211,349	1,590,436	1,784,787
Impairment of ATM network	563,400	—	—
Prepayment penalty	505,839	—	—
Write down of impaired securities	—	497,313	—
Other noninterest expenses	5,716,813	5,348,647	5,325,446
Total noninterest expenses	<u>18,634,124</u>	<u>17,751,000</u>	<u>16,058,355</u>
Income before income taxes	3,780,808	1,208,852	1,263,214
INCOME TAXES	<u>1,322,371</u>	<u>320,488</u>	<u>338,500</u>
NET INCOME	<u>\$ 2,458,437</u>	<u>\$ 888,364</u>	<u>\$ 924,714</u>
NET INCOME PER SHARE — BASIC	<u>\$ 0.87</u>	<u>\$ 0.31</u>	<u>\$ 0.33</u>
NET INCOME PER SHARE — DILUTED	<u>\$ 0.87</u>	<u>\$ 0.31</u>	<u>\$ 0.32</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	<i>Common Stock</i>	<i>Additional Paid-In Capital</i>	<i>Retained Earnings</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Comprehensive Income</i>
BALANCE, DECEMBER 31, 2002	\$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	70,007	—	—	
Adjustments to 2002 stock dividend	(394)	(5,228)	5,622	—	
Cash dividends, \$0.36 per share	—	—	(1,016,785)	—	
BALANCE, DECEMBER 31, 2003	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	122,616	—	—	
Shares acquired and cancelled	(2,100)	(30,555)	—	—	
Cash dividends, \$0.38 per share	—	—	(1,076,433)	—	
BALANCE, DECEMBER 31, 2004	2,834,823	18,774,448	10,239,356	2,366,653	
Net Income	—	—	2,458,437	—	\$2,458,437
Net unrealized gains (losses) on available for sale securities, net of tax	—	—	—	(529,245)	(529,245)
Comprehensive income					<u>\$1,929,192</u>
Shares acquired and cancelled	(42,500)	(556,750)	—	—	
Stock options exercised including tax benefit of \$18,166	17,375	207,830	—	—	
Cash dividends, \$0.40 per share	—	—	(1,130,262)	—	
BALANCE, DECEMBER 31, 2005	<u>\$2,809,698</u>	<u>\$18,425,528</u>	<u>\$11,567,531</u>	<u>\$1,837,408</u>	

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 2,458,437	\$ 888,364	\$ 924,714
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Provision for loan losses	—	—	243,000
Depreciation and amortization	937,570	1,255,340	1,440,603
Deferred income taxes	153,209	(198,755)	(253,808)
Amortization of premiums and discounts	80,719	230,676	436,783
Gains on disposal of securities	(839,859)	(115,810)	(486,109)
Impairment of ATM network	563,400	—	—
Write down of impaired securities	—	497,313	—
Loans held for sale made, net of principal sold	(3,547,380)	(7,978,146)	(2,241,583)
Gains on sale and write-down of premises and equipment	(6,246)	(18,941)	(90,006)
(Gains) losses on sale of foreclosed real estate	—	11,548	(14,309)
Write-down of foreclosed real estate	—	8,077	9,442
Income tax benefit from exercise of stock options	18,166	21,293	—
(Increase) decrease in:			
Accrued interest receivable	(123,110)	125,835	326,440
Prepaid income taxes	(61,871)	(160,701)	118,681
Cash surrender value of bank owned life insurance	(70,896)	(52,949)	(3,999,699)
Other assets	582,001	(547,860)	123,924
Increase (decrease) in:			
Accrued interest payable	88,684	42,124	(62,303)
Deferred loan origination fees	144,907	134,343	202,337
Other liabilities	622,669	(315,427)	882,352
Net cash provided by (used in) operating activities	<u>1,000,400</u>	<u>(6,173,676)</u>	<u>(2,439,541)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of securities available for sale	2,461,757	2,518,491	1,724,217
Proceeds from maturities of securities available for sale	19,716,329	30,685,807	115,149,964
Redemption (purchase) of Federal Home Loan Bank stock, net	191,300	(372,900)	250,000
Purchase of securities available for sale	(8,354,638)	(13,528,310)	(100,048,513)
Purchase of securities held to maturity	(19,021,466)	—	—
Loans made, net of principal collected	(28,509,599)	(20,811,745)	5,435,642
Purchase of premises and equipment	(902,943)	(1,935,364)	(923,640)
Proceeds from sale of premises and equipment	15,189	361,582	269,198
Proceeds from sale of foreclosed real estate	—	164,876	235,590
Net cash provided by (used in) investing activities	<u>(34,404,071)</u>	<u>(2,917,563)</u>	<u>22,092,458</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in time deposits	20,085,651	7,124,050	(26,481,138)
Net increase (decrease) in other deposits	25,694,707	11,665,996	3,273,130
Payment of Federal Home Loan Bank advance	(5,000,000)	—	—
Net increase (decrease) in other borrowed funds	(956,193)	(1,808,269)	396,324
Common stock repurchase and retirement	(599,250)	(32,655)	—
Stock options exercised	207,039	110,168	76,722
Dividends paid	(1,130,262)	(1,076,433)	(1,016,785)
Net cash provided by (used in) financing activities	<u>38,301,692</u>	<u>15,982,857</u>	<u>(23,751,747)</u>
Net increase (decrease) in cash and cash equivalents	4,898,021	6,891,618	(4,098,830)
Cash and cash equivalents at beginning of year	34,192,544	27,300,926	31,399,756
Cash and cash equivalents at end of year	<u>\$ 39,090,565</u>	<u>\$ 34,192,544</u>	<u>\$ 27,300,926</u>
SUPPLEMENTAL INFORMATION:			
Interest paid on deposits and borrowings	<u>\$ 7,286,399</u>	<u>\$ 5,279,498</u>	<u>\$ 6,702,037</u>
Income taxes paid	<u>\$ 1,525,204</u>	<u>\$ 545,609</u>	<u>\$ 191,024</u>
NONCASH ACTIVITY:			
Transfer of loans to foreclosed real estate	<u>\$ —</u>	<u>\$ 84,500</u>	<u>\$ 112,069</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Carrollton Bancorp and subsidiary (the “Company”) conform to U.S. generally accepted accounting principles. The following is a description of the more significant of these policies.

Organization

The Company was formed January 11, 1990 and is a Maryland corporation chartered as a bank holding company. The Company holds all the issued and outstanding shares of common stock of Carrollton Bank (the “Bank”). The Bank is a Maryland company that engages in general commercial banking operations. Deposits in the Bank are insured, subject to regulatory limitations, by the Federal Deposit Insurance Corporation (the “FDIC”).

The Bank provides commercial and brokerage services to individuals and small and medium-sized businesses. Services offered by the Bank include a variety of loans and a broad spectrum of commercial and consumer financial services.

Basis of Presentation

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles and include all accounts of the Company and its wholly-owned subsidiary, Carrollton Bank. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Certain amounts for prior years have been reclassified to conform to the presentation for 2005. These reclassifications have no effect on stockholders’ equity or net income as previously reported.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses (the “Allowance”), and other than temporary impairment of investment securities. In connection with the determination of the Allowance, management prepares fair value analyses and obtains independent appraisals as necessary. Management believes that the Allowance is sufficient to address the losses inherent in the current loan portfolio. While management uses available information to recognize losses on loans, future additions to the Allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the Bank’s Allowance. Such agencies may require the Bank to recognize additions to the Allowance based on their judgments about information available to them at the time of their examinations.

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.

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash and due from banks, federal funds sold and interest-bearing deposits with banks.

Federal funds sold are carried at cost, which approximates fair value, and are generally sold for one-day periods.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is carried at cost, which approximates fair value.

Investment Securities Available for Sale

Securities available for sale are acquired as part of the Company’s asset/liability management strategy and may be sold in response to changes in interest rates, loan demand, changes in prepayment risk and other factors. Securities available for sale are recorded at their fair value. Unrealized holding gains or losses, net of the related tax effect, are excluded from earnings and reported as an item of other comprehensive income until realized. The carrying values of securities available for sale are adjusted for premium amortization to the earlier of the maturity or expected call date and discount accretion to the maturity date. Realized gains and losses, using the specific identification method, are included as a separate component of noninterest income. Related interest and dividends are included in interest

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

income. Declines in the fair value of individual available for sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Equity securities represent the stock of various financial institutions.

Investment Securities Held to Maturity

Investment securities held to maturity are those securities which the Company has the ability and positive intent to hold until maturity. Securities so classified at the time of purchase are recorded at cost. Carrying values of securities held to maturity are adjusted for premium amortization to the earlier of the maturity or expected call date and discount accretion to the maturity date. Declines in the fair value of individual held to maturity securities below their cost, that are other than temporary, result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by the rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale

Residential mortgage loans originated for sale are carried at the lower of cost or market, which may be indicated by the committed sale price, determined on an individual basis.

Loans Receivable

Loans are stated at the amount of unpaid principal adjusted for deferred origination fees and costs and the allowance for loan losses. Deferred origination fees and costs are recognized as an adjustment of the related loan yield using the interest method. The Company determines the delinquency status of loans based on contractual loan terms. Loans are generally 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 demonstrates 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.

A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is not considered impaired during a period of delay in payment if the Company expects to collect all amounts due, including interest past-due. The Company generally considers a period of delay in payment to include delinquency up to 90 days.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 114, *Accounting by Creditors for Impairment of a Loan* ("SFAS No. 114"), the Company measures impaired loans: (i) at the present value of expected cash flows discounted at the loan's effective interest rate; (ii) at the observable market price; or (iii) 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 a valuation allowance and corresponding provision for loan losses.

SFAS No. 114 does not apply to larger groups of smaller-balance homogeneous loans such as consumer installment loans. These loans are collectively evaluated for impairment. The Company's impaired loans are, therefore, comprised primarily of commercial loans, including commercial mortgage loans, and real estate development and construction loans. In addition, impaired loans are generally loans which management has placed in nonaccrual status. The Company recognizes interest income for impaired loans consistent with its method for nonaccrual loans. Specifically, interest payments received are normally applied to principal. An impaired loan is charged off when the loan, or a portion thereof, is considered uncollectible.

The Company provides for loan losses through the establishment of the Allowance by provisions charged against earnings. The Company's objective is to ensure that the Allowance is adequate to cover probable loan losses inherent in the loan portfolio at the date of each balance sheet. Management considers a number of factors in estimating the required level of the Allowance. These factors include: historical loss experience in the loan portfolios; the levels and trends in past-due and nonaccrual loans; the status of nonaccrual loans and other loans identified as having the potential for further deterioration; credit risk and industry concentrations; trends in loan volume; the effects of any changes in lending policies and procedures or underwriting standards; and, a continuing evaluation of the economic environment. The Company's estimate of the required Allowance is subject to revision as these factors change and is sensitive to the effects of economic and market conditions on borrowers. Loan losses are charged against the

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

allowance when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the Allowance.

Real Estate Properties Acquired in Satisfaction of Loans

Real estate properties acquired in satisfaction of loans are reported in foreclosed real estate and are recorded at the lower of cost or estimated fair value less selling costs. Losses incurred at the time of acquisition of the property are charged to the allowance for loan losses. Subsequent write-downs are included in noninterest expense along with operating income and expenses of such properties and gains or losses realized upon disposition.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are charged to noninterest expenses. Depreciation generally is computed on the straight-line basis over the estimated useful lives of the assets, which generally range from three to ten years for furniture and equipment, three to five years for computer software and hardware, and ten to forty years for buildings and leasehold improvements. Leasehold improvements are generally amortized over the terms of the related leases or the lives of the assets, whichever is shorter. The costs of significant purchases, renewals and betterments are capitalized, while the costs of ordinary maintenance and repairs are expensed as incurred and included in noninterest expense.

Any gain or loss on the sale of an asset is treated as an adjustment to the basis of its replacement, if traded in, or as an income or expense item, if sold. Leases are accounted for as operating leases since none meet the criteria for capitalization.

Bank Owned Life Insurance

The Company purchased insurance on the lives of certain groups of employees. The policies accumulate asset values to meet future liabilities. Increases in the cash surrender value are recorded in noninterest income in the Consolidated Statements of Income.

Income Taxes

The Company and its subsidiary file a consolidated federal income tax return. Deferred income taxes are recognized for the tax consequences of temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities based on enacted tax rates expected to be in effect when such amounts are realized or settled.

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, 2005 and 2004 was \$554,284 and \$677,453, respectively. Amortization expense was \$123,180 for 2005, 2004, and 2003, 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.

Derivative Instruments and Hedging Activities

The Company accounts for derivative instruments and hedging activities utilizing guidelines established in FASB Statement No. 133 ("FASB No. 133"), *Accounting for Derivative Instruments and Hedging Activities*, as amended. The Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. Changes in fair value of derivatives designated and accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in "Other Comprehensive Income," net of deferred taxes. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item.

Management periodically reviews contracts from various functional areas of the Company to identify potential derivatives embedded within selected contracts. Management has identified potential embedded derivatives in certain loan commitments for residential mortgages where the Company has intent to sell to an outside investor. Due to the short-term nature of these loan commitments and the minimal historical dollar amount of commitments outstanding, the corresponding impact on the Company's financial condition and results of operation has not been material.

The Company entered into an interest rate Floor transaction on December 14, 2005. The Floor has a notional amount of \$10.0 million with a minimum interest rate of 7.00% based on US prime rate and was initiated to hedge exposure to the variability in the future cash flows derived from adjustable rate home equity loans. The Floor has a term of five years. This interest rate Floor is designated a cash flow hedge, as it is designed to reduce variation in

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

overall changes in cash flow below the above designated strike level associated with the first Prime based interest payments received each period on its then existing loans. The interest rate of these loans will change whenever the repricing index changes, plus or minus a credit spread (based on each loan's underlying credit characteristics), until the maturity of the interest rate Floor. Should the Prime rate index fall below the strike level of the Floor prior to maturity, the Floor's counterparty will pay the Bank the difference between the strike rate and the rate index multiplied by the notional value of the Floor multiplied by the number of days in the period divided by 360 days. The fair value of the Floor will be recorded as "Other assets" and changes in the fair value will be recorded as "Other Comprehensive Income" a component of shareholders' equity.

Per Share Data

Basic net income per share is determined by dividing net income by the weighted average number of common shares 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 all changes in shareholders' equity during a period, except those relating to investments by and distributions to shareholders. The Company's comprehensive income consists of net earnings and unrealized gains and losses on securities available for sale and is presented in the statements of shareholders' equity. Accumulated other comprehensive income is displayed as a separate component of shareholders' equity.

Stock-based Compensation

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, 2005, 2004, and 2003:

	2005	2004	2003
Net Income:			
As reported	\$2,458,437	\$888,364	\$ 924,714
Additional compensation net of related income tax	(99,572)	(81,812)	(22,727)
Pro forma	<u>\$2,358,865</u>	<u>\$806,552</u>	<u>\$ 901,987</u>
Basic Earnings Per Share:			
As reported	\$ 0.87	\$ 0.31	\$ 0.33
Pro forma	0.83	0.28	0.32
Diluted Earnings Per Share:			
As reported	0.87	0.31	0.32
Pro forma	0.83	0.28	0.32

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, 2005, 2004, and 2003:

	2005	2004	2003
Dividend yield	2.67%	2.25%	2.48% to 2.84%
Expected volatility	26.94%	18.15%	20.88%
Risk free rate	3.96% to 4.47%	4.43%	4.25% to 4.67%
Estimated life	10 years	10 years	10 years

2. CASH AND DUE FROM BANKS

The Bank is required by the Federal Reserve System to maintain certain reserve balances based principally on deposit liabilities. At December 31, 2005 and 2004, the required reserve balances were \$323,000 and \$530,000, respectively. The Company sells federal funds on an unsecured basis to its correspondent banks. Average balances sold were \$12.9 million in 2005 and \$3.2 million in 2004.

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, 2005				
AVAILABLE FOR SALE				
U.S. government agency	\$10,786,412	\$ 3,225	\$ (49,302)	\$10,740,335
Mortgage-backed securities	8,551,994	34,005	(95,874)	8,490,125
State and municipal	3,613,458	76,401	—	3,689,859
Corporate bonds	1,516,345	—	(1,874)	1,514,471
	24,468,209	113,631	(147,050)	24,434,790
Equity securities	1,633,298	3,030,815	(3,900)	4,660,213
	<u>\$26,101,507</u>	<u>\$3,144,446</u>	<u>\$(150,950)</u>	<u>\$29,095,003</u>
HELD TO MATURITY				
U.S. government agency	\$ 5,000,000	\$ —	\$ (64,050)	\$ 4,935,950
Mortgage-backed securities	9,575,713	29,016	(98,260)	9,506,469
State and municipal	3,912,692	—	(49,832)	3,862,860
	<u>\$18,488,405</u>	<u>\$ 29,016</u>	<u>\$(212,142)</u>	<u>\$18,305,279</u>
	<i>Amortized cost</i>	<i>Unrealized gains</i>	<i>Unrealized losses</i>	<i>Fair value</i>
December 31, 2004				
AVAILABLE FOR SALE				
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
	35,377,557	323,566	(165,094)	35,536,029
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>

Information related to unrealized losses in the portfolio as of December 31, 2005 follows:

	December 31, 2005					
	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	\$ 4,935,950	\$ (64,050)	\$ 4,950,310	\$ (49,302)	\$ 9,886,260	\$(113,352)
Mortgage-backed securities	7,489,065	(98,260)	3,676,180	(95,874)	11,165,245	(194,134)
State and municipal	3,862,860	(49,832)	—	—	3,862,860	(49,832)
Corporate bonds	—	—	1,515,000	(1,874)	1,515,000	(1,874)
Equity securities	—	—	11,600	(3,900)	11,600	(3,900)
	<u>\$16,287,875</u>	<u>\$(212,142)</u>	<u>\$10,153,090</u>	<u>\$(150,950)</u>	<u>\$26,440,965</u>	<u>\$(363,092)</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 considered to be an other-than-temporary impairment of those securities. At December 31, 2005,

3. INVESTMENT SECURITIES (CONTINUED)

one marketable equity security had an unrealized loss with aggregate depreciation of approximately \$3,900 from the Company's cost basis. No credit issues have been identified that cause management to believe the decline in market value is 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, mortgage-backed securities, state and municipal securities and corporate bonds as of December 31, 2005 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, 2005 and 2004 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, 2005			
	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	\$ 250,000	\$ 250,161	\$ —	\$ —
Over one to five years	9,767,684	9,744,231	—	—
Over five to ten years	5,899,059	5,950,273	8,912,692	8,798,810
Mortgage-backed securities	8,551,466	8,490,125	9,575,713	9,506,469
	<u>\$24,468,209</u>	<u>\$24,434,790</u>	<u>\$18,488,405</u>	<u>\$18,305,279</u>

<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>

At December 31, 2005 and 2004, securities with an amortized cost of \$32.8 million (fair value of \$32.6 million) and \$26.9 million (fair value of \$30.1 million), respectively, were pledged as collateral for government deposits, securities sold under repurchase agreements, and advances from the Federal Home Loan Bank.

In 2005, 2004, and 2003, the Company realized gross gains on sales of securities of \$839,859, \$115,810, and \$486,109, respectively. During 2004, the Company recognized an other than temporary impairment of \$497,313. There were no realized losses in 2005 or 2003. Income taxes (benefit) on net security gains (losses) were \$293,783, \$(147,336), and \$187,735, in 2005, 2004 and 2003, respectively.

4. LOANS

Major classifications of loans at December 31 are as follows:

	2005	2004
Real estate:		
Residential	\$ 53,148,211	\$ 55,242,018
Commercial	97,909,115	94,858,597
Construction and land development	37,415,478	17,774,874
Demand and time	56,118,527	46,168,587
Lease financing	1,936,482	3,598,003
Installment	1,415,260	2,084,215
	<u>247,943,073</u>	<u>219,726,294</u>
Allowance for loan losses	3,337,163	3,485,076
Loans, net	<u>\$244,605,910</u>	<u>\$216,241,218</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:

	2005	2004
Repricing or maturing within one year	\$139,326,825	\$ 93,722,336
Maturing over one to five years	91,219,788	87,538,764
Maturing over five years	17,396,460	38,465,194
	<u>\$247,943,073</u>	<u>\$219,726,294</u>

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

	2005	2004
Deferred origination costs and premiums	\$ 392,075	\$ 458,177
Deferred origination fees and unearned discounts	(741,636)	(662,831)
Net deferred fees	<u>\$(349,561)</u>	<u>\$(204,654)</u>

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

	2005	2004	2003
Beginning balance	\$3,485,076	\$3,648,245	\$3,578,762
Provision charged to operations	—	—	243,000
Recoveries	167,128	113,953	91,511
	<u>3,652,204</u>	<u>3,762,198</u>	<u>3,913,273</u>
Loans charged off	315,041	277,122	265,028
Ending balance	<u>\$3,337,163</u>	<u>\$3,485,076</u>	<u>\$3,648,245</u>

4. LOANS (Continued)

Nonperforming assets and loans past-due 90 days or more but accruing interest were as follows at December 31:

	2005	2004	2003
Nonaccrual loans	\$1,413,925	\$ 615,394	\$ 712,116
Restructured loans	—	455,864	661,974
Foreclosed real estate	—	—	100,000
Total nonperforming assets	<u>\$1,413,925</u>	<u>\$1,071,258</u>	<u>\$1,474,090</u>
Accruing loans past-due 90 days or more	<u>\$ 179,012</u>	<u>\$1,567,919</u>	<u>\$1,036,018</u>
Unrecorded interest on nonaccrual loans	<u>\$ 111,413</u>	<u>\$ 64,037</u>	<u>\$ 54,857</u>
Interest income recognized on nonaccrual loans	<u>\$ 58,718</u>	<u>\$ 32,318</u>	<u>\$ 30,660</u>

At December 31, 2005, there were no impaired loans.

At December 31, 2004, and 2003, the Company had one impaired loan to the same borrower amounting to \$455,864, and \$661,974, 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 \$298,406, \$530,680, and \$615,021, in 2005, 2004, and 2003, respectively. During 2005, 2004, and 2003, the Company received total payments on impaired loans of \$601,323, \$341,857, and \$34,650, respectively. Of these amounts, \$24,583, \$75,938, and \$34,650, were recorded as interest income for 2005, 2004, and 2003, respectively. The remainder was applied to reduce principal and recovery of professional fees. There was no specific allowance for this loan since the fair value of the collateral securing the loan was considered adequate to cover all principal and interest due. The Company also continued to accrue interest on this loan due to the adequacy of the collateral value.

Loans with a balance of approximately \$86.2 million and \$48.2 million were pledged as collateral to the Federal Home Loan Bank of Atlanta as of December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, the Company serviced loans for others totaling \$1.6 million and \$2.4 million, respectively.

5. CREDIT COMMITMENTS

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

	2005	2004	2003
LOAN COMMITMENTS			
Mortgage loans	\$ 4,066,223	\$ 8,899,836	\$ 9,744,958
Construction and land development	14,913,344	9,438,961	4,290,726
Commercial loans	7,058,000	13,812,780	19,588,470
	<u>\$26,037,567</u>	<u>\$32,151,577</u>	<u>\$33,624,154</u>
UNUSED LINES OF CREDIT			
Home equity lines	\$52,194,528	\$55,883,051	\$48,536,491
Commercial lines	26,095,802	25,467,308	24,667,060
Unsecured consumer lines	1,410,270	1,405,075	1,396,869
	<u>\$79,700,600</u>	<u>\$82,755,434</u>	<u>\$74,600,420</u>
LETTERS OF CREDIT			
	<u>\$ 2,606,061</u>	<u>\$ 2,910,330</u>	<u>\$ 2,795,649</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 collectibility. During the years ended December 31, 2005, 2004 and 2003, transactions in related party loans were as follows:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Beginning balance	\$1,820,717	\$ 3,209,200	\$ 4,421,030
Additions	179,452	1,040,580	648,991
Repayments	(105,385)	(2,429,063)	(1,860,821)
Ending balance	<u>\$1,894,784</u>	<u>\$ 1,820,717</u>	<u>\$ 3,209,200</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, 2005, 2004, and 2003, amounts paid to the law firm in connection with those services were \$220,000, \$249,000, and \$260,000, 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, 2005, 2004, and 2003, amounts paid to the insurance brokerage for insurance premiums were \$215,000, \$192,000, and \$245,000, 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 \$3,341 in 2003. No such services were performed in 2005 or 2004.

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 \$169,000 in 2005, \$739,000 in 2004, and \$101,000 in 2003.

7. PREMISES AND EQUIPMENT

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

	<i>2005</i>	<i>2004</i>
Land and improvements	\$ 909,544	\$ 909,544
Buildings	2,885,994	2,850,977
Leasehold improvements	3,137,550	2,773,689
Equipment and fixtures	5,341,396	7,930,744
	<u>12,274,484</u>	<u>14,464,954</u>
Accumulated depreciation and amortization	(6,840,856)	(9,048,020)
	<u>\$ 5,433,628</u>	<u>\$ 5,416,934</u>

Depreciation and amortization of premises and equipment was \$673,022, \$1,059,198, and \$1,275,612, for 2005, 2004, and 2003, respectively. Amortization of software was \$141,368, \$72,962, and \$41,811 for 2005, 2004, and 2003, respectively.

On September 22, 2005, Wal-Mart notified the Bank of its intention to terminate the agreement for the Bank to provide ATMs at Wal-Mart, Sam's Club, and Wal-Mart supercenters in Maryland, Virginia and West Virginia. An impairment of \$563,400 was recorded for the write down and cost of disposal of the ATM network. The ATMs were assets of the Electronic Banking division.

8. DEPOSITS

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

	<i>2005</i>	<i>2004</i>
NOW and Super NOW	\$ 33,396,380	\$ 35,662,256
Money market	50,482,662	31,041,530
Savings	31,182,882	35,934,645
Certificates of deposit of \$100,000 or more	14,990,576	9,321,990
Other time deposits	74,563,018	60,145,953
	<u>\$204,615,518</u>	<u>\$172,106,374</u>

8. DEPOSITS (Continued)

Time deposits mature as follows:

	December 31,	
	2005	2004
Maturing within one year	\$67,555,717	\$51,131,664
Maturing over one to two years	12,087,661	9,712,718
Maturing over two to three years	3,353,809	3,936,965
Maturing over three to four years	2,445,906	1,362,043
Maturing over four to five years	4,110,501	3,324,553
	<u>\$89,553,594</u>	<u>\$69,467,943</u>

9. BORROWED FUNDS

Borrowed funds consist of securities sold under repurchase agreements, federal funds purchased, borrowings from the FHLB and notes payable-U.S. Treasury. Notes payable-U.S. Treasury are U.S. Treasury and Federal Treasury Tax and Loan deposits accepted by the Bank from its customers to be remitted to the Federal Reserve on a periodic basis. Securities sold under repurchase agreements are securities sold to the Bank's customers under a continuing "roll-over" contract and mature in one business day. The underlying securities sold are federal agency securities that are segregated from the Company's other investment securities. Federal funds purchased are unsecured, overnight borrowings from other financial institutions.

Information with respect to borrowings is as follows at and for the years ended December 31:

	<i>Maturity Date</i>	2005	2004	2003
Amount outstanding at year-end:				
Federal Home Loan Bank	March 26, 2008	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Federal Home Loan Bank	February 2, 2010	35,000,000	35,000,000	35,000,000
Federal Home Loan Bank	May 24, 2010	—	5,000,000	5,000,000
		<u>\$40,000,000</u>	<u>\$45,000,000</u>	<u>\$45,000,000</u>
Federal funds purchased and securities sold under repurchase agreements		\$ 9,280,348	\$10,183,951	\$11,951,594
Notes-payable — U.S. Treasury		\$ 1,932,124	\$ 1,984,714	\$ 2,025,339
Weighted average interest rate at year-end:				
Advances from the FHLB		6.67%	6.84%	6.84%
Federal funds purchased and securities sold under repurchase agreements		3.59%	1.91%	1.22%
Notes payable — U.S. Treasury		4.17%	1.97%	0.73%
Maximum outstanding at any month-end:				
Advances from the FHLB		\$45,000,000	\$45,000,000	\$45,000,000
Federal funds purchased and securities sold under repurchase agreements		11,742,108	13,540,231	14,733,180
Notes payable — U.S. Treasury		1,958,750	2,008,989	2,032,502
Average balance outstanding during the year:				
Advances from the FHLB		\$44,876,712	\$45,000,000	\$45,000,000
Federal funds purchased and securities sold under repurchase agreements		8,986,714	10,102,501	12,324,539
Notes payable — U.S. Treasury		1,016,211	1,051,267	910,061
Weighted average interest rate during the year:				
Advances from the FHLB		6.84%	6.84%	6.84%
Federal funds purchased and securities sold under repurchase agreements		2.66%	0.96%	0.71%
Notes payable — U.S. Treasury		3.06%	1.10%	1.04%

Debt retirement expense of \$505,839 was incurred in 2005 due to the prepayment of a \$5.0 million FHLB advance that had a maturity date of May 24, 2010 and an interest rate of 7.26%.

9. BORROWED FUNDS *(Continued)*

The Company has available unsecured federal funds lines of credit of \$10 million and a secured federal funds line of credit of \$10 million with other institutions. There was no balance outstanding under these lines at December 31, 2005 and 2004. 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:

	2005	2004	2003
ATM services	\$1,057,794	\$1,134,848	\$1,458,647
Data processing services	807,314	719,445	1,025,536
Carrier service	496,714	479,131	367,186
Marketing	355,921	287,343	187,172
Loan expenses	354,864	215,570	123,910
Employee-related expenses	345,203	306,678	294,645
Printing, stationary, and supplies	257,865	282,914	193,616
Professional services	226,965	187,784	573,684
Liability insurance	214,579	216,890	181,657
Telephone	189,990	195,867	221,363
Directors' fees	173,050	165,950	139,950
Postage and freight	167,681	228,030	208,914
Software amortization	141,368	72,962	41,811
Deposit premium amortization	123,180	123,180	123,180
Shareholder expense	111,273	91,283	36,000
Bank account charges	80,592	88,134	73,490
Other	612,460	552,638	74,685
	<u>\$5,716,813</u>	<u>\$5,348,647</u>	<u>\$5,325,446</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:

	2005		2004		2003	
	<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	193,470		174,785		179,025	
Granted	53,930	\$14.45 to \$14.85	32,430	\$16.02 to \$16.22	9,930	\$14.50 to \$17.75
Exercised	(17,375)	\$9.71 to \$14.50	(8,845)	\$9.71 to \$15.42	(6,715)	\$9.71 to \$15.36
Expired/Canceled	(2,895)	\$12.67 to \$15.48	(4,900)	\$10.94 to \$18.10	(7,455)	\$10.94 to \$18.10
Outstanding at end of year	<u>227,130</u>	\$9.71 to \$18.10	<u>193,470</u>	\$9.71 to \$18.10	<u>174,785</u>	\$9.71 to \$18.10
Exercisable at December 31	<u>213,550</u>		<u>143,919</u>		<u>137,580</u>	

On December 15, 2005, the Board of Directors authorized the grant of 42,000 options to officers and the immediate vesting of such options. All outstanding options to officers where the exercise price of the option exceeded the fair market value of the Company's stock were also approved for accelerated vesting. This resulted in 75,500 options becoming vested in 2005 that would have otherwise vested in future years.

11. STOCK OPTIONS (Continued)

A summary of information about stock options outstanding is as follows at December 31, 2005:

<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	2,940	5.33	2,940
10.54	630	5.16	630
10.94	24,150	5.42	24,150
12.11	4,830	6.33	4,830
12.14	630	6.16	630
12.67	21,000	6.58	21,000
13.45	15,750	4.58	15,750
13.45	3,580	4.33	3,580
14.45	6,930	9.29	—
14.50	6,090	7.33	4,060
14.50	42,000	9.96	42,000
14.85	5,000	9.43	5,000
15.36	3,150	3.33	3,150
15.42	26,670	3.35	26,670
16.02	25,500	8.58	25,500
16.22	6,930	8.33	2,310
16.70	3,150	2.16	3,150
17.75	3,000	7.92	3,000
17.79	22,050	2.35	22,050
18.10	3,150	2.33	3,150
14.52	<u>227,130</u>	6.30	<u>213,550</u>

As of December 31, 2005, the weighted average exercise price of shares underlying options currently exercisable is \$14.49 per share.

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>2005</i>	<i>2004</i>	<i>2003</i>
Weighted average common shares outstanding	2,827,747	2,831,880	2,825,077
Stock option adjustment	14,140	28,366	27,810
Weighted average common shares outstanding-diluted	<u>2,841,887</u>	<u>2,860,246</u>	<u>2,852,887</u>
Net income (applicable to common stock)	<u>\$2,458,437</u>	<u>\$ 888,364</u>	<u>\$ 924,714</u>
Basic net income per share	<u>\$ 0.87</u>	<u>\$ 0.31</u>	<u>\$ 0.33</u>
Diluted net income per share	<u>\$ 0.87</u>	<u>\$ 0.31</u>	<u>\$ 0.32</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:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Net Income	\$2,458,437	\$ 888,364	\$ 924,714
Other comprehensive income:			
Unrealized holding gains (losses) during the period	(22,384)	(88,800)	1,217,864
Add: Security impairment write down	—	497,313	—
Less: Adjustment for security gains	(839,859)	(115,810)	(486,109)
Other comprehensive income before tax	(862,243)	292,703	731,755
Income taxes on comprehensive income	332,998	(113,042)	(282,603)
Other comprehensive income after tax	(529,245)	179,661	449,152
Comprehensive income	<u>\$1,929,192</u>	<u>\$1,068,025</u>	<u>\$1,373,866</u>

14. CAPITAL STANDARDS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action taken by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting procedures. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2005, that the Bank meets all capital adequacy requirements to which it is subject. As of December 31, 2005, the most recent notification from the Federal Reserve Bank and the FDIC categorized the Company and the Bank as "well

14. CAPITAL STANDARDS *(Continued)*

capitalized” under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes would change the Company’s or the Bank’s category.

	Actual		Minimum Capital Adequacy		To be Well Capitalized	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
DECEMBER 31, 2005						
Total Capital (to risk-weighted assets)						
Consolidated	\$37,447,000	13.51%	\$22,176,000	8.0%	\$27,720,000	10.0%
Carrollton Bank	34,338,000	12.52%	21,945,000	8.0%	27,432,000	10.0%
Tier 1 Capital (to risk-weighted assets)						
Consolidated	32,250,000	11.63%	11,088,000	4.0%	16,632,000	6.0%
Carrollton Bank	31,001,000	11.30%	10,973,000	4.0%	16,459,000	6.0%
Tier 1 Capital (to average assets)						
Consolidated	32,250,000	8.96%	14,397,000	4.0%	17,996,000	5.0%
Carrollton Bank	31,001,000	8.72%	14,223,000	4.0%	17,779,000	5.0%
DECEMBER 31, 2004						
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%

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. Effective December 31, 2004, the Company froze the Plan. Participant benefits stopped accruing as of the date of the freeze.

15. RETIREMENT PLANS (Continued)

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

	2005	2004	2003
CHANGE IN BENEFIT OBLIGATION:			
Benefit obligation at beginning of year	\$7,739,006	\$ 8,820,583	\$ 8,201,071
Service cost	—	528,407	434,987
Interest cost	477,203	545,710	544,400
Actuarial gain	61,831	69,083	21,234
Benefits paid	(333,255)	(331,542)	(381,109)
Adjustment for special event — curtailment	—	(1,893,235)	—
Benefit obligation at end of year	<u>7,944,785</u>	<u>7,739,006</u>	<u>8,820,583</u>
CHANGE IN PLAN ASSETS:			
Fair value of plan assets at beginning of year	7,730,718	7,399,746	6,161,247
Actual return on plan assets	591,608	271,153	1,152,983
Employer contribution	—	450,000	466,625
Benefits paid and administrative expenses	(369,339)	(390,181)	(381,109)
Fair value of plan assets at end of year	<u>7,952,987</u>	<u>7,730,718</u>	<u>7,399,746</u>
Funded status	8,202	(8,288)	(1,420,837)
Unrecognized net actuarial (gain) loss	45,450	(15,901)	1,537,550
Unrecognized prior service cost	—	—	73,501
Prepaid (accrued) benefit cost	<u>\$ 53,652</u>	<u>\$ (24,189)</u>	<u>\$ 190,214</u>
ASSUMPTIONS USED IN MEASURING THE PROJECTED BENEFIT OBLIGATION WERE AS FOLLOWS FOR THE YEARS ENDED DECEMBER 31:			
Discount rates	6.25%	6.25%	6.75%
Rates of increase in compensation levels	N/A	4.25%	5.50%
Long-term rate of return on assets	8.00%	8.00%	9.00%
NET PENSION EXPENSE INCLUDES THE FOLLOWING COMPONENTS:			
Service cost	\$ —	\$ 528,407	\$ 434,987
Interest cost	477,203	545,710	544,400
Estimated return on assets	(555,044)	(558,384)	(538,297)
Net amortization and deferral	—	148,670	166,460
Net pension expense (benefit)	<u>\$ (77,841)</u>	<u>\$ 664,403</u>	<u>\$ 607,550</u>
ACCUMULATED BENEFIT OBLIGATION AT YEAR END	<u>\$7,944,785</u>	<u>\$ 7,739,006</u>	<u>\$ 7,089,425</u>
ALLOCATION OF ASSETS			
Equity securities	\$4,102,673	\$ 3,715,646	\$ 3,361,235
Fixed income-guaranteed fund	3,850,314	4,015,072	4,038,511
	<u>\$7,952,987</u>	<u>\$ 7,730,718</u>	<u>\$ 7,399,746</u>

Benefits expected to be paid from the Plan are as follows:

<i>Year</i>	<i>Amount</i>
2006	\$ 337,182
2007	341,073
2008	373,015
2009	371,978
2010	400,668
2011-2015	2,480,820

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.

15. RETIREMENT PLANS (Continued)

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 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 also matches 50% of the employee 401(K) contribution up to 6% of employee compensation. Contributions to this Plan, included in employee benefit expenses, were \$292,080, \$92,485, and \$70,678, for 2005, 2004, and 2003, 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 or results of operations..

17. INCOME TAXES

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

	2005	2004	2003
CURRENT			
Federal	\$ 989,907	\$ 428,205	\$ 577,840
State	179,255	91,038	14,468
	1,169,162	519,243	592,308
DEFERRED	153,209	(198,755)	(253,808)
	<u>\$1,322,371</u>	<u>\$ 320,488</u>	<u>\$ 338,500</u>

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

	2005	2004	2003
Provision for loan losses	\$ 57,124	\$ 62,425	\$ (26,244)
Deferred loan origination costs	(4,812)	6,794	(39,382)
Deferred compensation plan	(227)	3,128	4,099
Depreciation	(120,334)	7,004	(136,195)
Discount accretion	(666)	(2,140)	(1,661)
Retirement benefits	30,062	(83,904)	(54,425)
Impairment loss provisions	192,062	(192,062)	—
	<u>\$ 153,209</u>	<u>\$(198,755)</u>	<u>\$(253,808)</u>

17. INCOME TAXES (Continued)

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

	2005	2004	2003
DEFERRED TAX ASSETS			
Allowance for loan losses	\$1,053,678	\$1,110,802	\$1,173,227
Deferred compensation plan	206,892	206,665	209,793
Depreciation	27,522	—	—
Accrued retirement benefits	—	9,342	—
	<u>1,288,092</u>	<u>1,326,809</u>	<u>1,383,020</u>
DEFERRED TAX LIABILITIES			
Prepaid retirement benefits	20,720	—	74,562
Deferred loan origination costs	127,072	131,884	125,090
Unrealized gains on available for sale investment securities	1,156,088	1,297,024	1,376,044
Depreciation	—	92,812	85,808
Discount accretion	3,166	3,832	5,972
FHLB Stock dividends	2,019	2,019	2,019
	<u>1,309,065</u>	<u>1,527,571</u>	<u>1,669,495</u>
NET DEFERRED TAX LIABILITY	<u>\$ (20,973)</u>	<u>\$ (200,762)</u>	<u>\$ (286,475)</u>

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

	2005	2004	2003
Statutory federal income tax rate	34.0%	34.0%	34.0%
Increase (Decrease) resulting from:			
Tax-exempt income	(3.4)	(10.2)	(9.3)
State income taxes, net of federal income tax benefit	4.0	1.9	1.5
Nondeductible expense	0.4	0.8	0.6
	<u>35.0%</u>	<u>26.5%</u>	<u>26.8%</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 \$947,957, \$779,709, and \$615,032, for 2005, 2004, and 2003, respectively.

Lease obligations will require minimum rent payments as follows:

<i>Period</i>	<i>Minimum rentals</i>
2006	\$ 723,851
2007	687,378
2008	612,609
2009	527,006
2010	502,782
Remaining years	<u>5,026,850</u>
	<u>\$8,080,476</u>

19. PARENT COMPANY FINANCIAL INFORMATION

The balance sheets as of December 31, 2005 and 2004 and statements of income and cash flows for Carrollton Bancorp (Parent Only) for 2005, 2004, and 2003, are presented below:

BALANCE SHEETS

	December 31,	
	2005	2004
ASSETS		
Cash	\$ 22,094	\$ 23,413
Interest-bearing deposits in subsidiary	217,679	60,765
Investment in subsidiary	31,536,069	30,296,137
Investment securities available for sale	4,660,213	5,579,821
Other assets	25,813	25,740
	<u>\$36,461,868</u>	<u>\$35,985,876</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities	\$ 1,821,703	\$ 1,770,596
Shareholders' Equity		
Common Stock	2,809,698	2,834,823
Additional Paid-in Capital	18,425,528	18,774,448
Retained earnings	11,567,531	10,239,356
Accumulated other comprehensive income	1,837,408	2,366,653
	<u>34,640,165</u>	<u>34,215,280</u>
	<u>\$36,461,868</u>	<u>\$35,985,876</u>

STATEMENTS OF INCOME

	Years ended December 31,		
	2005	2004	2003
INCOME			
Dividends from subsidiary	\$ 608,827	\$588,273	\$ 258,840
Interest and dividends	138,592	132,490	157,236
Security gains	766,772	—	462,778
	<u>1,514,191</u>	<u>720,763</u>	<u>878,854</u>
EXPENSES			
Income before income taxes and equity in undistributed net income of subsidiary	1,350,552	615,360	791,999
Income tax expense (benefit)	249,895	(21,691)	171,968
	<u>1,100,657</u>	<u>637,051</u>	<u>620,031</u>
Equity in undistributed net income of subsidiary	1,357,780	251,313	304,683
Net Income	<u>\$2,458,437</u>	<u>\$888,364</u>	<u>\$ 924,714</u>

19. PARENT COMPANY FINANCIAL INFORMATION (Continued)

STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 2,458,437	\$ 888,364	\$ 924,714
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Equity in undistributed net income of subsidiary	(1,357,780)	(251,313)	(304,683)
Security gains	(766,772)	—	(462,778)
Income tax benefit from exercise of stock options	18,166	21,293	—
Decrease (increase) in other assets	(74)	662	(26,401)
Increase (decrease) in other liabilities	309,958	(99,454)	289,445
Net cash provided by operating activities	<u>661,935</u>	<u>559,552</u>	<u>420,297</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of securities available for sale	—	(100,000)	—
Proceeds from sales of securities available for sale	1,016,133	—	719,381
Net cash provided by (used in) investing activities	<u>1,016,133</u>	<u>(100,000)</u>	<u>719,381</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	(1,130,262)	(1,076,433)	(1,016,785)
Common stock repurchase and retirement	(599,250)	(32,655)	—
Stock options exercised	207,039	110,168	76,722
Net cash used in financing activities	<u>(1,522,473)</u>	<u>(998,920)</u>	<u>(940,063)</u>
Net increase (decrease) in cash	155,595	(539,368)	199,615
Cash at beginning of year	84,178	623,546	423,931
Cash at end of year	<u>\$ 239,773</u>	<u>\$ 84,178</u>	<u>\$ 623,546</u>
NONCASH ACTIVITIES:			
Income taxes paid, net of cash received from subsidiaries	<u>\$ 36,615</u>	<u>\$ 53,475</u>	<u>\$ 147,417</u>

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

Cash and cash equivalents

The carrying amount of cash and due from banks is a reasonable estimate of fair value.

Federal funds sold and Federal Home Loan Bank deposit

The carrying amount of federal funds sold and Federal Home Loan Bank deposit is a reasonable estimate of fair value.

Investment Securities

The fair values of securities held to maturity and securities available for sale are based upon quoted market prices or dealer quotes.

Loans held for sale

The fair value of residential mortgage loans originated for sale is estimated by discounting future cash flows using current rates for which similar loans would be made to borrowers with similar credit histories.

Loans, net

The fair value of loans receivable is estimated by discounting future cash flows using current rates for which similar loans would be made to borrowers with similar credit histories.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Deposit liabilities

The fair value of demand deposits and savings accounts is the amount payable on demand. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Federal funds purchased and securities sold under agreements to repurchase

The carrying amount of federal funds purchased and securities sold under agreements to repurchase is a reasonable estimate of fair value.

Advances from the FHLB

The fair value of long-term FHLB advances is estimated by discounting the value of contractual cash flows using rates currently offered for advances with similar terms and remaining maturities.

Commitments to extend credit, standby letters of credit and financial guarantees written

The Company charges fees for commitments to extend credit. Interest rates on loans for which these commitments are extended are normally committed for periods of less than one month. Fees charged on standby letters of credit and other financial guarantees 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.

	December 31, 2005		December 31, 2004	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
FINANCIAL ASSETS				
Cash and cash equivalents	\$ 39,090,565	\$ 39,090,565	\$ 34,192,544	\$ 34,192,544
Investment securities (total)	47,583,408	47,400,282	42,488,492	42,488,492
Federal Home Loan Bank stock	2,431,600	2,431,600	2,622,900	2,622,900
Loans held for sale	13,767,109	13,798,773	10,219,729	10,438,684
Loans, net	244,605,910	245,175,511	216,241,218	218,555,856
FINANCIAL LIABILITIES				
Noninterest-bearing deposits	67,010,985	67,010,985	53,739,771	53,739,771
Interest-bearing deposits	204,615,518	204,132,515	172,106,374	172,460,896
Federal funds purchased and securities sold under agreements to repurchase	9,280,348	9,280,348	10,183,951	10,183,951
Notes payable-U.S. Treasury	1,932,124	1,932,124	1,984,714	1,984,714
Advances from the Federal Home Loan Bank	40,000,000	42,069,827	45,000,000	50,629,817

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 2005 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	\$ 17,177,300	\$ —	\$ —	\$ 1,366,403	\$ 18,543,703	\$ 527,676	\$ 19,071,379
Interest expense	(6,741,963)	(105,444)	—	—	(6,847,407)	(527,676)	(7,375,083)
Net interest income	10,435,337	(105,444)	—	1,366,403	11,696,296	—	11,696,296
Provision for loan losses	—	—	—	—	—	—	—
Noninterest income	2,466,304	4,871,076	667,510	2,713,746	10,718,636	—	10,718,636
Intersegment income	598,180	—	2,906	(512,785)	88,301	(88,301)	—
Noninterest expenses	(11,919,891)	(3,727,831)	(412,222)	(2,662,481)	(18,722,425)	88,301	(18,634,124)
Income before income taxes	1,579,930	1,037,801	258,194	904,883	3,780,808	—	3,780,808
Income taxes	(472,393)	(400,798)	(99,714)	(349,466)	(1,322,371)	—	(1,322,371)
Net income	\$ 1,107,537	\$ 637,003	\$ 158,480	\$ 555,417	\$ 2,458,437	\$ —	\$ 2,458,437
Segment assets	\$358,760,082	\$ 3,691,629	\$ 82,512	\$23,749,243	\$386,283,466	\$(25,816,320)	\$360,467,146
Expenditures for segment purchases of premises, equipment and software	\$ 655,832	\$ 211,910	\$ —	\$ 35,201	\$ 902,943	\$ —	\$ 902,943

A reconciliation of total segment assets to consolidated total assets follows as of December 31, 2005:

Total segment assets	\$386,283,466
Elimination of intersegment loans	(25,065,528)
Elimination of intersegment deposit accounts	(750,792)
	<u>\$360,467,146</u>

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
Provision for loan losses	—	—	—	—	—	—	—
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

21. SEGMENT INFORMATION *(Continued)*

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>

22. CONSOLIDATED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Year Ended December 31, 2005			
	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>
Interest income	\$ 4,275,029	\$ 4,512,073	\$ 4,957,555	\$ 5,326,722
Interest expense	(1,555,268)	(1,766,890)	(1,937,526)	(2,115,399)
Net interest income	2,719,761	2,745,183	3,020,029	3,211,323
Gains on security sales	73,087	—	766,772	—
Other noninterest income	2,255,502	2,649,218	2,615,235	2,358,822
Noninterest expenses	(4,367,243)	(4,435,408)	(4,736,498)	(5,094,975)
Income before income taxes	681,107	958,993	1,665,538	475,170
Income taxes	(268,511)	(324,661)	(629,609)	(99,590)
Net income	<u>\$ 412,596</u>	<u>\$ 634,332</u>	<u>\$ 1,035,929</u>	<u>\$ 375,580</u>
Net income per share — basic	<u>\$ 0.15</u>	<u>\$ 0.22</u>	<u>\$ 0.37</u>	<u>\$ 0.13</u>
Cash dividends per share	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>
Market prices: high	<u>\$ 17.00</u>	<u>\$ 17.00</u>	<u>\$ 16.29</u>	<u>\$ 15.00</u>
low	<u>\$ 14.12</u>	<u>\$ 14.25</u>	<u>\$ 13.95</u>	<u>\$ 14.00</u>

	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
Gains on security sales	115,810	—	—	—
Other noninterest income	1,954,704	2,155,806	2,191,752	2,363,079
Noninterest expenses	(4,171,692)	(4,167,106)	(4,540,898)	(4,871,304)
Income before income taxes	412,162	524,387	200,626	71,677
Income taxes	(105,190)	(169,247)	(51,744)	5,693
Net income	<u>\$ 306,972</u>	<u>\$ 355,140</u>	<u>\$ 148,882</u>	<u>\$ 77,370</u>
Net income per share — basic	<u>\$ 0.11</u>	<u>\$ 0.13</u>	<u>\$ 0.05</u>	<u>\$ 0.02</u>
Cash dividends per share	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>
Market prices: high	<u>\$ 18.21</u>	<u>\$ 18.13</u>	<u>\$ 17.20</u>	<u>\$ 17.80</u>
low	<u>\$ 17.80</u>	<u>\$ 15.65</u>	<u>\$ 14.80</u>	<u>\$ 15.70</u>

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with accountants, on accounting and financial disclosure during 2005.

ITEM 9A: CONTROLS AND PROCEDURES

The Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective based on the evaluation of these controls and procedures by the Company's management, including our principal executive and principal financial officers, as of December 31, 2005. There were no changes in the Company's internal controls over financial reporting that occurred during the fourth fiscal quarter of 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS OF THE REGISTRANT

The information required by this Item is 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 for the Annual Meeting of Shareholders to be held on April 18, 2006.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the information appearing under the captions "Executive Compensation," "Long-Term Incentive Plan," and "Retirement Plans" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 18, 2006.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the information appearing under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 18, 2006.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is hereby incorporated by reference to the information appearing under the caption "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement for the Annual meeting of Shareholders to be held on April 18, 2006.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is hereby incorporated by reference to the information appearing under the caption "Audit Fees and Services" in the Company's definitive Proxy Statement for the Annual meeting of Shareholders to be held on April 18, 2006.

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- 1. Financial Statements
 - Carrollton Bancorp and Subsidiaries:
 - Report of Independent Registered Public Accounting Firm
 - Consolidated Balance Sheets as of December 31, 2005 and 2004
 - Consolidated Statements of Income for the years ended December 31, 2005, 2004, and 2003
 - Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2005, 2004, and 2003
 - Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004, and 2003
 - Notes to Consolidated Financial Statements
- 2. Financial Statement Schedules
 - None
- 3. Exhibits

<i>Exhibit 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 Amcap, Inc. and The Carrollton Bank of Baltimore, as amended.*
10.4	Lease dated August 3, 1976 between Amcap, 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 KIMCO 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***
10.12	Lease dated January 15, 2004 by and between Turf Village Offices and Carrollton Bank (2300 York Road, Suite 114, 115, 116)
10.13	Lease dated June 17, 2004 by and between Turf Village Offices and Carrollton Bank (2300 York Road, Suite 211)
10.14	Lease dated February 15, 2005 by and between Turf Village Offices and Carrollton Bank (2300 York Road, Suites 213,214,215,216)
10.15	Lease dated February 18, 2005 by and between Broadway 205 Associates, LLP and Carrollton Mortgage Services, Inc.
10.16	Lease dated October 26, 2005 by and between Arthur Lea Stabler and Helen H. Stabler and Carrollton Bank
10.17	Lease dated June 11, 2004 by and between Mario J. Orlando and Matthew J. Salafia and Carrollton Mortgage Services, Inc.
10.18	Lease dated November 4, 2003 by and between Hickory Crossing, LLC and Carrollton Bank
10.19	Lease dated October 31, 1997 between The Avenue at White Marsh, LLC and Carrollton Bank
21.1	Subsidiaries of Carrollton Bancorp
23.1	Consent of Independent Registered Public Accounting Firm by Exchange Act Rule 13-a-14(a)
31.1	Certification by the Principal Executive Officer required by Exchange Act Rule 13-a-14(a)
31.2	Certification by Principal Financial Officer required by Exchange Act Rule 13-a-14(a)
32.1	Certification by the Principal Executive Officer
32.2	Certification by the Principal 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)

March 1, 2006 By: /s/ David P. Hessler
David P. Hessler
Director

March 1, 2006 By: /s/ Howard S. Klein
Howard S. Klein
Director

March 1, 2006 By: /s/ Ben F. Mason
Ben F. Mason
Director

March 1, 2006 By: /s/ Charles E. Moore, Jr.
Charles E. Moore, Jr.
Director

March 1, 2006 By: /s/ John Paul Rogers
John Paul Rogers
Director

March 1, 2006 By: /s/ William C. Rogers, Jr.
William C. Rogers, Jr.
Director

EXHIBIT INDEX

<i>Exhibit Number</i>	<i>Description</i>	<i>Sequentially Numbered Page</i>
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*** 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

<i>Subsidiaries of Carrollton Bancorp</i>	<i>State of Incorporation</i>	<i>Owned by</i>	<i>Percentage Ownership</i>
Carrollton Bank	Maryland	Carrollton Bancorp	100%
Carrollton Financial Services Inc.	Maryland	Carrollton Bank	100%
Carrollton Community Development Corp.	Maryland	Carrollton Bank	96.4%
Carrollton Mortgage Services, Inc.	Maryland	Carrollton Bank	100%

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Carrollton Bancorp

As Independent Registered Public Accounting Firm, we hereby consent to the incorporation of our report dated February 10, 2006 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, 2006

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER (EXCHANGE ACT RULE 13-A-14(A))

I, Robert A. Altieri, President and Chief Executive Officer, certify that:

- (1) I have reviewed this annual report on Form 10-K of Carrollton Bancorp;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary 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 this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15-15(c) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of this disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (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 over financial reporting which could adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ ROBERT A. ALTIERI

Robert A. Altieri
President and Chief Executive Officer

Date: March 1, 2006

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, James M. Uveges, Chief Financial Officer, certify that:

- (1) I have reviewed this annual report on Form 10-K of Carrollton Bancorp;
- (2) Based on my knowledge, this 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 such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of this disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officers and I have disclosed to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably like to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JAMES M. UVEGES

James M. Uveges

Senior Vice President and Chief Financial Officer

Date: March 1, 2006

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Robert A. Altieri, President and Chief Executive Officer (Principal Executive Officer) of Carrollton Bancorp (the "Registrant"), 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, 2005, 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, 2005, 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
March 1, 2006

EXHIBIT 32.2**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, James M. Uveges, Senior Vice President and Chief Financial Officer (principal 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, 2005, 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, 2005, fairly presents, in all material respects, the financial conditions and results of operations of Carrollton Bancorp.

/s/ James M. Uveges

James M. Uveges
Senior Vice President and Chief Financial Officer
March 1, 2006

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
Special Assistant to the President
Sojourner Douglas College

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

John Paul Rogers
Attorney

William C. Rogers, Jr.
Attorney
Rogers, Moore & Rogers

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*
James M. Uveges—*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*
James M. Uveges—*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*
Julia Kaufman—*Loan Servicing*
George Mazurkevich—*Commercial Lending*
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*
Lois A. Ward—*Human Resources*
Victor Zubar—*MIS*
Assistant Vice Presidents:
William Brown—*Data Processing*
Patricia Harris—*Branch Administration*
Marcia Campbell—*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
Ronald Antrim
Vice President
Brain Bogdan
Vice President
Melanie Cox
Vice President
James M. Uveges
Treasurer
John A. Giovanazi
Director
Robert F. Hickey
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 157 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

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 18, 2006 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 421 record holders of stock at December 31, 2005.

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

DIVIDEND REINVESTMENT:

Carrollton Bancorp offers a Dividend Reinvestment Plan that provides automatic reinvestment of dividends in additional shares of Carrollton Bancorp common stock. For more information contact:

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM:

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

During 2005 and 2004, 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:

James M. Uveges
Chief Financial Officer
Carrollton Bancorp
344 North Charles Street
Baltimore, Maryland 21201
Phone: (410) 536-7308
Email: juveges@carrolltonbank.com

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